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Rwanda

National Budget Brief

Investing in Social Sectors for Human Development in Rwanda
2023/24

National Budget Brief, Investing in Social Sectors for Human Development in Rwanda 2023/24

Preface

This national budget brief explores the extent to which the Government of Rwanda's (GoR) budget addresses the needs of children under 18 years of age through the national budget. The brief analyses Rwanda's macro-economic performance, as well as the size and composition of budget allocations to priority sectors for children such as Health and Nutrition, Education, Social Protection and Water, Hygiene and Sanitation (WASH) for the fiscal year 2023/24. The budget brief aims to synthesize complex macro-economic and public budget information with a bearing on the implementation of children's rights in Rwanda and offers recommendations on how the government can improve investments in children and their wellbeing.

Key highlights

- In the first half of 2023, the Rwandan economy grew by 7.7 per cent and was driven by a strong performance of the services sector. However, unfavourable weather conditions affected agricultural production leading to higher food price inflation throughout the year 2022 and the first few months of 2023. High food prices adversely affect low-income households. More fiscal and monetary measures are needed to address the root causes of inflation and curb the effect of inflation on households, including income support mechanisms to safeguard resilience to socio-economic shocks among low-income and other vulnerable households.
- Since 2022/23, the Government of Rwanda has implemented fiscal consolidation measures. These aim to keep Rwanda's fiscal objectives in a sustainable zone, support macro-economic stability, keep public debt at sustainable levels, strengthen the fiscal framework, and preserve the fiscal space to implement national development priorities. Against this backdrop, there is a need to protect spending for priority sectors for children and young people to sustain investments in human capital development for long-term productivity and inclusive economic growth.
- In the fiscal year 2023/24, the total national budget amounts to FRW 5,030.1 billion (33.8 per cent of the total GDP), whereas the 2022/23 revised budget amounted to FRW 4,764.8 billion (39.8 per cent of GDP). The recent reduction of government spending as a share of GDP reflects the recent fiscal consolidation measures initiated to improve the public debt outlook. There is a need to revise Rwanda's medium term revenue strategy tailored to the Integrated National Financing Framework (INFF) to mobilize adequate and fiscally sustainable budgetary resources.
- The budget allocations to priority sectors for children (Education, Health, Nutrition, Social Protection and WASH) have depicted a nominal increase in recent years. Allocations to key social sectors have increased from 27 per cent of the national budget in the 2022/23 revised budget to 28.1 per cent in 2023/24. The overall budget increase is largely driven by allocations under the education sector, while allocations for the social protection and health sectors show a slight reduction. More investments in the health and social protection sectors are required to support the Government of Rwanda's ambitions of ensuring universal access to quality health services and implementing the recently introduced categorical grants under the social protection sector. Furthermore, more analysis is needed on budget inefficiencies at sector level and measures aimed at widening the fiscal space for priority sectors for children and adolescents, including through innovative financing mechanisms.

1. Introduction

1.1. Rwanda's macro-economic performance

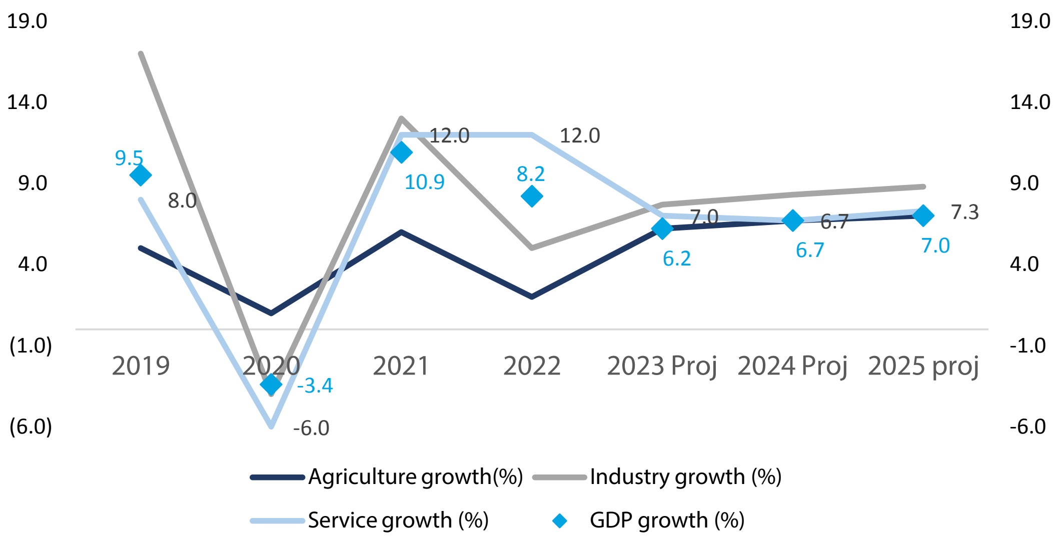
Published in April 2023, the IMF's World Economic Outlook (WEO) predicts that world growth is still uncertain amid financial sector turmoil, high inflation rates, the ongoing effects of Russia's war on Ukraine, and the persisting impact of the COVID-19 pandemic. Global growth is expected to fall from 3.4 per cent in 2022 to 2.8 per cent in 2023, before settling at 3.0 per cent in 2024. As a worst-case scenario, global growth would decline to about 2.5 per cent in 2023 with the growth of advanced economies falling below 1 per cent. Global public debt as a ratio of GDP soared during COVID-19 and is expected to remain elevated. Supply chain disruptions and rising geopolitical tensions have intensified risks of geo-economic fragmentation.

