RWANDA: A LONG-TERM INVESTMENT FRAMEWORK

Abstract: This document gives a short presentation of the Long-Term Investment Framework (LTIF) for Rwanda. The LTIF comprises analyses and policy orientations addressing economic challenges, Long-Term Investment Portfolio (LTIP), financing requirements, and an implementation strategy. The LTIP constitutes the core of LTIF to implement the government investment strategy to bring about the long-term development objectives articulated in Vision 2020. The LTIP is linked to a long-term macroeconomic framework to ensure consistency throughout the economy. It is important to note that implementation of the LTIP requires a fundamental and rapid change in terms of development programs execution capacity. The necessary increase execution capacity requires deployment of adequate resources and support for districts, provinces and line ministries. Improved capacity is a prerequisite to implement Vision 2020 effectively. Therefore, it is important to give support and initiate the action plan at end of the present document.

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1. Development Goals from Vision 2020

The government of Rwanda has established a set of quantified development objectives for the years 2010 and 2020 in the Vision 2020 document. These indicators and quantitative targets are presented in Appendix. The government now intends to take a leading role in setting economic and financial policies and carrying out the investments necessary to achieve these objectives. In particular, the government believes that it must take an active role in financing the building the necessary physical and human capital infrastructure that will eventually increase the productivity of private investments. As a result, the government must undertake a relatively larger part of the capital formation over the next five years, and gradually enable the private sector to take a more active role in capital formation and economic development.

For that purpose, the Ministry of Finance and Economic Planning (MINECOFIN) has led the development of a Long-Term Investment Framework (LTIF) to support the Vision 2020 and the government seven year program of 2003-2010. The LTIF comprises analyses and policy orientations addressing economic challenges, a Long-Term Investment Portfolio (LTIP), its financing requirements, and an implementation framework.

The LTIP has been set up to be continually updated as the economy and policy-makers expectations regarding future circumstances evolve. The LTIP focuses of non-recurrent expenditures (i.e., capital expenditure) that create both physical and human capital assets. Some of these capital expenditures will be carried out by line ministries and districts, some by (semi-) autonomous government agencies, and some by the private sector. Other still will be carried through Public-Private Partnerships. All, however, will require improved Public Finance Management (PFM) and sustained support for on-going PFM reforms.

The LTIF has been built on the six pillars of the Vision 2020, which are:

- Good governance and a capable State;
- Human resource development and a knowledge-based economy;
- Private sector led development;
- Infrastructure development;
- Agri-business development; and
- Regional and international integration.

In addition, the document considers three “cross-cutting” development issues: a) gender equality; b) natural resources and the environment; and c) science, technology, and Information and Communications Technology (ICT).

An important objective of Vision 2020 is to raise real Gross Domestic Product (GDP) per capita to USD 900 by the year 2020. This overriding objective is complemented with a number of specific objectives, most of which are consistent with the United Nations’ Millennium Development Goals (MDGs).

2. Challenges to Achieve Vision 2020

Attainment of the Vision 2020 objectives will require substantial changes in the Rwandan economy. Eleven of the most pressing challenges are summarized below.

