AFRODAD

AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT

ANALYSIS OF THE LOAN CONTRACTION PROCESS AND DEBT MANAGEMENT

THE CASE OF RWANDA

ABOUT AFRODAD

VISION

A prosperous Africa based on an equitable and sustainable development.

MISSION

To contribute to Africa's inclusive economic growth and sustainable development through influencing policy change on debt management and development finance anchored on a right based approach.

AFRODAD OVERALL STRATEGIC GOAL

The overall goal of AFRODAD is 'to influence African Governments to institute and implement policies and practices for sustainable development and eradication of poverty'.

THEMATIC FOCUS AREA 1: DOMESTIC RESOURCE MOBILISATION

Thematic Goal: To contribute to the development and implementation of transparent, accountable and efficient mechanisms for mobilization and utilization of domestic resources in Africa.

THEMATIC FOCUS AREA 2: DEBT MANAGEMENT

Thematic Goal: To contribute to the development and implementation of sustainable debt policies and practices in Africa.

THEMATIC FOCUS AREA 3: INTERNATIONAL PUBLIC FINANCE

Thematic Goal: To influence the quality, impact and effectiveness of international public finance, in line with the agreed development cooperation effectiveness principles.

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ISBN: 978-0-7974-8006-3

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ACRONYMS

AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
BNR	National Bank of Rwanda
CSOs	Civil Society Organisations
DMC	Debt Management Committee
EAC	East African Countries
EDPRS	Economic Development and Poverty Reduction Strategy
FRW	Rwandan Francs
FY	Fiscal Year
GDP	Gross Domestic Product
GOR	Government of Rwanda
HIPC	Highly Indebt Poor Country
IMF	International Monetary Fund
MINECOFIN	Ministry of Economic Planning and Finance
MDRI	Multilateral Debt Relief Initiative
MPED	Ministry of Planning and Economic Development
MTEF	Medium-term Expenditure Framework
PFM	Public Financial Management
PDD	Public Debt Division
PRSP	Poverty Reduction Strategy Paper
USD	United States Dollars
UN	United Nations
WB	World Bank

ACKNOWLEDGEMENTS

AFRODAD owes great gratitude to the Debt Management team led by Mr. Tirivangani Mutazu, Senior Policy Analyst for coordinating and conducting research. The report greatly benefitted from the advice and incisive comments of the AFRODAD Executive Director, Dr. Fanwell Bokosi.

The responsibility for findings contained herein however remains with AFRODAD. AFRODAD expresses its deep appreciation to Bread for the World (BfW) for its financial support to carry out the study.

PREFACE

The study is based on the understanding that the procurement, utilization and management of public loans and debts are a national and global issue, and hence should be transparent, accountable, participatory and inclusive. The process of loan contraction and debt management requires legitimacy and systematic planning to be sustainable. By making loans sustainable, governments will have extra revenue to support their social services and goods for development and therefore reduce poverty and enhance people's welfare. This report constructs a framework for rationalization of the loan contraction and debt management process in these terms. The report presents policies, legal and institutional frameworks in Rwanda and the efficacy of oversight bodies in the loan contraction and debt management. It therefore makes recommendations on improving transparency, accountability and participation of the process.

The report found out that Rwanda's public debt is sustainable as supported by baseline indicators and it will continue to enjoy the gains of debt relief if Rwanda's good economic performance continues to improve hinged on strong policies and good governance. The study revealed that the World Bank and IMF debt relief of HIPC and MDRI initiatives were beneficial in reducing Rwanda's debt to sustainable levels. However, there is an increase in domestic debt levels, which resonates with the 2008 debt long-term goal to reduce dependency on foreign financing for its development. Research also revealed that the government had shifted its share of external public debt from concessional to commercial lending and the issue of the sovereign Eurobond. Rwanda's public debt should not constitute a major obstacle to its economic development. It is important that a sustainable level of debt is maintained, where existing debt can be serviced comfortably without jeopardizing the country's growth prospects. However, continued concessional financing by donors will still be needed, at least in the medium term and a significant rise in export earnings is vital to avoid returning to the pre-HIPC levels.

Parliamentary oversight consists of reviewing and supervising the excise of executive authority. It is a measure for holding the executive accountable for its actions and for ensuring that it implements policies in an effective manner. Most critically, parliamentary oversight helps ensure transparency and openness of the Executive's setting of priorities and management of public funds. Our analysis reveals that efforts have been made to strengthen their public finance management and this has resulted in the country maintaining sustainable debt levels. Parliamentary oversight is critical to ensure national ownership of development programs. Governance, including the management of public resources, remains insufficient due to a lack of sound institutions and competent personnel. Rather than developing sound systems themselves, Rwanda's past governments continued to rely on foreign technical assistance that are both costly, largely indifferent to domestic long term needs and thus failed to build local capacities. Although great progress has been made on this front, it still represents a significant hindrance to effective governance.

Dr. Fanwell Bokosi
Executive Director

1.0
INTRODUCTION

The Republic of Rwanda, once a Germany colony (and later a Belgium) during the colonial era is located in the Great Lakes region of East-Central Africa and is bordered by Uganda, Burundi, the Democratic Republic of the Congo and Tanzania. Full independence from Belgium came to Rwanda on July 1, 1962. In 1990 however, a civil war culminated in the killing of approximately 800,000 Tutsis and moderate Hutus in a genocide that prevailed between April to July 1994. Following the Rwandan Civil war, a new constitution was written by the current government and adopted in a referendum in 2003.[1]

Rwanda is predominantly rural, with a chiefly agrarian economy. Agriculture employs about 80% of the population[2], accounting for more than 40% of gross domestic product (GDP) and more than 70% of exports.[3] Rwanda's long-term development goals are embedded in a strategy entitled Vision 2020, which however seeks to transform Rwanda from a low-income agriculture-based economy to a middle-income country status by 2020. In order to achieve these long-term development goals, the government of Rwanda has formulated a medium-term strategy called the Economic Development and Poverty Reduction Strategy (EDPRS II), whose priority is growth acceleration and poverty reduction. The strategy is established upon the development successes that the country has been enjoying over the last decade which include high growth, rapid poverty reduction and, since 2005, reduced inequality.