The National Bank of Rwanda (BNR), reports that despite a constrained global and unfavourable domestic environment, Rwanda's economy grew by 8.2 per cent year on year in 2022 following a strong recovery of 10.9 per cent recorded in 2021. In the first half 2023, the Rwandan economy grew by 7.7 per cent, driven by strong performance in the services sector. Despite progress, unfavourable weather conditions severely affected agricultural production, leading to higher food price inflation throughout 2022 and the first half of 2023.

Consequently, in 2023, the GDP is expected to be moderate at 6.2 per cent and reach 6.7 per cent in 2024. Agriculture performance is likely to remain affected by unfavourable weather conditions but with a downward trend compared to 2022, hence agriculture output is projected to grow at 4.0 per cent compared to the 2.0 per cent registered in 2022. More positively, high performance in the services sector is expected to continue through a full recovery in tourism, travel, and hospitality activities, thus contributing to growth projections of 7.0 per cent for the next three years (**Figure 1**).

Figure 1: Economic performance and projections

Source: Ministry of Finance and Economic Planning (MINECOFIN), Budget Framework Paper (BFP) 2022/23 to 2024/25



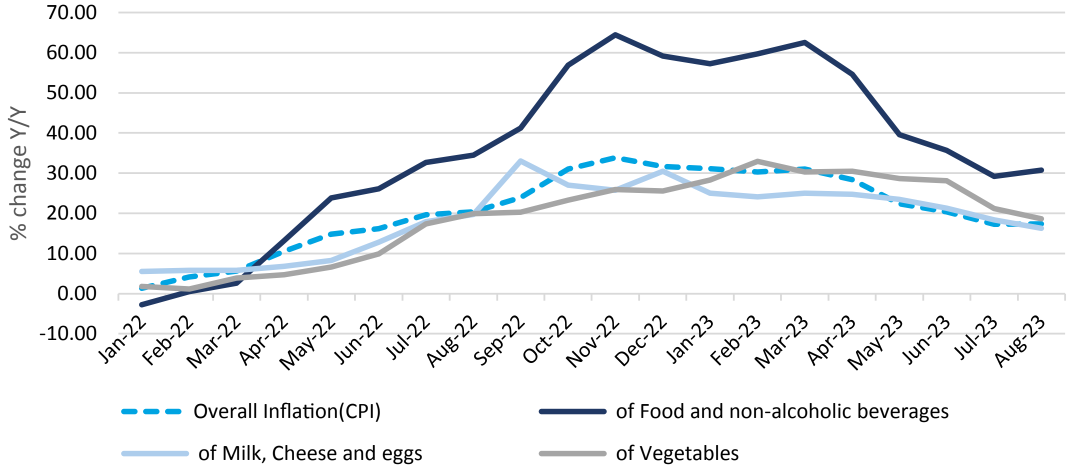
1.2. Inflation trends

In 2022, headline inflation stood at an average of 13.9 per cent, up from 0.8 per cent in the previous year. This was reflected across all key components of inflation (ie. core, food and non-alcoholic beverages, energy), due to increases in international commodity prices (food and energy) coupled with the lower domestic agricultural harvest. Core inflation, excluding fresh products and energy, also increased by 15.4 per cent in December 2022 compared to the same period in 2021. On an annual basis, core inflation stood at 11.1 per cent in December 2022 compared to 2.1 per cent in December 2021.

Since the beginning of 2023, analysis shows a trend in reducing inflation levels despite price levels remaining high. Overall inflation as measured by the Consumer Price Index (CPI) reduced from 31.7 per cent in December 2022 to 17.4 per cent in August 2023. Additionally, the prices levels in the hard-hit category of 'food and non-alcoholic beverage' reduced from 59.2 per cent in December 2022 to 30.8 per cent in August 2023, while the price of vegetables specifically reduced from 25.5 per cent to 18.6 per cent during the same period (**Figure 2**).

Figure 2: CPI trends (January 2022- August 2023)

Source: NISR, Consumer Price Index Database



The last IMF country review (June 2023) concluded that (i) rising food prices and strong domestic demand (fuelled by high credit growth) contributed to persistent inflation, and (ii) robust import demand coupled with high commodity prices and tightening global financing conditions have weakened Rwanda's external position. The uncertain external environment and the reduced prospects for external concessional financing are compounding the development challenges from multiple crises.

It is important to emphasize that high food prices deplete the purchasing power of low-income households who spend a larger portion of their income on food items and other essential commodities. This has furthered the devastating effects on the most vulnerable households who will opt for coping mechanisms, such as selling their assets, livestock, or a portion of land, that push them into multidimensional poverty.

1.3. Fiscal stance and public debt

In May 2023, the Minister of Finance and Economic Planning indicated that Rwanda's fiscal objectives will support macro-economic stability, keep debt at sustainable levels, strengthen the fiscal framework, and preserve the needed fiscal space to implement national development priorities under the National Strategy for Transformation (NST-1).

Fiscal consolidation will be further supported by measures to bolster domestic revenue mobilization under the Medium-Term Revenue Strategy (MTRS) and rationalize spending, as well as expanded reforms to improve the transparency and efficiency of public financial management (PFM), investment practices and enhance fiscal risk management.