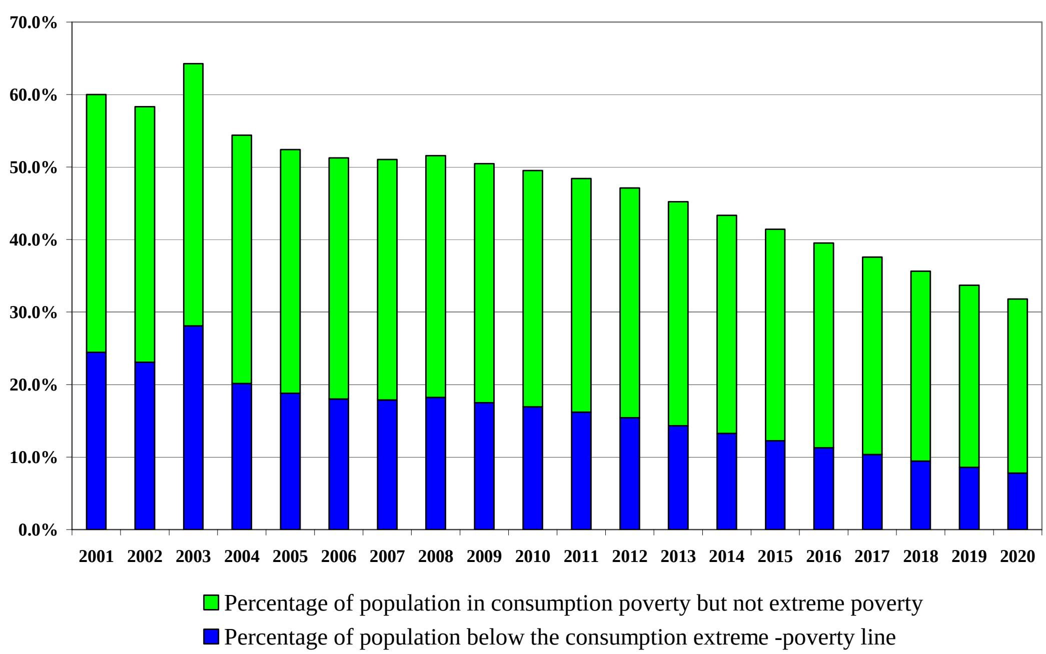
Population

Rwandan population growth is a serious concern. Control of population growth is both an objective and a challenge. Following the current trend, the population is expected to double to around 16 million by 2020. Population growth rates will eventually diminish through improvements in living standards, but this effect will likely take time. Hence, urgent innovative measures to control population growth are required. Even with these measures, the population is expected to reach 13 million in 2020. This anticipated population growth implies that real GDP might have to grow at an annual average rate of 7.7 percent. Failure to control population growth would require even higher real GDP growth rate, possibly in the order of 10-12 percent.

Poverty Incidence

Poverty reduction is also both an objective and a challenge of making growth pro-poor. Strong and sustained economic growth will contribute to improve living standards but will only reduce poverty if important investments are targeted to favor directly the poor. In the high-growth scenario, the proportion of population living under poverty and extreme poverty could be reduced, as illustrated below. Accomplishing this, however, is an important challenge.

Figure 1: Poverty Incidence (in percent of population), 2001-2020



Entrepreneurship

Rwanda must urgently establish a culture of entrepreneurship. Entrepreneurs are essential to generate new ideas, foster private investments, establish the productive capacities and create jobs. The Rwandan population must acquire the willingness and the ability to create wealth by producing value-added goods and services, as well as managing assets and processes innovatively. Without widespread support for the generation and deployment of entrepreneurs, high real GDP growth and the attainment of the Vision 2020 objectives will likely be illusory.

Capital Formation

The required real GDP growth implies that capital formation rates must rise from less than 20 percent in 2005 to above 30 percent in the coming decade. Since public capital formation is around 6-8 percent of GDP and private capital formation around 14 percent of GDP, both will have to increase substantial to sustain progress toward Vision 2020.

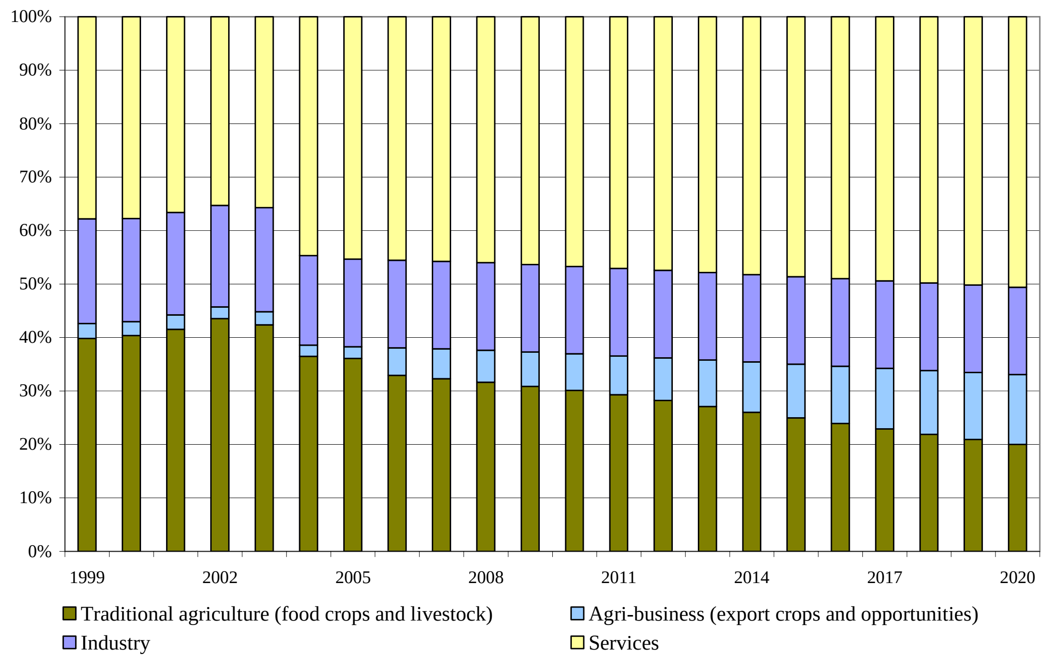
In view of the weaknesses of the Rwandan private sector, the following policies and strategies should be promoted:

- Reinforcing capacity building initiatives for entrepreneurship by supporting existing Business Development Services (BDS), by expanding of their coverage to improve access, and by putting in place pro-active mechanisms for the emergence of ambitious entrepreneurs,
- Building an enabling "ocean-to-ocean" infrastructure linking Rwanda to the region along the New Partnership for African Development (NEPAD) and other integration mechanisms,
- Attracting more foreign and local investors by establishing an attractive environment for doing business, including legal reforms, elimination of tax distortions, financial sector reforms, and pro-private sector administration.

Structural Transformation

Rwanda will achieve its high growth largely through a dual structural transformation. First, it will require a shift from traditional subsistence agriculture to modern agri-business activities, within the agricultural sector. Second, it will also require a shift from an informal agriculture-based economy to a formal knowledge-based economy. Implied changes in the composition of GDP (i.e., structural transformation) are illustrated below. It is expected that traditional agriculture will reduce from around 40 percent of GDP in 2005 to about 20 percent in 2020. Agri-business will rise from a current small proportion of GDP to 13-15 percent of GDP. Improvements in ITC, reductions of energy and transport costs, and the modernization of financial services will allow an expansion of the service sector. The service sector will represent 50 percent of GDP in 2020.

Figure 2; Dual Structural Transformation (in percent of GDP), 1999-2020



Land Use

The structural transformation within the agriculture sector will require a reallocation of land use. This will require incentive mechanisms to induce a shift from subsistence agriculture (i.e., cassava, sweet potatoes, sorghum, banana, and beans) toward agri-business (i.e., coffee, tea, horticulture, pyrethrum, sericulture, spices, medicinal plants, etc.). This shift from low value-added activities to high value-added activities will have to be accompanied with changes in land use, given the limited availability of land.

Table 1: Agriculture Modernization and Restructuring of Land Use

Agri-business Opportunities and Agricultural Crops	Gross income per hectare (in Rwf)	Current areas in 2005 (hectare)	Projected areas in 2020 (hectare)	Change in land use
High value-added: Increase land use				
Spices	618,455	30	500	470
Horticulture (fruits, vegetables, flowers)	512,000	14,000	100,000	86,000
Sericulture	486,080		20,000	20,000
Rice	397,501	12,000	66,000	54,000
Medicinal plants and essential oils	320,000		20,000	20,000
Coffee	310,000	32,000	55,000	23,000
Milk	270,000	25,000	230,000	205,000
Organic fertilizer	120,000			
Irish potatoes	240,138	148,500	309,500	161,000
Tea	238,000	12,000	21,800	9,800
Pyrethrum	195,000	4,000	6,000	2,000
Maize	192,639	100,000	150,000	50,000
Wheat	108,303	22,000	50,000	28,000
Soya	60,301	32,000	70,000	38,000
Low value-added: Decrease land use				
Cassava	121,700	134,000	100,000	(34,000)
Sweet potatoes	30,500	150,000	50,000	(100,000)
Sorghum	29,500	180,500	50,000	(130,500)
Banana	119,000	363,400	150,000	(213,400)
Climbing beans	24,074	319,370	100,000	(219,370)
Dwarf beans	-53,045			
Total		**1,548,800**	**1,548,800**	**-**

Source: MINAGRI staff estimates and projections.