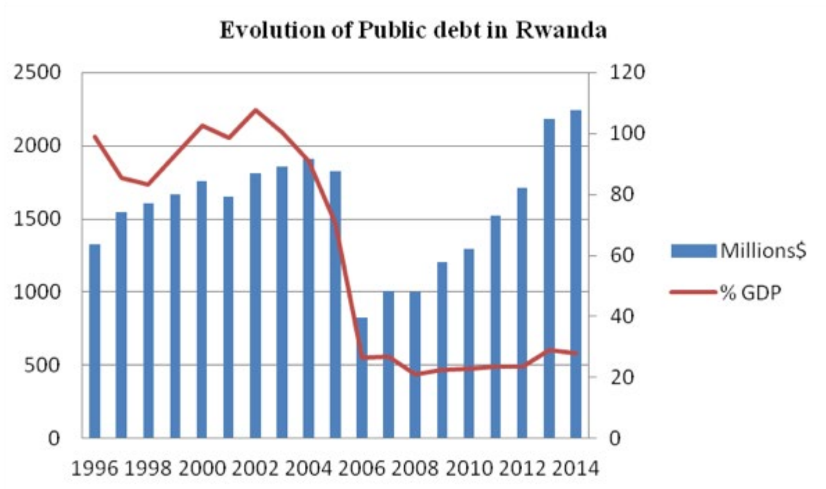
Between 2001 and 2014, real GDP growth averaged at about 9% per annum.[4] Strong economic growth was accompanied by substantial improvements in living standards, evidenced by a two-thirds drop in child mortality and the attainment of near-universal primary school enrolment. A strong focus on homegrown policies and initiatives contributed to a significant improvement in the access to services and in human development indicators. According to the 2014 Human Development Report compiled by UNDP, Rwanda's Human Development Index (HDI)[5] for 2013 was 0.506 which is in the low human development category, therefore positioning the country at 151 out of 187 countries, while GNI per capita increased by about 57.3 percent between 1980 and 2013.

1 <fic.wharton.upenn.edu/fic/africa/rwanda\20final.pdf>.
2 UNDP, 'Turning Vision 2020 into Reality: From Recovery to Sustainable Human Development. National Human Development Report', Kigali, 2007.
3 Economist Intelligence Unit, "Rwanda-Country Profile 2006". London, England, 2006
4 Ibid
5 An average measure of basic human development achievements in a country

1.1 Evolution of Rwanda Public Debt`

From figure1 below, we see that Rwanda's public debt was on a growth trajectory during the period 1996-2000. Government Debt to GDP in Rwanda averaged 63.89% from 1996 until 2014 when it registered 28%. These high debt levels arose from increased external borrowing to finance mainly high energy costs, crude oil, fiscal deficits and development programs that were being commissioned following the 1994 genocide. In 2005 Rwanda accessed debt relief under World Bank/IMF debt relief initiatives; Highly Indebt Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI). This explains the drastic drop in the graph by 130%, from 90.78% of GDP in 2004 to 26.5% of GDP in 2006. Since the debt cancellation initiatives, the government has been making progress in improving debt management to sustain gains from the debt relief.

Fig 1: Evolution of Public Debt in Rwanda



Compiled from National Bank of Rwanda

Figure 2: Rwanda Government Debt to GDP

From figure 1 and 2 above, it is evident that public debt was stable from 2006 to 2014, but has risen steadily since 2008 from a Debt ratio of 21% to 28% in 2014. On the other hand in absolute terms it is higher in 2014 at $2,2 billion than in the 1990s where it averaged $1.5 billion. The reduction in Debt /GDP can be owed to the economic growth the country has been experiencing. According to the IMF staff report for the 2014 Article IV Consultation, Rwanda's economic performance has been improving with strong policies playing a key role in maintaining GDP growth at 7.8 percent on average since 2000, and using foreign aid in support of economic development. Concerted efforts have also been made to improve public financial management and strengthen good governance. The Rwanda Debt Sustainability Analysis report further explains the increase in 2014, as a result of the Eurobond issue in April 2013 to fund infrastructure development, and *"due to lower than expected economic growth for the year (9.7% nominal GDP growth realized as opposed to 12.9% forecast)".*[6] (2014, pg 1)

Domestic debt which represents 23.9% of total public debt[7] was also cited to have increased due to the Government's cash flow needs because the impact of the 2012 aid shock persisted into 2013. Government guaranteed external debt was said to have declined in 2013 as RwandAir and the Kigali Convention Centre successfully paid back expensive commercial loans, while guaranteed domestic debt increased due to the Energy, Water and Sanitation Authority (EWSA) increasing its loan facility with Bank of Kigali[8].

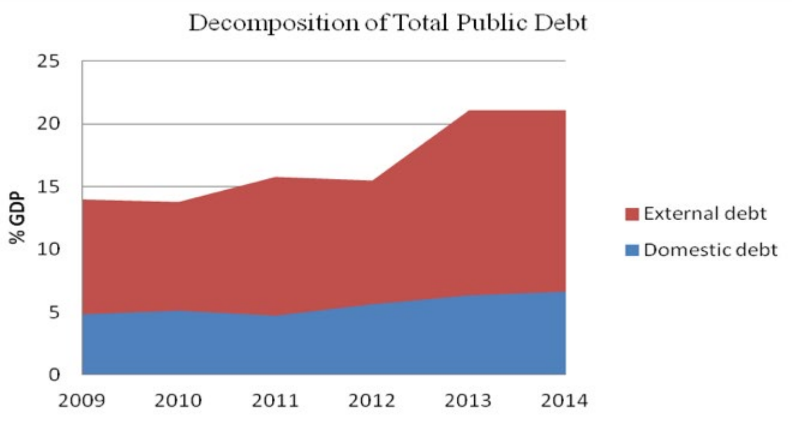
6 Rwanda Debt Sustainability Analysis, August 2014
7 Rwanda Debt Sustainability Analysis, August 2014
8 WEO April 2014, MINECOFIN

Rwanda has contracted commercial loans through the issuing of the Eurobond $400million in 2013. The IMF reports that half of the proceeds were used to repay government-guaranteed loans for RwandAir and the Kigali Convention Center. The other half was used to finance the completion of the Kigali Convention Center (US$150 million) in FY2013/14 and the Nyabarongo hydro-power plant (US$50 million) to increase electricity supply and reduce the cost of generation in Rwanda. The purpose for which the loan was used is laudable as it was directed to productive sectors of the economy that have the potential to generate income to repay the loan. Though the Debt Sustainability Analysis done by the IMF in 2013 shows that Rwanda's debt remains sustainable, concern is raised pertaining to its small export base. This and the increase in the price of the bond carries a risk of debt sustainability as the government will be servicing a more expensive form of debt.