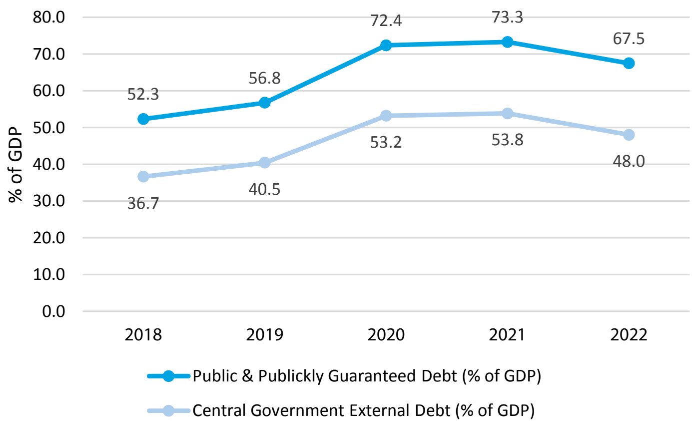
The Budget Framework Paper (BFP) 2023/24 to 2025/26 outlines the following areas of fiscal consolidation:

- Continued rationalization of public spending, with a focus on reduced official travels.
- Increased reliance on virtual meetings and other remote working practices, as developed during the COVID-19 pandemic.
- Streamlining and gradually reducing subsidies related to energy and fuel and state-owned-enterprises (SOEs).
- Abiding by a new Pre-Budget Outlook Paper that sets expenditure ceilings for spending ministries.

While there was a surge of public debt levels in 2020 and 2021, the data for 2022 show a declining trend. As a share of GDP, the public and publicly-guaranteed debt reduced from 73.3 per cent in 2021 to 67.5 per cent in 2022, while the central government's external public debt reduced from around 54 per cent to 48 per cent (**Figure 3**). In the medium term, the Government of Rwanda aims to strengthen debt management by maximizing concessional funding, domestic market development and boosting exports to build buffers for debt sustainability.

Figure 3: Public debts as a share of GDP

Source: MINECOFIN, Debt Stock Database 2022



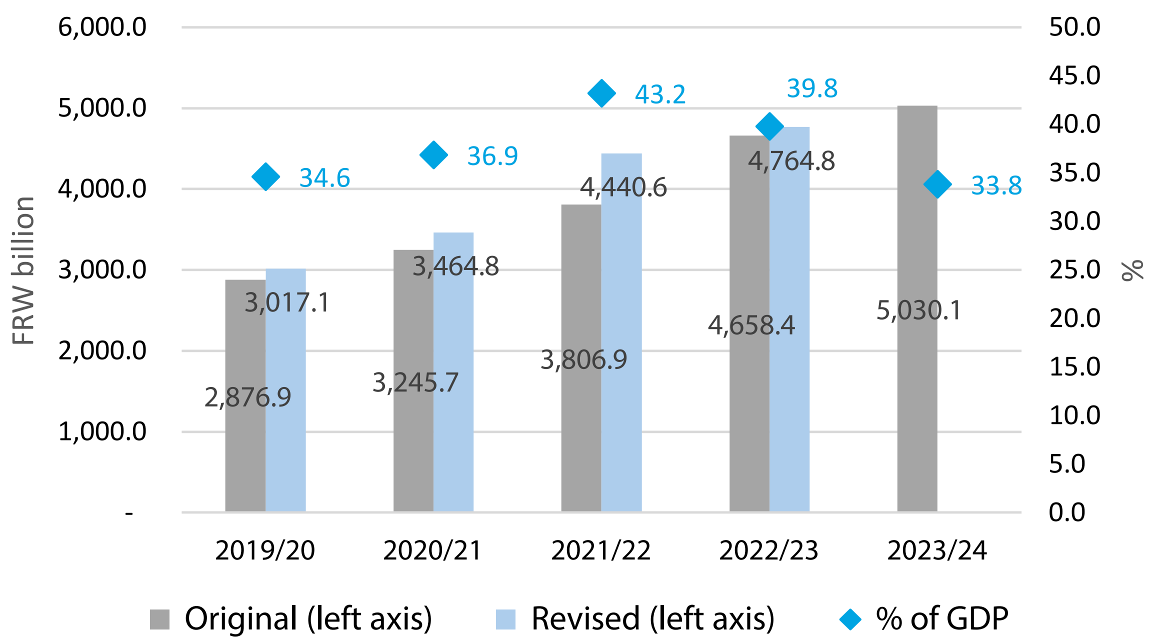
2. National Budget Trends

2.1. Rwanda's national budget continues to expand in nominal terms

The total national budget amounts to FRW 5,030.1 billion in the fiscal year 2023/24, compared to FRW 4,764.8 billion in the revised budget of 2022/23. This reflects a nominal budget increase of around six per cent. As a share of national GDP, the national budget accounts for 33.8 per cent compared to 39.8 per cent in 2022/23 and 43.2 per cent in 2021/22 (**Figure 4**). The recent reduction of government spending as a share of GDP is an indication of newly-imposed consolidation measures aimed at improving public debt outlook. However, there is a need to implement fiscally-sustainable measures and growth-friendly policies to create growth-induced fiscal space in the medium term.