Soil Erosion and Deforestation

Soil erosion and deforestation have both on-farm and off-farm impacts. Reduction of soil depth can impair the productivity of land, and the transport of sediments can degrade streams and lakes. Rwanda is fostering soil conservation policies and definite actions to halt deforestation. The initial steps could focus on the on-farm benefits of keeping soil on the land and increasing farmers' income. Following steps, however, should also consider policies geared at reducing off-farm impacts of erosion. Environment conservation efforts associated with explicit government policies will ultimately be expected to reduce soil erosion and increase reforestation. To further reduce soil erosion and thereby mitigate its social costs, there are a number of policy options available to induce farmers to adopt conservation practices including education and technical assistance, financial assistance, research and development, land management, and regulation and taxes.

Export Promotion

Currently imports goods and non-factor services exceed 30 percent of GDP while exports of account for just over 10 percent of GDP. Since capital formation required to achieve higher real growth can be expected to increase imports of machinery and equipments, high real GDP growth rate will likely widen the trade and current account deficits. These considerations imply that the real GDP growth required to achieve Vision 2020 must promote strong export growth to finance required imports. The service sector, especially services associated with tourism and ICT, will contribute to exports and will become especially dynamic sources of employment growth.

Absorptive Capacity

Addressing the issue of absorptive capacity is a major requirement to high capital formation rates. Financially, increases of imports will provide an automatic way to absorb foreign exchange resulting from export earnings and foreign financing. Realistically, even if full foreign or domestic financing were available for a broad range of investment projects, the shortage in Rwandan people with the skills and capacities to implement these projects will remain for the foreseeable future. The country will have to open up to foreign people with the required skills. In addition, the LTIP incorporates projects whose specific purpose is to address the absorption capacity constraints. Beyond formal education and vocational trainings, improved skills are also linked to promotion of job opportunities and pilot programs that will foster "learning by doing". This acknowledges that key skills can only be acquired or developed by actually exercising an activity and learning from experience. Current initiatives to address skill shortages through a comprehensive consideration of labor market issues are encouraged.

Competitiveness and Doing Business Environment

Competitiveness on national, regional and global markets will rely on adequate and rapid:

- Investments in good governance and state of law,
- Investments in new productive opportunities that create formal jobs (especially agri-business programs, private sector development, entrepreneurship skills, ICT and infrastructure),
- Investment in Public-Private Partnerships,
- Investment in specific high-quality human capital, especially in sciences and technology.

Within the country, competitiveness requires an efficient environment for doing business and a substantially improved investment climate. This typically requires to sustain current initiatives to create:

- A pro-business framework commercial laws and courts,
- Efficient product markets and corresponding trade policy reforms,

- Modern financial markets with diversified debt and equity instruments,
- Dynamic labor market and employment policy reforms,
- Reduced distortions in the tax systems requiring tax policy reforms.

Macroeconomic Stability

The LTIP will have to be supported by adequate macroeconomic and financial management policies, including expansionary fiscal policies supported by careful monetary policies and realistic exchange rate policies. These will be supported by savings and investments promotion strategies stemming from the implementation of adequate financial, skills, and land reforms under preparation.

In recent years, the macroeconomic environment has been dominated by challenges linked to inflows of foreign resources. This is likely to continue over the medium-term implementation of LTIP and poverty reduction strategies.

These inflows have allowed an accumulation of reserve deposits of the government at the central bank (BNR) as well as an accumulation of net foreign assets at the BNR to above 7 months of imports of goods and services. These deposits will allow the government to finance domestically some development projects in due course. In turn, sales of foreign assets will allow the BNR to mop up liquidity in the market that may result from expansionary fiscal policies for the medium-term.

Due the small size of the country and its industrial capacity, a large proportion of foreign public resources are used to finance imports of physical capital equipments and human capital expertise (i.e., technical assistance). Likewise, inflows of foreign private resources often materialize through imports. This creates trade deficits and current accounts deficits that are likely to widen over the medium-term. In order to ensure the balance of payments, the BNR will have to sell foreign assets.