1.2 Decomposition of Total Public Debt

According to the National Bank of Rwanda, fiscal year 2014/2015, the overall fiscal deficit which included grants was Frw 262.6 billion or approximately 4.4 per cent of GDP. This deficit was partly financed through external debt and through issuance of T-bills and T- Bonds. As seen in Table 1 (below), total public debt which was US$2 billion or 27.4% of GDP as at the end of 2013 increased by 18.4% in 2014 to US$2.7 billion or 28% of GDP as a result of this deficit. As a share of GDP, 21% is external and 6.6% domestic according to the 2014 figures.

Fig 3: Decomposition of Total Public Debt



Source: Compiled from the National Bank of Rwanda

As evident in figure 3 above, external debt is more dominant than domestic debt. This is in line with Rwanda's 2008 Public Debt Policy, which states that the broad objective of debt management is: "to meet government financing needs within the provisions of the country's Economic Development & Poverty Reduction Strategy (EDPRS) and Vision 2020, whilst ensuring timely payments of obligations at least cost possible" (2008) Implying that multilateral lenders, who traditionally provide highly concessional loans, still remain the majority holders of Rwandan public debt. The table below sets out the composition of the total debt for the period 2012/13-2013/2014[9].

Table 1: Rwanda Public Debt Stock

	2012			2013			2014		
	Stock (USD mn)	% GDP	% share of total debt	Stock (USD mn)	% GDP	% share of total debt	Stock (USD mn)	% GDP	% share of total debt
Total Public Debt	1651	22.6	100.0	2079	27.4	100.0	2245	27.7	100.0
External Debt	**1259**	**17.3**	**76.2**	**1602**	**21.1**	**77.1**	**1709**	**21.1**	**76.1**
Government	1062	14.6	64.3	1555	20.5	74.8	1655	20.4	73.7
i. Multilateral	891	12.2	53.9	939	12.4	45.2	990	12.2	44.1
ii. Official Bilateral	172	2.4	10.4	216	2.8	10.4	265	3.3	11.8
iii. Commercial	0	0.0	0.0	400	5.3	19.2	400	4.9	17.8
Guaranteed by central govt	196	2.7	11.9	47	0.6	2.2	54	0.7	2.4
Domestic Debt	**393**	**5.4**	**23.8**	**477**	**6.3**	**22.9**	**536**	**6.6**	**23.9**
of which guaranteed	5	0.1	0.3	11	0.1	0.5	10	0.1	0.4

Nominal GDP (RWF billion)	4479	4915	5406
Exchange rate (period average)	614	647	666
Nominal GDP (US million)	7291	7601	8116

Source: Compiled from the Medium Term Debt Strategy, Ministry of Finance and Economic Planning, 2015

1.2.1 Domestic Debt Analysis

The need to ensure domestic debt market development in the long term is given as one of the objectives of domestic debt management. Overall, it is also indicated that

9 National Bank of Rwanda (2014) Annual Report June 2013-June 2014, available on http://www.bnr.rw/index.php?id=310

the Government of Rwanda's long term objective is to reduce dependency on foreign financing for its development without compromising domestic debt sustainability. In line with the above domestic debt management related objectives, the country's outstanding domestic debt stock has been on an upward trend, increasing by 12% from US$477 million as of December 2013 to US$536 million as of December 2014. The growth of debt stock was mainly driven by high issuance of T-bills in the banking and non-banking sectors for fiscal purpose which according to the BNR, went up from FRW 12.6 billion to FRW 42.1 billion in the last 2 fiscal years.

With regard to holdings of domestic debt stock, BNR held at the end of June 2012/2013 FRW 128.8 billion, representing 37.1% of the total debt against 35% for banks (FRW 121.6 billion) and 27.9% for Non-banks (FRW 96.9 billion)

1.2.2 External Debt Analysis

Figure 4: Decomposition of External Debt by loan type

Compiled from the National Bank of Rwanda

The change in shares of the total debt stock (Figure 4) reflects the change by the government to more market driven solutions such as commercial lending which constituted 31.6% of the total public external debt as at end of June 2015 resulting in a decrease of the share of concessional loans as a total of external debt from 55.7% as of end June 2014, to 51.4% as of end June 2015. The Ministry of Finance and Economic Planning (MINECOFIN) owes the decrease in the share of concessional loans as a total of external debt due to higher borrowing in concessional funding especially from IDA and AfDB as "a result of lower risk of debt distress which implied a shift from a grant and credit mix to credit only which represented 11% of total external debt disbursed" (2015). The main areas which were funded by concessional loans were cited as transport, construction, energy, poverty reduction and rural development. Guarantees provided by government constitute 9.7% of the total debt or 3.2% of GDP, due to Rwandair borrowing of $188 million for the purchase of two wide-body aircrafts and the lease of one bombardier (Ministry of Finance and Economic Planning, June 2015).

Bilateral partners also form part of the external debt from countries like EXIM-India, EXIM-China and Kuwait[10]. Borrowing currencies for Rwanda's total external debt is dominated by USD (42.0%) followed by SDR (36.9%) and EURO (7.8%) of end June 2013, against 18.1%; 52.0% and 11.4% respectively of end June 2012[11]. The Eurobond accounted for 19.1% of total public external debt and 14.7% of the share of the total debt as at end of June 2015.

1.3 Debt Sustainability

From Table 1 above, it is noted that the total stock of public debt increased by 18% as of end of December 2014 due to the rise in commercial borrowing and the rise in issuance of T-Bills which resulted in increased domestic debt levels against a lower economic growth which according to Trading Economics, contracted by 1.06%[12]. The total stock is now just over US$ 2.5 billion, which represents 33% of GDP according to the Hune 2015 figures.