Figure 4: National budget trends

Source: MINECOFIN, State Finance Laws and Macroeconomic Framework

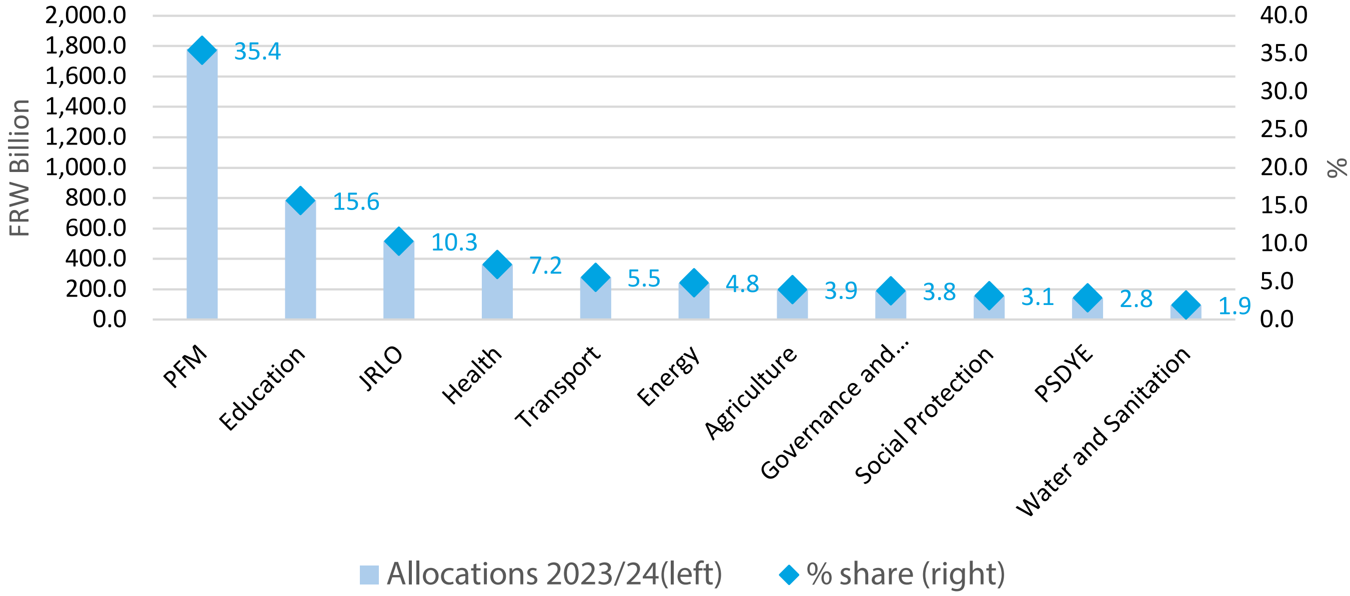


3. Budget Allocations by NST Sectors

Figure 5 shows that in 2023/24, more than a third of the national budget (35.4 per cent) is allocated under the Public Finance Management (PFM) pillar, followed by the Education sector with 15.6 per cent, 10.3 per cent for the Justice Reconciliation Law and Order sector (JRLO), and 7.2 per cent for the Health sector.

Figure 5: Sectoral allocations (FRW Billion & %) by top NST1 sectors

Source: State Finance Laws

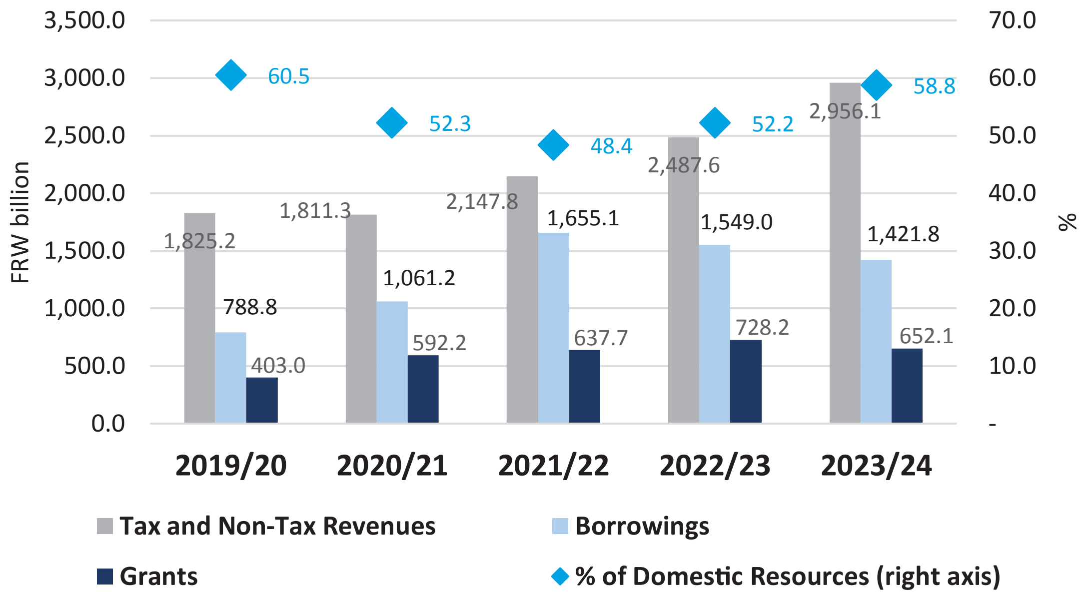


4. Financing the National Budget

The domestic budget as a share of the national budget increased from 52 per cent in 2022/23 to around 59 per cent in 2023/24. In nominal terms, the domestic budget continues to rise, as a total of FRW 2,956.1 billion will come from tax and non-tax revenues, compared to FRW 2,487.6 billion in 2022/23. Borrowings from domestic and external budgets will amount to FRW 1,421.8 billion in 2023/24 down from FRW 1,549 billion in 2022/23, while external grants will amount to FRW 652.1 billion, down from FRW 728.2 billion in 2022/23 (**Figure 6**).