There are, however, limits to such foreign exchange operations due to their impact on the exchange rate, the associated costs for the BNR, and the impact on the overall economy. Fortunately, any inflationary excess liquidity can be tempered by an issuance of treasury bills (T-bills), which constitutes an important instrument of monetary policy. While the use of T-bills by the BNR is exclusively for attaining monetary targets, the government can also use T-bills for financing purposes but it induces an accumulation of domestic debt which has a direct interest cost and may hurt the private sector by diverting funds to public uses.

Maintaining or improving domestic credit to the private sector and avoiding a crowding out of the private sector is essential. Ensuring both domestic and foreign debt sustainability is also essential. As a result any fiscal expansion will have to be conditioned on maintaining these two essential objectives and the ongoing fiscal discipline.

3. The Long-Term Investment Portfolio

The LTIP follows a project-by-project and program-by-program approach where expenditures are projected with a view to ensuring consistency with Vision 2020 targets and balance among objectives and sectors. These programs have the common objective of fostering structural transformation, creating entrepreneurship, deepening competitiveness and promoting of economic activities for which Rwanda has unique advantages.

The LTIP is intended to be continually updated as the economy and policy-makers expectations regarding future circumstances evolve. It should serve several purposes. First, it should help ensure that the government investment strategy remains consistent with long-term development objectives. Second, it should serve as a planning instrument, enabling the government to allocate its scarce investment resources efficiently, and also to ensure that other policy instruments – notably, the Budget and the Medium-Term Expenditure Framework – are consistent with national policy objectives. Third, it should serve as an instrument of dialogue among the government, development partners, the private sector, and citizens generally.

By principle, investments are programmed to take full account of resource constraints, including those posed by external financing availability (including constraints on debt financing), absorption capacity, and the need to ensure stable macroeconomic conditions. Investments must focus on a relatively limited number of key programs, so as to facilitate prioritization, resource planning, monitoring, and management.

The LTIP is a portfolio of investment projects to be carried out over the 2006-2020 period. The portfolio is constructed on a project-by-project basis over its first phase, 2006-2010, and then on a program-by-program basis over the second and third phases, 2011-2015 and 2016-2020.

The first phase of the LTIP comprises a total of approximately 350 projects, each with a program of expenditures over the years 2006-2010 The portfolio comprises 30 investment programs, which are grouped into the following intervention areas:

- Governance
- Justice
- Infrastructure
- Production chains
- Structural transformation
- Social sectors (i.e., education, health, youth, gender, and community development)

Some of the projects are on-going, some are in advanced preparation stages, and some are still in conceptual, even identification phases. The list of 30 investment programs is given in the table below together with the projections of investment required to support the Vision 2020 over the whole 2006-2020 period, in billions of Rwandan francs.

Table 2: Long-Term Investment Programs, 2006-2010 (in billions of Rwandan francs, at 2005 prices and exchange rate)