Table 2: Baseline indicators from the Debt Sustainability Analysis

Indicators	2014	2015	Threshold
PV Debt-to-GDP	14.6	17.5	50
PV Debt-to-Exports	93.6	114.7	200
Debt service-to-exports	5.8	6.5	25
Debt service-to-revenue	5.3	5.5	22

Source: Rwanda Debt Sustainability Analysis, 2014

Results of the debt sustainability analysis indicate that Rwanda continues to face a low risk of external debt distress, similar to the analysis prepared for the 4th Review under the PSI. 1,2. Under the baseline scenario, all external debt burden indicators are projected to remain below the policy-dependent thresholds. Standard stress tests show temporary breaches of the debt service-to-exports and debt service-to-

10
11 National bank of Rwanda Annual Report July 2013- June 2014 pg40
12 http://www.tradingeconomics.com/rwanda/gdp-growth

revenue ratios in 2023 when the Eurobond issued in 2013 matures. As these breaches are temporary, and it is assumed that Rwanda will be able to refinance the maturing Eurobond, the final assessment of a low risk of external debt distress is maintained. The ratio of the present value of public sector debt to-GDP ratio remains below the policy dependent benchmark both under the baseline and standard stress tests. Until exports expand and are diversified further, Rwanda needs to remain prudent about the terms and amount of external debt it contracts/guarantees.

Rwanda's public sector debt remains low but it is increasing. By the end of 2015, total public sector debt was 35.4% of GDP—with the external debt of the public sector at 28.5% of GDP and mainly comprised of multilateral and commercial debt, and domestic debt at 6.9% of GDP. These debt ratios compare favorably with those of other countries in the region. The public debt-to-GDP ratio has increased steadily over the last three years, reflecting new borrowing, in particular large disbursements under multilateral concessional loans as Rwanda's low-risk rating of debt distress has shifted donor support towards more concessional lending rather than grants. Public external guaranteed debt has been rising mainly due to the expansion of RwandAir's fleet of aircraft.

External Debt in Rwanda increased to 1851.54 USD Million in 2015 from 1670.21 USD Million in 2014. External Debt in Rwanda averaged 1089.20 USD Million from 1991 until 2015, reaching an all time high of 1851.54 USD Million in 2015 and a record low of 479.54 USD Million in 2006. External Debt in Rwanda is reported by the National Bank of Rwanda (BNR- Banque National du Rwanda).

Fig 4: Public External Debt in Rwanda

Baseline indicators for debt sustainability illustrated above in Table 2, show that Rwanda's public and publicly guaranteed debt remains sustainable with all the risks indicators positioned well below the indicative thresholds established by the World Bank and IMF Debt Sustainability Analysis tool. A sustainability analysis conducted in August 2014, revealed that Rwanda's PV of debt to export stood at 114.7% compared to the level of 93.7% in 2013. The main reason for this deterioration is an increase in the level of non-concessional borrowing for Rwandair fleet plan expansion while a slowdown was observed in exports of goods.

Going forward, a high growth is expected for mineral exports but also for non-traditional products in horticulture and floriculture. Such growth will ensure Rwanda has the foreign exchange space required to meet its debt servicing requirements.

Another aspect which contributes to a sustainable level of debt is a the debt management capacity, which observed an improvement as per the CPIA (Country Policy and Institutional Assessment by the World Bank) score of 3.9 on a scale of 6, making Rwanda one of the top performers like Cap Verde and Kenya[13]. However going forward, an anticipated source of risk to debt sustainability will be the servicing of more expensive forms of debt, such as commercial borrowing, which was observed to be on the rise to advance key infrastructure projects.

13 http://documents.worldbank.org/curated/en/2015/08/24867658/rwanda-experience-country-policy-institutional-assessment-cpia

2.0
THE REGULATORY FRAMEWORK FOR PUBLIC BORROWING AND DEBT MANAGEMENT

This section looks at the legal and institutional framework for Public Financial Management (PFM) in Rwanda which was rolled out in 2008. It contains the analysis of the main legal documents such as the Constitution, the Organic Budget Law and discusses the PFM regulatory framework. It then goes on to describe the roles of the major PFM institutions in Rwanda: Parliament, the Cabinet, the Ministry of Finance and Economic Planning (MINECOFIN) and the Office of the Auditor General.

The government of Rwanda's authority to contract both domestic and external debt is embedded in the following legislative instruments in Box 1 below.

Box 1: Legal Framework

Main Laws, Regulations & Procedures For Public Financial Management

- The 2003 Constitution as the supreme law enacted by Parliament;
- The Organic Budget Law of State Finances and Property (OBL) No.37 of 2006;
- The Statute of the National Bank of Rwanda of 1997;
- The Local Government Finance Laws as secondary laws for debt management, and Ordinary Laws that is the annual finance law as well as;
- The "Financial Regulations" of 2007 to guide the implementation of the provisions of the Organic Budget Law;
- The Public Debt Policy 2008;
- The National Debt Strategy

2.1 The Constitution

The new constitution of Rwanda came into effect in June 4, 2003 after a national referendum. It defines the principles and overall legal framework for the management of public finances in the country. Article 60 of the constitution established three organs of the Republic of Rwanda, namely, the Legislature; the Executive; and the Judiciary as separate and independent but complementary institutions of the State. The Constitution established a bi-cameral parliament: the Chamber of the Deputies and the Senate to carry out legislative function, oversight function, and representation function.

Article 79 of the Constitution stipulates roles and responsibilities in respect of the submission of the draft Finance Law by the Cabinet, the adoption of the Finance Law by Parliament, and the submission of a budget execution report to the Auditor General. The budget must be presented along with the implementation report of the previous budget, certified by the Auditor General. The Constitution (Article 91) also limits the legislature's ability to modify the Finance Act by stipulating that bills and statutory amendments, which have the potential to reduce Government revenue or increase state expenditure, must indicate proposals for raising the required revenue or making savings equivalent to the anticipated expenditure. Article 128 makes provisions for Parliament to obtain information and exercise oversight of activities of the government. Article 183 defines the role of the Office of the Auditor General of State Finances, its independence and financial and administrative autonomy.