Figure 6: Source of financing of budget

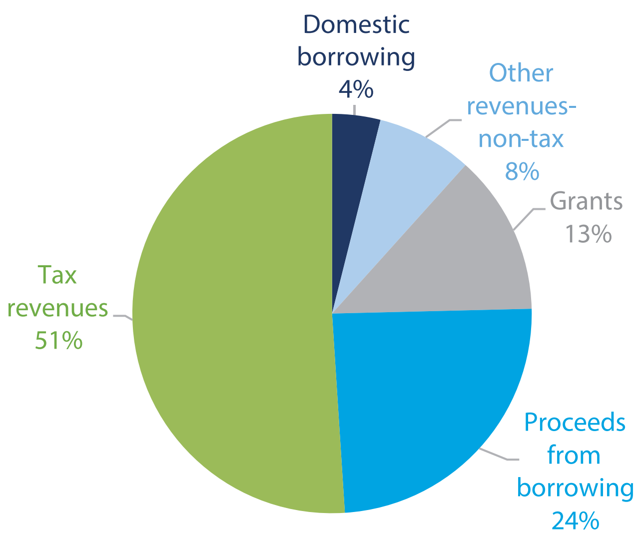
Source: State Finance Laws



Analysing the distribution of the 2023/24 national budget funding sources shows that tax revenues will contribute 51 per cent, borrowing 24 per cent, external grants will amount to 13 per cent, while other non-tax revenues, including import duties, will contribute 8 per cent (**Figure 7**). Recent assessments by the IMF (2023) and UNICEF (2022) show that there is room to create more fiscal space by implementing smart fiscal policy adjustments, and enhancing domestic resource mobilizations via more efficient budget allocations and execution.

Figure 7: Financing source by types and by share (%) in the national budget

Source: State Finance Law 2023/24



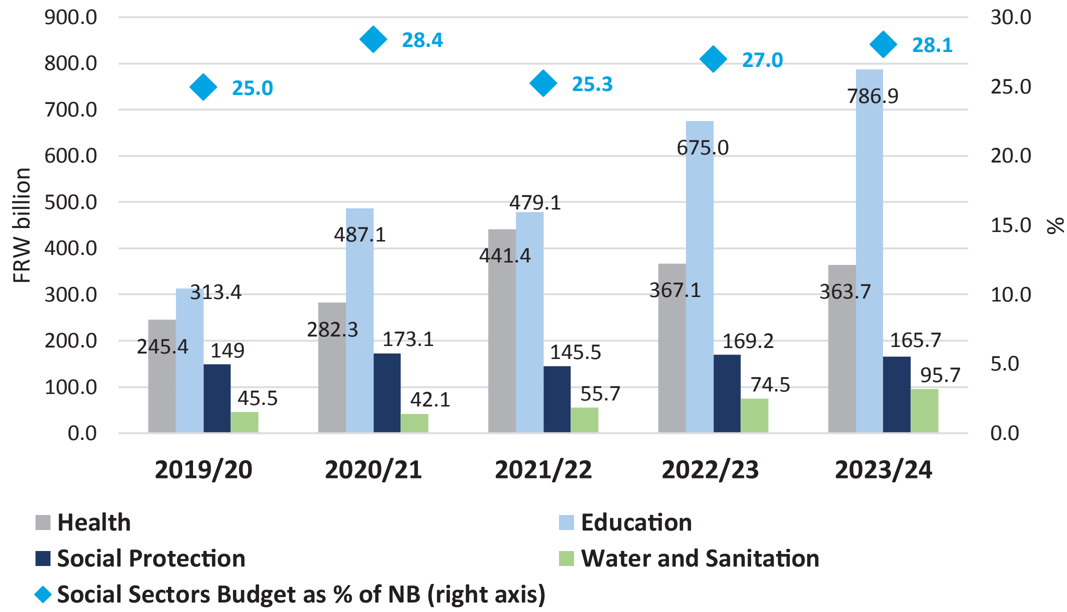
5. Budget Trends by Priority Sectors for Children

Budget allocations to priority sectors for children (Education, Health including Nutrition, Social Protection and WASH) continue to depict a nominal increase. Allocations to key social sectors increased from 27 per cent of the total national budget in the 2022/23 revised budget to 28.1 per cent in 2023/24.

As indicated in the sector budget briefs, our analysis shows that as a share of the national budget, the education sector accounts for 15.6 per cent, the health sector for 7.2 per cent, the social protection sector for 3.3 per cent, and the WASH sector for 1.9 per cent. The overall budget increase for social sectors is largely driven by allocations to the education sector, while allocations for the social protection and health sectors show decreasing or plateauing trends. There is a need to increase allocations for health services and social protection given the government's ambition to ensure universal access to quality health services, the introduction of categorical grants, and roll-out of the national graduation strategy in the social protection sector.