	Intervention Areas and Programs	Total 2006-2010	Total 2011-2015	Total 2016-2020	TOTAL 2006-2020
	Governance	**21.4**	**33.4**	**44.2**	
1	Good Governance	4.7	5.7	0.1	**10.5**
2	Defence	5.5	10.9	21.8	**38.1**
3	Police and prisons	1.9	2.4	1.1	**5.4**
4	Administrative buildings	6.1	8.9	13.0	**28.0**
5	Administrative and financial management	3.2	5.5	8.3	**17.0**
	Justice	**3.5**	**6.1**	**0.1**	
6	Reinforcement of the justice system	3.1	2.8	0.1	**6.0**
7	Human rights and penal justice	0.4	3.3	0.1	**3.8**
	Infrastructure	**408.7**	**1,280.3**	**1,374.1**	
8	Energy	159.4	302.0	302.0	**763.5**
9	Water and sanitation	74.1	211.7	211.7	**497.4**
10	Soil Protection, irrigation et water resource management	61.3	253.0	259.5	**573.9**
11	Transport infrastructure	91.9	470.7	526.5	**1089.0**
12	Community Development Fund (CDF) infrastructure	22.0	42.9	74.4	**139.2**
	Production Chains	**95.0**	**69.8**	**93.5**	
13	Agri-business production chains	81.6	38.8	51.8	**172.1**
14	Non-agricultural production chains	6.4	19.9	26.4	**52.7**
15	Diversification and food security chains	7.1	11.2	15.3	**33.5**
	Structural Transformation	**247.7**	**476.8**	**559.2**	
16	Support for the non-agricultural private sector	49.9	104.6	278.9	**433.4**
17	Regional growth poles	5.4	12.6	22.3	**40.3**
18	ICT	33.5	31.4	43.5	**108.4**
19	Vocational training, and technical and professional education	68.3	139.5	104.5	**312.3**
20	R&D, engineering, science and technology	55.8	83.7	55.8	**195.3**
21	Reinforcement of projects execution capacities	26.2	88.6	22.3	**137.1**
22	Environment	6.3	12.7	26.3	**45.3**
23	Entrepreneurship	2.2	3.8	5.5	**11.5**
	Social Sectors	**129.1**	**242.6**	**354.4**	
24	General education	38.9	84.8	124.4	**248.2**
25	Health	42.4	71.9	105.9	**220.2**
26	Population	4.5	18.2	24.3	**46.9**
27	Urban development, lands management and shelter	16.7	28.4	41.8	**87.0**
28	Community development	20.2	34.0	50.1	**104.4**
29	Gender, family, youth and other social affairs	2.9	2.8	4.2	**9.9**
30	Culture, sports and arts	3.5	2.4	3.6	**9.5**
	TOTAL	**905.4**	**2,109.0**	**2,425.4**	**5,439.8**

Source: MINECOFIN staff estimates and projections.

Infrastructure programs are the most costly and require high public sector involvement; these programs aim to reduce energy, water, communications, and transport costs which constitute serious obstacles to private sector development. Production chain programs aim to develop opportunities well placed to take advantage of prime-cost reductions and improvements in the environment for doing business. Structural transformation programs seek to facilitate the transition from traditional agriculture to agri-business as well as from a subsistence agriculture-based economy to a modern knowledge-based economy, especially over the medium- to long-term.

The concept of production chains is novel but fundamental. Production chains programs have the goal of ensuring support to both agri-business and other business from the initiation in Rwanda to the final sale of products or services in domestic or foreign markets. In other words, these programs aim at supporting the entire production chain from the generation of ideas to the final consumer along each intermediary step.

The sectors targeted for this initiative have been identified as strategic opportunities (and therefore called “opportunity sectors”) for the Rwandan economy. These opportunity sectors are as follows:

- Agricultural: Coffee, tea, horticulture, pyrethrum, sericulture, spices, and medicinal plants, Irish potatoes, milk, maize, rice, wheat, soya, fruits and vegetables.
- Non-agricultural: ICT, tourism, professional and financial services, handicrafts, mining and carrying, transport, energy, and construction.

Production chains programs comprise coordinated public and private investment projects whose purpose is to focus on enabling the growth of agricultural and non-agricultural sectors. Recent estimates indicate that opportunity sectors can add between 2-4 percentage points to the annual real GDP growth rate.

4. Financing the Long-term Investment Portfolio

Financing will inevitably be one of the biggest challenges for the LTIP implementation. The table below (which follows the same 30 programs format as Table 1) gives a decomposition of possible resource mobilization for the years 2006 to 2010. It is anticipated that resource mobilization efforts could gather close to 20 percent of GDP per year over the 2006-2010 period, compared to 14 percent of GDP on average over 2001-2005.

Table 3a: Resource Mobilization by Intervention Areas and Programs, 2006-2010 (in billions of Rwandan francs, at 2005 prices and exchange rate)