2.2 Organic Budget law of State Finances and Property (OBL) No.37 of 2006

The OBL aims at establishing principles and the basis of planning, budgeting and monitoring of state resources and the sound management of the State Budget, as well as setting the principles that govern state property and other financial resources. It covers both central government and decentralized entities. It also sets out the basis for allocating state resources to state functions and reporting any adjustments. In addition to setting clear deadlines for the national budget preparation cycle, clarifying responsibilities and identifying the minimum content of the budget documentation submitted to Parliament, the law provides for a major change in Rwanda's budget framework. Responsibilities for controlling the execution of the budget are decentralized from MINECOFIN to budget agencies. This is upheld by AFRODAD as it provides more flexibility to budget agencies and accelerates the process for budget execution.

The Law on State Finance and Property adopted in 2006, together with the Financial Regulations that complement it, calls for radical change in the management of public finances and in the internal control system. In particular, it sees a major decentralization of PFM, both from central Government to local administrations and from MINECOFIN to line Ministries and other budget agencies. Budget execution and the power to execute 'virements' has been decentralized to the Chief Budget Manager in each budget agency. Each budget agency (line ministry, province, semiautonomous institution) will be responsible for its own budget execution and accounting, providing real time information to the Ministry of Finance through the Budget Master integrated financial management system.

Overall, the Government of Rwanda has made efforts to strengthen and modernize the legal framework for PFM. The implementation of the new orientations outlined by this revised legal framework is in line with the AFRODAD Borrowing Charter that stipulates that "There should be clear legal/constitutional guidelines regarding to responsibilities and associated accountabilities among government agencies involved in debt management, particularly as regards the Ministry of Finance, the central bank and any separate or other debt management agency and well-articulated responsibilities for staff with clear monitoring and control policies and reporting arrangements" (2013, pg 11).

2.3 The Institutional Framework and Coordination

2.3.1 Ministry of Finance (MINECOFIN)

Public debt is managed by the Public Debt Division (PDD) which is one of the key departments of the Principal Debt Management entity in Rwanda on behalf of the Government of Rwanda (GoR) tasked with preparing reports on Debt management and submitting them regularly or at least once a year to the Cabinet and to Parliament for information purposes. As well as collaborating and coordinating with Development Partners and other stakeholders to ensure that its development goals are attained through adequate debt financing. Thus the Public Debt Division's major responsibility is to maintain the debt database and ensure the servicing of external obligations. It is in this department that Actual payments of debts are made at the NBR while other divisions in the MINECOFIN are concerned with negotiating and contracting public external debt and granting public guarantees.

Apart from the PDD, the Central Projects and External Finance Bureau (CEPEX), a semi-autonomous body in the MINECOFIN, is also another entity in public debt management that is tasked with coordinating external financing activities by line ministries according to sector priority and by donor categories. While the Rwanda Public Procurement Authority (RPPA) established on 30/12/2007 by the law no 63/2007 focuses on regulatory measures, monitoring and building capacity in public procuring entities.

Further, besides the PDD, Rwanda also has a Debt Management Committee (DMC) established by MINECOFIN in 2008. The DMC is composed of the Minister of Finance, Director General of Economic Planning (Ministry of Finance) Chairperson, Director of Treasury (Ministry of Finance) – Vice Chairperson, Director of Macroeconomic Unit (Ministry of Finance) Secretariat Director of Budget (Ministry of Finance), Director of External Finance Unit (Ministry of Finance), Director of Financial Markets (BNR); Director of Research and Statistics(BNR); Director of

External Sector and BoP (BNR); The Permanent Secretary and Secretary to Treasury (Ministry of Finance) and the Governor (BNR) who is only invited to the DMC when the agenda requires strategic policy adjustment and Representatives of other institutions involved in or affected by debt management may be co-opted in the DMC if required. Its major responsibilities are:

(i) Proposing changes to the Debt Policy and Strategy;
(ii) Developing guidelines on the Debt policy and Debt Strategy development;
(iii) Providing guidelines on the methodology and key considerations for undertaking debt sustainability analysis;
(iv) Preparing the annual debt management work plan, including implementing the debt strategy;
(v) Monitoring progress on the implementation of the debt strategy; Reviewing the debt financing operations such as: (a) Issuance of short and long term public debt instruments; (b) Selection of bond types and structure;(c) Methods of sale and marketing of bonds; (d) Debt restructuring options.
(vi) Drafting of the Debt Management Manual and procedures for development loan financing;
(vii) Monitoring and coordinating the activities of all government entities involved in public debt management;
(viii) Advising the Minister on any external loan/guarantee contraction;
(ix) Reviewing existing capacity on debt management and make proposals for capacity building for public debt management. Propose cost capacity building programs on debt management;
(x) Reviewing institutional arrangements including management structures, job descriptions for debt managers in line with international best practice; Meeting at least on a quarterly basis to review developments in debt management. Ad-hoc meetings shall be convened as the DMC chairperson deems necessary;
(xi) Attending to any other assignments delegated by Minister of Finance on debt management issues;
(xii) Submitting formal minutes of the DMC to the Minister of Finance and copies to the Permanent Secretary and Secretary to Treasury of the Ministry of Finance as well as the Governor of BNR within five working days following a DMC meeting.

Apart from the above institutions, the Central Bank of Rwanda plays an advisory role. It advises the Minister of Finance, through the DMC, on the most appropriate method of issuance of funds based on technical analysis but within overall debt management framework. It also has the mandate to monitor, collect information regularly (monthly or as necessary) and report on private sector external debt which will be used in macroeconomic analysis and economic management. The report will then also be provided as market information.

To complement the efforts of the above team, the Attorney General's Office carries out annual audit of Debt management activities together with the internal auditor and by the Office of the Auditor General (OAG). The Auditor General's Office provides assurance on transparency and accountability in the management of public finances through carrying out audits of the public sector entities accounts along with projects and the Inspector General of Finance carries out internal auditing work within MINECOFIN. The constitution specifies that the OAG is an independent institution responsible for the audit of State finances. The independence of the OAG is guaranteed as follows: "no persons shall be permitted to interfere in the functioning of the office or to give instructions to its process" (2008, pg23). Hence guaranteeing non interference and biases in executing its role.