Figure 8: Social sectors budget trends

Source: State Finances Laws



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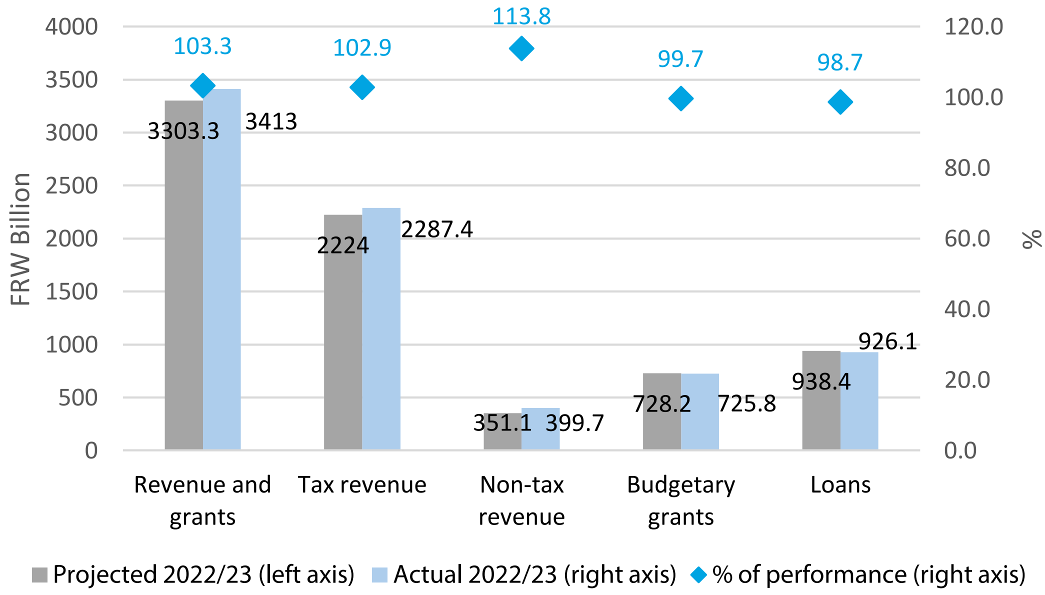
6. Budget Execution

6.1. Revenue collection performance and budget outturn

Revenue collection performance remained strong in 2022/23. However, there is a need to uphold fiscal consolidation measures to increase the credibility of domestic resource collections. Tax revenue collection in the 2022/23 fiscal year surpassed initial expectations, increasing from the planned FRW 2,224 billion to FRW 2,287.4 billion, reflecting an increase of 103 per cent. Non-tax revenue performance was achieved at 113.8 per cent, largely driven by increased collection of fines and penalties. Non-tax revenue collected amounts to FRW 399.7 billion against the forecasted FRW 351 billion. The budgetary grants and public borrowing recorded a performance of 99.7 per cent and 98.7 per cent, respectively (**Figure 9**).

Figure 9: Budget outturn (July 2022-June 2023)

Source: MINECOFIN - Budget Execution Report 2022/23



The Ministry of Finance and Economic Planning (MINECOFIN, 2022 report) indicates that the strong performance of tax and non-tax revenue is mainly attributed to measures implemented in revenue collection, including among others: (i) implementation of tax administrative measures, including rolling out Electronic Billing Machine use for all businesses; (ii) introducing system validation control on income tax declaration; (iii) automation of warning and reminder letters.

The June 2023 IMF country review indicates that Rwanda will need to implement fiscal consolidation measures to (i) ensure the credibility of domestic revenue mobilization, (ii) promptly implement revenue-raising measures aimed at broadening the tax base, (iii) streamline exemptions and enhancing tax compliance to bring debt down and a decisive monetary action to curb inflationary pressures and rebuild external buffers

Furthermore, the Ministry of Finance reports the following key achievements from the budget use in 2022/23:

Under the Education sector:

- 1,758 school leaders and 10,903 teachers were recruited and placed in pre-primary, primary and secondary education levels.
- 98.8 per cent of students were provided with daily meals at school to strengthen school feeding at all levels of basic education, (pre-primary to secondary in all public and government-aided schools).

Under the Health sector:

- To reduce maternal, child and infant mortality, 39 basic ultrasounds were distributed to 37 health centers and two hospitals, and 18 advanced ultrasounds were distributed to 16 hospitals. By the end of the 2022/23 fiscal year, a total of 221 health centers had been equipped with ultrasounds and the per centage of total deliveries that took place in health facilities stood at 94 per cent.
- 90.9 per cent (2,659,623 of 2,922,663) of eligible people over 35 years old were screened for annual medical check-ups.

Under the Social Protection and Child Protection sector:

- A total of 66,828 out of 123,549 children (6-24 months) and 42,670 out of 68,770 pregnant and lactating mothers received Fortified Blended Food (FBF).
- 213 children (63 from orphanages & 150 from detention centers) were reintegrated into families and community-based care. 1,449 out of 892 Orphans and Vulnerable Children (OVC) were provided with school fees in Vocational Training (TVET) and 226 OVC were provided with school feeding in the 12 Year Basic Education system.
- A total of 112,437 eligible households (HHs), 82,423 headed by women and 30,014 by men) benefited from direct cash transfers, while 169,091 beneficiaries including 35,618 (21 per cent) pregnant women and 133,819 (79 per cent) children under two years old were supported through the Nutrition Sensitive Direct Support (NSDS) income support scheme.
- A total of 122,192 out of 107,312 targeted households (56,146 headed by women and 66,046 by men) benefited from classic public works (cPW), while 94,369 out of 91,179 targeted households (66,150 headed by women and 28,219 by men, including caregivers in home-based ECDs) benefited from expanded public works (ePW).