	Intervention Areas and Programs	2006	2007	2008	2009	2010	Total Investment 2006-2010
	Governance						
1	Good Governance	1.3	1.6	3.0	1.7	1.9	**9.5**
2	Defence	1.4	2.1	3.9	1.9	1.7	**11.0**
3	Police and prisons	1.5	0.6	0.7	0.6	0.5	**3.8**
4	Administrative buildings	3.3	3.6	3.5	1.8	0.0	**12.2**
5	Administrative and financial management	2.8	2.5	1.8	0.3	0.3	**7.8**
	Justice						
6	Reinforcement of the justice system	1.0	1.1	1.6	1.3	1.3	**6.1**
7	Human rights and penal justice	0.1	0.4	0.1	0.1	0.1	**0.9**
	Infrastructure						
8	Energy	23.7	29.8	60.1	51.5	34.2	**199.3**
9	Water and sanitation	9.0	18.3	32.2	16.7	16.3	**92.6**
10	Soil Protection, irrigation et water resource management	0.7	10.3	14.1	21.2	30.4	**76.6**
11	Transport infrastructure	14.8	30.2	45.8	33.9	6.5	**131.3**
12	Community Development Fund (CDF) infrastructure	9.4	11.1	10.5	6.2	6.7	**44.0**
	Production Chains						
13	Agri-business production chains	7.4	24.5	43.2	54.4	33.7	**163.3**
14	Non-agricultural production chains	1.7	3.9	5.4	3.0	2.0	**16.1**
15	Diversification and food security chains	0.9	2.7	5.3	4.8	0.4	**14.1**
	Structural Transformation						
16	Support for the non-agricultural private sector	4.3	8.1	12.5	13.2	25.0	**63.0**
17	Regional growth poles	0.0	2.1	2.2	3.0	3.6	**10.8**
18	ICT	9.9	9.5	16.0	14.2	17.4	**66.9**
19	Vocational training, and technical and professional education	2.6	16.7	15.4	16.2	17.4	**68.3**
20	R&D, engineering, science and technology	8.7	14.8	12.5	10.2	9.7	**55.8**
21	Reinforcement of projects execution capacities	0.5	3.5	8.4	10.0	11.4	**33.9**
22	Environment	2.4	4.5	3.7	1.0	1.0	**12.6**
23	Entrepreneurship	0.0	9.5	8.9	8.4	7.8	**34.6**
	Social Sectors						
24	General education	8.5	18.0	17.4	15.5	18.3	**77.7**
25	Health	19.1	23.6	24.7	14.2	3.3	**84.8**
26	Population	0.0	2.2	2.2	2.2	2.2	**8.9**
27	Urban development, lands management and shelter	1.8	3.8	11.3	13.4	3.2	**33.5**
28	Community development	6.7	14.9	10.4	5.5	2.9	**40.4**
29	Gender, family, youth and other social affairs	1.2	2.7	0.6	0.6	0.6	**5.8**
30	Culture, sports and arts	1.0	2.0	1.9	1.8	0.2	**7.0**
	TOTAL	**145.8**	**278.7**	**379.3**	**328.9**	**259.9**	**1,392.6**
	In percent of GDP	11.7	19.8	24.3	18.9	13.4	
	Memorandum						
	Nominal GDP	**1,247**	**1,405**	**1,564**	**1,743**	**1,933**	

Source: MINECOFIN staff estimates and projections.

In 2006, resources mobilized amounted to Rwf 145.8 billion (USD 261.3 million). This includes Rwf 62.1 billion of external grants, Rwf 29.6 billion of project loans and about Rwf 29.0 billion of financing through domestic resources. The remaining of about Rwf 25.1 billion constitutes new initiatives or delayed projects that are not captured in the Finance Law but fully funded by development partners.

Table 3b: Resource Mobilization Sorted by Programs Size for 2006-2010 (in billions of Rwandan francs, at 2005 prices and exchange rate)