The Public Accounts Generals' office on the other hand carries out the oversight of the current and future functions of the Treasury, Public Accounts and Internal Audit Units and provides leadership in the coordination of reforms intended to strengthen public accounting. While Chief Budget Managers are responsible for maintaining proper books of accounts for their institutions and the preparation of the financial statements and accuracy of their respective financial statements and the Ombudsman Office for monitoring corruption and social injustices.

Furthermore, in addition to this institutional framework, is the role of the Parliament which is charged with approving or disapproving the annual national budgets submitted to it vis-à-vis constitutional requirements. It is also mandated with playing an oversight role.

2.3.2 Public Debt Management Committee

The committee's role is to strengthen the debt strategy and debt policy implementation and to ensure transparency and accountability in Public Finance Management (PFM). It is composed of representatives from MINECOFIN and NBR. The Committee meets on a quarterly basis to review developments in debt management and discusses pertinent issues affecting public debt management.

2.3.3 Macroeconomic Policy Unit

The Macroeconomic Unit provides the Debt Sustainability Analysis (DSA) on the basis of the public debt policy and debt strategy. This is a tool, which shows how the country can meet its current and future external debt service obligations in full, without recourse to debt rescheduling or the accumulation of arrears and without compromising growth. To design the Medium Term Debt Strategy and debt policy, Macroeconomic Policy Unit collects all information on public and publically debt guarantee. Different policy documents provided by National Development Planning and Research Directorate in collaboration with Rwanda Development Board (RDB) are used. These include Government Program (PIP, PPP, National Export promotion Strategy) and other Economic Development Program (EDPRS, VISION 2020, etc.). In regards with monitoring the implementation of the recommendations stated by debt strategy and debt policy, the debt management committee proposes a review every three years or when necessary.

2.3.4 Evaluation of the Legal and Institutional frameworks for Public borrowing and Debt Management

Shortly after 1994, the GoR took steps to modernize its PFM systems also, establishing some key functions for the very first time (e.g. internal and external audit) and adopting a new budget and planning processes. Nevertheless, there are still some weaknesses within the system which have likely impacts to enable appropriate improvement and prioritise the GoR's PFM reform programme. Whilst a debt management unit has been established in the Macroeconomic Department of MINECOFIN, capacity challenges are however cited as limited and dependent on technical advice from international consultants and support from IMF. It will be important for this unit to become properly capacitated with Terms of Reference for the unit and the right staff. The GoR hence needs to look into training its staff to reduce reliance on external support.

Public debt which is managed by the Public Debt Division (PDD) is tasked with preparing reports on Debt management and submitting them regularly or at least once a year to the Cabinet and to Parliament for information purposes only. This implies a weakness in the oversight role of the Parliament and hence could pose a threat to fiscal discipline and debt sustainability. Debt documentation as submitted to the legislature will need to be strengthened to facilitate both fiscal discipline and constant monitoring of the debt levels. The public availability of key debt information was also seen to be weak, constraining the general transparency of the PFM system. The report of the OAG is made public (although only through a presentation to Parliament and on request from the OAG), but none of the other types of information are currently accessible to the public.

Given that the external audit function is still fairly new to Rwanda, it is not surprising that the scope and follow-up of external audit are currently very weak. This effectively means that there is currently only limited external scrutiny of the use of public resources. This weakness in the external audit function feeds through into weakness in the legislative oversight of the use of public resources also. In addition, capacity weaknesses (e.g. lack of technical secretariat support) and limited exposure to international experience also limits in practice the effectiveness of the legislative oversight function.

Empirical evidence supports the view that the higher the quality of a country's policies and institutions, the better is its capacity to carry debt and withstand exogenous shocks[14]. The OBL which was passed in September 2006 ushered in fundamental changes in PFM in Rwanda by introducing broad but shared responsibilities in the management of government finances. It clearly assigns roles and responsibilities to the various actors in budget preparation, budget execution, financial reporting, accounting, auditing and external scrutiny, and by so doing it accentuates the role of the Minister of Finance as the overall custodian of government finances, including those of decentralized entities. The Organic Law further articulates the role of the executive and the legislature and it introduced innovations in financial management by decentralizing powers to commit expenditures and thus financial accountability. The AFRODAD Borrowing Charter upholds this under section 2.2.1 "There should be clear legal/ constitutional guidelines regarding to responsibilities and associated accountabilities among government agencies involved in debt management … and well articulated responsibilities for staff with clear monitoring and control and reporting arrangements" (2013, pg 12). This allows for efficient execution of tasks and enhances transparency and accountability of the debt management process.

2.3.5 Implications of the Current Public Debt Management Legislation and Management on the Overall Growth and Poverty Reduction efforts.

The government's debt policy is anchored in the principles established in its comprehensive public-debt management strategy. The main objective of this strategy is to ensure that the "financing requirements and repayments are met at least cost with cautious risk considerations while keeping debt sustainable"(2008).The government has developed a Debt Management Facility strategy with clear limits for loans and guarantees that are consistent with the provisions in the Organic Budget Law, and the country is building the capacity to undertake timely Debt Sustainability Analyses (DSAs) to guide public-investment choices.

According to the 2008 Public Debt Policy, the Rwandan government has made clear its wish for a lower reliance on foreign aid while still maintaining high public

14 Kraay, A and Nehru, V, 2006, When is External Debt Sustainable? World Bank Economic Review, Vol. 20, No. 3, pp 341-365. See also, WB-IMF (May 2007), Strengthening Debt Management Practices - Lessons from Country Experiences and Issues Going Forward - Background Paper (Chapter III prepared by A. Prasad and F. Rowe).

investment levels. However, this adds an additional financing challenge to sustaining high growth. Rwanda's public investment in recent years has helped it achieve much of this desired build-up. The authorities' issuance of US$400 million in 10-year bonds, the country's first venture into the international capital markets, shows that the need for additional financing remains high. Without additional financing, either from higher tax receipts or increased borrowing, the authorities will have to lower their level of public investment spending in order to remain fiscally solvent.

Rwanda's success has benefited from substantial financial aid from donor countries. Donor grants have, for much of the period since the genocide, covered a significant share of government spending. In 2011/12, these inflows, evenly divided between direct budget support and project grants, amounted to about 10% of Rwandan GDP and 40% of public expenditure. The Rwandans have been successful in mobilizing and efficiently managing these resources, owing to improved public financial management practices.