Under the WASH sector:

- 472 kilometers of the Water Supply System (WSS) in rural areas were constructed, and the rehabilitation works of 36 nonfunctional rural WSS were at 52 per cent completion rate against 80 per cent targeted in the 2022/23 fiscal year. The Gicumbi WASH Program (150 km) and Karongi WASH Program (300 km) were completed, and progress of the construction works for the Ngororero Water Supply System in Ngororero District (198 km) was at 42 per cent against 40 per cent targeted.
- In the City of Kigali, the construction, extension, and rehabilitation of WSS (90 kilometers) was completed.

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7. Public Finance Management (PFM): Budget Oversight

In May each year, the Auditor General (AG) presents the previous year's status of public funds (budget) utilization to both chambers of Parliament. The April 2023, the Auditor general's report investigated compliance with existing financial regulations, and performance of public institutions including Boards and Government Business Enterprises (GBEs), Ministries, and decentralized entities (Districts), as well as non-budget agencies such as health facilities during the fiscal year ending 30th June 2022.

The main audits performed include: (i) financial audits which assess whether public financial statements were prepared with applicable financial reporting and regulatory frameworks and provide clear information regarding the financial situation, and (ii) compliance audits which assess whether public entity financial transactions abide to rules, laws, regulation, budgetary resolutions, policies, agreed terms, and conduct of public officials which govern audited entities.

In the fiscal year ending 30th June 2022, the Auditor General concluded that 68.3 per cent of **financial audit** reports received a clean (unqualified) audit opinion on financial statements, 25.8 per cent received a qualified audit opinion, and around six per cent received an adverse audit opinion (meaning the auditor concludes that there was material and pervasive misstatements found in financial statements).

Regarding the **compliance audits**, data show that 61.1 per cent of reports were clean, 34.8 per cent obtained a qualified audit opinion, while only 4.1 per cent of audit reports received an adverse audit opinion indicating that the auditor has observed the existence of material and pervasive instance of noncompliance with prevailing laws and regulations (**Figure 10**).

Figure 10: Key findings on different audit types

Source: Calculated from Auditor General's Report 2022

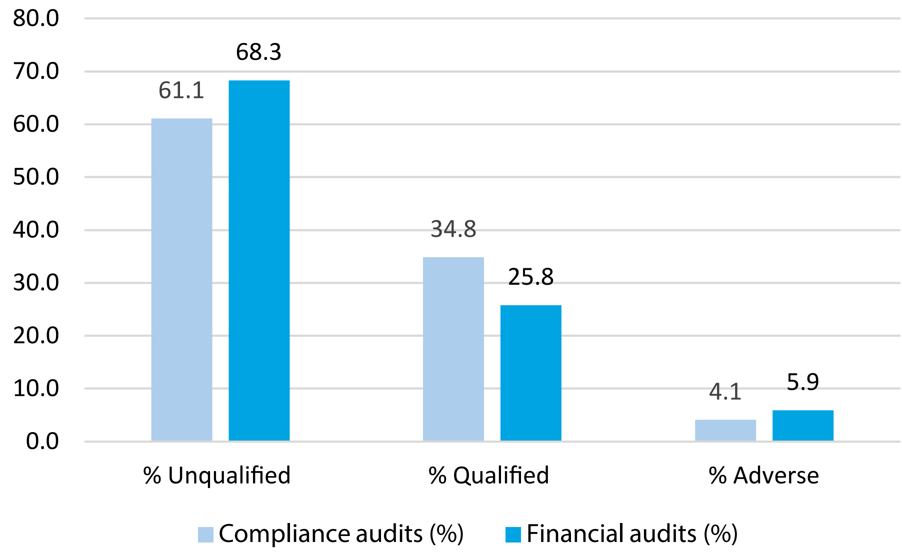
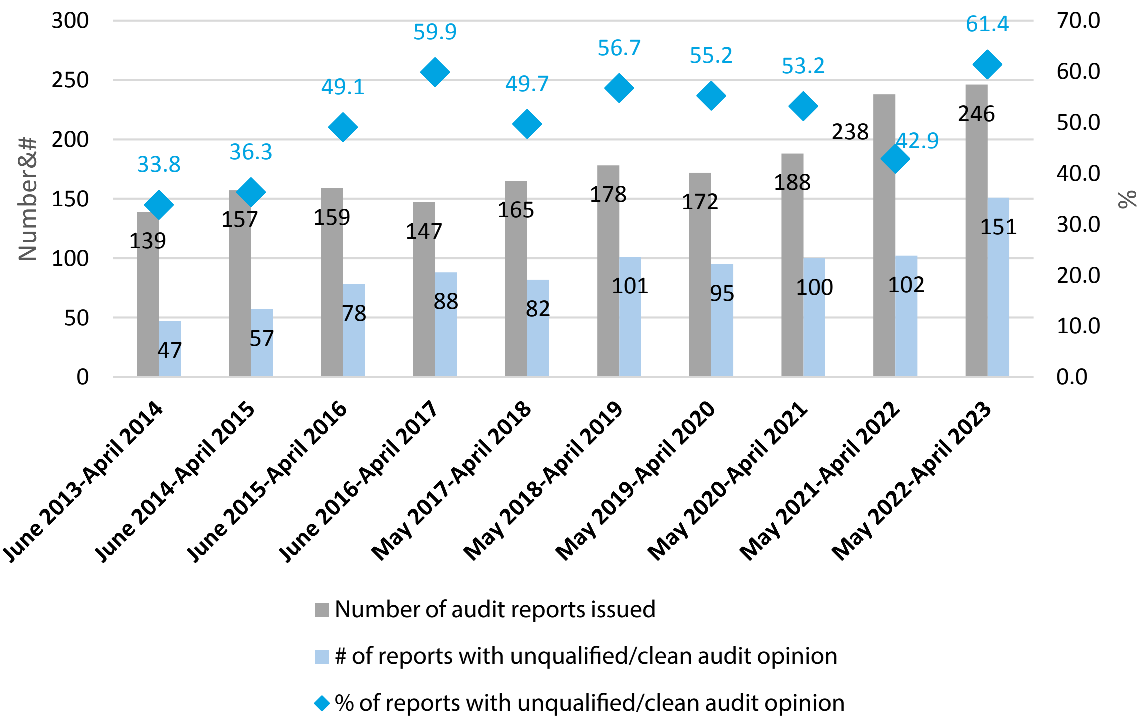