3.0
RELATIONSHIPS AND DIALOGUE BETWEEN DONORS, PARTNER GOVERNMENTS AND CIVIL SOCIETY AND THE SPACES AND PROCESSES FOR DIALOGUE AND DECISION MAKING ON PUBLIC DEBT

An analysis of the Rwanda constitution shows that all its former constitutions were either copied from foreign countries without responding to its own expectations as a nation.[15] When Rwanda attained its independence, the principle of limited government that was embodied in the 1962 constitution was replaced by the practice of absolute government, which concentrated state power in the hands of the President[16]. This therefore means in either case, the population has never been involved in the process of making the fundamental laws of the land at all.

The 2003 Constitution making process tried to mark a departure from these state of affairs, with the Constitutional Commission working very hard to consult with a large number of Rwandans as well as learn from tens of other constitutions worldwide. It defines the principles and overall legal framework for the management of public finances in the country.

3.1 The Role of Civil Society

With regards to Civil Society, it is imperative to note that although their responsibility is to lobby and advocate for policies and legislation that foster sound loan contraction and PFM systems, in Rwanda despite their apparent existence, they however do have a poor impact in influencing public debt contraction and PFM systems. Hence some positive developments in the early 1990s were quickly brought to an end by the genocide[17]. The government continues to constrict the few independent NGOs, particularly human rights groups that appear to be the most critical in political terms while supporting organizations that promote regime policies.

3.2 The Role of Lending Institutions

The major role of various lending institutions of the United Nations systems such as the, IMF, WB, AfDB and others in the economies of most African countries is rooted in the provision of concessional loans and grants to their respective governments

15 Kraay, A and Nehru, V, 2006, When is External Debt Sustainable? World Bank Economic Review, Vol. 20, No. 3, pp 341-365. See also, WB-IMF (May 2007), Strengthening Debt Management Practices - Lessons from Country Experiences and Issues Going Forward - Background Paper (Chapter III prepared by A. Prasad and F. Rowe).

16 The 1962 Constitution of Rwanda had a limited equality clause which was expanded in the 1978 constitution to include fundamental liberties identified in the Universal Declaration of Human Rights and an inclusion of race, colour, origin, ethnic group Clan, affiliation, sex, opinion or social position

17 http://www.bertelsmann-transformation-index.de/bti/laendergutachten/laendergutachten/oestliches-und-suedliches-afrika/rwanda/#chap12

meant to address the problems of unsustainable economic growth and development imbalances, poverty issues as well as unsustainable debt burdens issues through the implementation of debt reduction, poverty reduction and sustainable development projects.

3.3 The International Monetary Fund (IMF)

The work of the IMF involves the monitoring of economic and financial developments, and the provision of policy advice, aimed especially at crisis-prevention. The IMF also lends to countries with balance of payments difficulties, to provide temporary financing and to support policies aimed at correcting the underlying problems. Loans to low-income countries are also aimed especially at poverty reduction. The IMF also provides countries with technical assistance and training in its areas of expertise.

Following the end of hostilities in July 1994 that resulted in an unprecedented loss of human life, substantial disruption of social and economic infrastructure, and a decline of over one half in aggregate output, the Government quickly embarked upon a program of national reconciliation, rehabilitation, and economic recovery. The macroeconomic component of this program was prepared in consultation with the staff of the IMF and is principally aimed at restoring financial stability and reviving economic activity. The IMF has also played a major role in coordinating technical assistance efforts aimed at restoring Rwanda's capacity in macroeconomic management. Rwanda joined the IMF on September 30, 1963 and its quota in the IMF is SDR 59.5 million (about $89 million). Rwanda's outstanding use of IMF credit currently totals SDR 8.8 million (about $13 million)[18].

3.4 The World Bank

The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank (WB), is an international financial institution whose purposes include assisting the development of its member nations' territories, promoting and supplementing private foreign investment and promoting long-range balance growth in international trade.[19]

At the beginning of the 1980s when the debt crisis exploded in the Third World, Rwanda (like its neighbour Burundi) had very little debt. Whereas in other parts of the world, the World Bank and IMF were abandoning their loan policy and preaching abstinence, they adopted a very different attitude with respect to Rwanda to which

18 A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its share in the allocation of SDRs.
19 http://www.yourarticlelibrary.com/economics/world-bank-its-objectives-and-functions/23534/

they granted major loans. Between 1976 and 1994, there was a 20-fold increase in Rwanda's external debt. In 1976, it amounted to $49 million, while it was nearly $1 billion in 1994, increasing especially rapidly as of 1982. Its principal creditors were the international financial institutions (IFIs) — the World Bank, the IMF and similar institutions. The World Bank and the IMF played the most active role in this debt process. In 1995, IFIs held 84% of Rwanda's external debt. According to the 2014 World Bank report, the latter committed to increase on its current portfolio of a net commitment of almost $600 million and invest $1 billion or more new resources in the next five years to support Rwanda's "journey to prosperity".

3.5 African Development Bank

The African Development Bank (AFDB) Group approved its first operation in the East African region in 1967. Over the years, it has intervened to support the region's development efforts, with total approved national and regional operations amounting to nearly US$ 16.21 billion. The Bank's interventions have consisted of a mix of investment projects, capacity-building, and technical assistance, spanning diverse areas such as infrastructure, agriculture, social sectors and private sector development, to provide a strategic response to the variety of opportunities and challenges facing the countries of the region. The Bank has also supported the economic reforms agenda of the countries aimed at improving governance, public sector management and the business climate, in order to create the conditions for sustained growth and poverty reduction. Region-wide interventions, through regional operations, have supported economic integration initiatives while helping to achieve greater efficiencies.

Partnership with the African Development Bank started since 1974 and has contributed to Rwanda's turn-around. In particular, Bank Group interventions have supported the development of economic infrastructure, increased productive capacities, complemented government human development efforts and supported macroeconomic reforms and improvements in the business regulatory environment. The Bank's assistance has promoted economic competitiveness for inclusive growth and poverty reduction, through not only infrastructure support, but also support enterprise development and capacity development for institutions that implement Rwanda's Small and Medium Enterprise (SME) policy.

3.6 Evaluation of Parliamentary Oversight of International Financial Institutions

Development effectiveness depends on strong country ownership. Representative, transparent and accountable policy making with an active and informed engagement by parliament is critical to ensure national ownership of development programs[20]. A global survey was carried out by the Inter-Parliamentary Union (IPU) and the World Bank in 2011, to assess the parliament's oversight role with respect to budget process and the loan contraction process with international financial institutions (IFIs). The report focused on the extent to which parliaments around the world possess proper legal authority to ratify loans as well as effective oversight practices of the loan approval process related to World Bank and IMF lending. The reason for this is that: whatever reforms agreed between the government and the IFI may have wider budget or policy impacts; investment loans may have environmental or social consequences; and future budget cycles will have to take into account loan repayments and the expected returns on the investments.

For Rwanda in particular, it was found that parliament is required to ratify loans or credits negotiated by the government and may accept or reject loan agreements but cannot amend them. This legislative process applies to all lending instrument. It was also found that the parliament was however only involved at the final stage of the approval process, with no involvement prior to loan negotiations. The parliament is not authorized to approve the Bank's development strategies, nor can it approve the Poverty Reduction Strategy Papers (PRSPs) before it is adopted. Both the IMF and World Bank attest to no delays or blockages because of parliament intervention and it was also discovered that only through informal meetings is the parliament allowed to be involved in the context or regular IMF surveillance activities of government macroeconomic policy. From the findings above, it was concluded that the legal framework for parliamentary oversight of World Bank and IMF appear to be weak, moreover parliamentary involvement in IMF macroeconomic surveillance is limited.

According to AFRODAD, for effective oversight of public finances, parliament should be fully informed: transparent and public budgets are key. Technical knowledge is also vital for representatives to effectively exercise their oversight, making capacity building an important element of strengthening the role of parliament. There is plenty of room for parliament to exert influence in the loan approval process by instituting legal frameworks or by strengthening existing ones, as well as by improving a number of oversight practices as indicated above. Strong country ownership can be fostered by more frequent and structured dialogues between Bank officials and parliamentarians. IFIs should also take action in strengthening the oversight processes, technical capacity and knowledge of parliaments, by pro-actively engaging in policy discussions and consultations with parliaments; and by working towards more openness and accountability in both their own projects and lending, and in budget processes in general. The World Bank's decision to only provide budget support to countries publishing their budgets goes a long way in ensuring this.

20 The 2005 Paris Declaration on Aid Effectiveness and its subsequent 2008 Accra Agenda for Action and the 2011 Busan partnership for Effective Development Co-operation all emphasize this point.

4.0
RECOMMENDATIONS AND POLICY ALTERNATIVES

4.1 Recommendations to Government

In view of the Rwandan Government's objective which clearly states that it only wants external support temporarily. In the medium to long term, it wants to make the country indepen¬dent of the donors on which it currently relies on heavily. In the spirit of the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008), the government should work on sustainably strengthening its administrative capacities and actively soliciting the use of its national systems and procedures, for instance through budget support.

Reduction is not merely a question of spending more but also of using resources more effectively. Key to doing so is to have an effective Public Finance Management (PFM) system. Enhancing PFM will allow the government to better allocate its scarce financial resources to achieve national development goals. It will also enable the government to become more accountable to Rwanda citizens on how public expenditures are executed in accordance with development goals. Effective PFM systems can help strengthen democratic influence, oversight, and accountability in the decision-making processes related to the state budget. It can greatly enhance transparency, by making well-structured information available on the ways in which public resources have been used and the results that have been achieved, significantly strengthening the accountability process in parliament and public audit institutions. Besides the significant progress that Rwanda has made in strengthening PFM, Rwanda still faces significant capacity weaknesses and shortages in core skills and competencies needed to meet its ambitious development objectives. Greater strides need to be made towards capacitating its staff.

The capacity of the relevant Parliamentary Committees and District Councils in exercising effective external oversight on the use of public finance was also observed as still inadequate. Therefore, further to implementing PFM reforms which entails capacity building and institution strengthening, greater oversight by Parliamentarians need to be enhanced as an important component of Rwanda's loan contraction and debt management agenda.

4.2 Recommendations to Civil Society and Development partners

For Rwanda to make progressive improvements in PFM there is need for donor support which can be done through budget support dialogue, which stresses the importance of sticking to the current PFM course. Such dialogue involves not only the national government, but also other actors, including the parliamentary budget committee, the OAG, and civil society organizations. Secondly, donors can provide direct support for the implementation of the PFM reforms. This allows the donors to share a common interest with the Rwandan government in a joint financing mechanism to which all rele¬vant PFM donors will contribute.

Donors tend to be slow at turning pledges like the ones made at the Aid-Effectiveness summits in Paris and Accra into action. Analysis reveals that donor practices do not use national systems nor provide timely information on development-cooperation projects for the government's budget planning. Donors are therefore encouraged to disburse funds in a predictable and organised manner. By providing transparent information on cooperation projects with the government, such activities are included in the budget and contribute to reducing imbalances in sectoral allocation.

The AFRODAD Borrowing Charter emphasizes the importance of national ownership for the success of all loan and grant funded development projects. It cites that the people, who should be the ultimate beneficiaries of loans taken in their name, should have the right to participate in the decision making process pertaining to public borrowing. This should be done not only through parliamentary representation but direct citizen participation through civic organizations. Civic groups, especially watchdogs and interest groups, should be recognized as vehicles to enhance public finance ownership and accountability.

Bearing in mind the weakness of Rwandan civil society with regard to holding the government accountable, civil society should negotiate with the government to enhance mechanisms through which CSOs can freely and confidently help their constituents to hold the government accountable. Moreover, CSOs themselves could be more proactive in seeking or asking for information on aid. The CSOs will then use this data in a number of ways including:

- Holding donors and government accountable for the use of aid funding;
- Research into the relationship between aid and poverty reduction;
- Advocacy on specific issues and/or sectors;
- Increasing their knowledge of potential opportunities to act as delivery partners;
- Disseminating information to community level within Rwanda.

Rwandan civil society should also look for ways to minimize dependence on external donors. Overdependence on external funding makes them keep dancing to the tune of donors rather than carrying out activities aimed at fulfilling their mission. They should remain focused and specialize on their constituency needs.

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