Figure 11 shows the evolution of public audit ratings over the past ten years. There has been a gradual and positive change from around 30 per cent of audit reports receiving an unqualified audit opinion in 2013/14 to 60 per cent in 2022/23. This can be explained by the development and gradual roll out of a robust Integrated Financial Management Information System (IFMIS) and stronger capacity building initiatives (human and institutional) implemented by the Government of Rwanda at national and local levels to strengthen public financial management.

However, further efforts are needed to improve budget use in compliance with existing legal and financial instruments to maximize gains from public funds utilization and accelerate the country's development goals.

Figure 11: Trends of public audits (Number of audit reports and clean audit reports)

Source: Office of the Auditor General Summary Reports



While commendable progress has been achieved to improve the public financial management system, there are also persisting issues affecting priority sectors for children.

a. Education sector

- **Schools lack necessary infrastructure and school equipment for learning:** The report shows that in some teaching subjects, the book ratio per pupil is worrying, varying between 1:10 (1 book being used by 10 pupils) and 1:176 (1 book being used by 176 pupils).
- **Insufficient classrooms lead to overcrowding.** A sample of schools visited during the auditing period revealed an excess number of pupils, ranging from 10 to 77 pupils above the standard number of children per classroom.

b. Health sector

- **Non-functional Health Posts.** While the purpose of health posts is to reduce the time it takes for people to walk to the nearest health facility, there is a large number of already-constructed health posts that are non-operational.
- **Lapses in service delivery at public hospitals,** attributed to long waiting times/queuing by patients, failure or delays to respond to patients' complaints, and stock outs or shortages of essential drugs and poor customer orientation.
- **Significant unsettled medical bills** relating to 'social cases and vulnerable patients' that may affect the smooth operations of hospitals.

c. Social Protection sector

- **National Child Development Agency: Low rate of targeted beneficiaries who received Fortified Blended Food (FBF).** The report shows that 119,560 beneficiaries, or 49 per cent of the targeted beneficiaries, did not receive Fortified Blended Food (FBF), also known as "Shisha Kibondo". Furthermore, health centers did not receive 3,586,476 kilograms of FBF during the year (representing 25 per cent of their requests).
- **Local Administrative Entities Development Agency: Delays in the disbursement of Nutrition Sensitive Direct Support (NSDS) funds to SACCOs by districts which affected timely payment to the beneficiaries.** While the plan was to pay the beneficiaries during the first 10 calendar days of every quarter, the audit noted delays ranging from 30 to 193 days.
- **Ministry of Emergency Management: Unused funds for the construction and rehabilitation of resilient houses destroyed by disaster.** The audit noted that different districts kept idle for 18 months funds worth FRW 932.1 million received from MINEMA.

d. Water and Sanitation Corporation (WASAC Ltd)

- **Water Treatment Plants operating significantly below installed capacity.** The data show that most water treatment plants operate under their installed capacity at below 75 per cent of installed capacity across visited water treatment plants.
- **Persistent high volume of Non-Revenue Water.** In 2021/22, WASAC billed only 55 per cent (37,470,480 M^3 out of 68,139,551 M^3) of water produced during the fiscal year ending 30 June 2022. This resulted in lost revenues ranging between FRW 10 billion (at the minimum selling price of FRW 323/M^3) and FRW 27.5 billion (at the maximum selling price of FRW 895/M^3).
- **Continued water rationing in the City of Kigali where, in some areas,** water was delivered between one to three days a week on average in July, August, and September 2022.

United Nations Children's Fund
Ebenezer House
KG 7 Ave # 51
Kacyiru
Kigali, Rwanda

Tel: +250 788 162 700
Email: kigali@unicef.org
Web: www.unicef.org/rwanda

www.facebook.com/unicefrw

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