	Programs Sorted by Size of Investment	Total Investment 2006-2010	2006	2007	2008	2009	2010
8	Energy	**199.3**	23.7	29.8	60.1	51.5	34.2
13	Agri-business production chains	**163.3**	7.4	24.5	43.2	54.4	33.7
11	Transport infrastructure	**131.3**	14.8	30.2	45.8	33.9	6.5
9	Water and sanitation	**92.6**	9.0	18.3	32.2	16.7	16.3
25	Health	**84.8**	19.1	23.6	24.7	14.2	3.3
24	General education	**77.7**	8.5	18.0	17.4	15.5	18.3
10	Soil Protection, irrigation et water resource management	**76.6**	0.7	10.3	14.1	21.2	30.4
19	Vocational training, and technical and professional education	**68.3**	2.6	16.7	15.4	16.2	17.4
18	ICT	**66.9**	9.9	9.5	16.0	14.2	17.4
16	Support for the non-agricultural private sector	**63.0**	4.3	8.1	12.5	13.2	25.0
20	R&D, engineering, science and technology	**55.8**	8.7	14.8	12.5	10.2	9.7
12	Community Development Fund (CDF) infrastructure	**44.0**	9.4	11.1	10.5	6.2	6.7
28	Community development	**40.4**	6.7	14.9	10.4	5.5	2.9
23	Entrepreneurship	**34.6**	0.0	9.5	8.9	8.4	7.8
21	Reinforcement of projects execution capacities	**33.9**	0.5	3.5	8.4	10.0	11.4
27	Urban development, lands management and shelter	**33.5**	1.8	3.8	11.3	13.4	3.2
14	Non-agricultural production chains	**16.1**	1.7	3.9	5.4	3.0	2.0
15	Diversification and food security chains	**14.1**	0.9	2.7	5.3	4.8	0.4
22	Environment	**12.6**	2.4	4.5	3.7	1.0	1.0
4	Administrative buildings	**12.2**	3.3	3.6	3.5	1.8	0.0
2	Defence	**11.0**	1.4	2.1	3.9	1.9	1.7
17	Regional growth poles	**10.8**	0.0	2.1	2.2	3.0	3.6
1	Good Governance	**9.5**	1.3	1.6	3.0	1.7	1.9
26	Population	**8.9**	0.0	2.2	2.2	2.2	2.2
5	Administrative and financial management	**7.8**	2.8	2.5	1.8	0.3	0.3
30	Culture, sports and arts	**7.0**	1.0	2.0	1.9	1.8	0.2
6	Reinforcement of the justice system	**6.1**	1.0	1.1	1.6	1.3	1.3
29	Gender, family, youth and other social affairs	**5.8**	1.2	2.7	0.6	0.6	0.6
3	Police and prisons	**3.8**	1.5	0.6	0.7	0.6	0.5
7	Human rights and penal justice	**0.9**	0.1	0.4	0.1	0.1	0.1
	TOTAL	**1,392.6**	**145.8**	**278.7**	**379.3**	**328.9**	**259.9**

Source: MINECOFIN staff estimates and projections.

Budget Allocations

An important task for the sustainability of LTIP is to ensure that capital expenditures are reclassified from the recurrent budget and allocated to the development budget. Likewise, recurrent expenditures will have to be stripped from the development budget and allocated to the recurrent budget. Hence, investments and their financing ought to concentrate on capital expenditures within the ambit of the development budget. In addition, due consideration should be put on the impact of capital expenditures and the recurrent budget.

External Grants

Similar clarification ought to be operated on the foreign financing side, and in particular external grants. Rwanda receives external grants from a large number of multilateral and bilateral development partners. In early phases, grants are expected to be among the most important sources of financing for the LTIP. Budget support grants averaged 5.6 percent of GDP in 2001-2005, while capital grants averaged 4.0 percent of GDP over the same years. Such grants have increased in recent years as evidenced by the budget support grants of 9.3 percent of GDP and the capital grants of 4.8 percent in 2005. Thus, total grants of about 10-14 percent of GDP can possibly be mobilized and absorbed given the current structures. However, the synergies between recurrent expenditures and capital expenditures need to be improved alongside budget allocations.

Borrowings

Another important task is link the financing of the LTIP to a debt sustainability analysis in the aftermath of the relief of multilateral debts owed to the African Development Bank, the International Monetary Fund and the World Bank. Such debt sustainability will inform on the scope for new domestic and foreign borrowings. Targeted borrowings are important financing complements and can be justified by the commercial viability of specific investments.

Private Sector Involvement

Given the limited public resources, each investment will need to be selected based on a stringent mechanism that relies on the rate of Return on Investment (ROI):

- An investment with a positive commercial rate of return will find financing in the private sector.
- An investment with a negative commercial rate of return but a positive socio-economic rate of return can find financing in the public sector.
- An investment with a negative short-term commercial rate of return but a positive medium/long-term commercial rate of return could be financed through Public-Private Partnerships.

Given the weakness of the Rwandan private sector, the share of public resources in overall capital formation in the country for 2006-2010 is expected to represent about 40 percent (and 60 percent for the private sector). Over time, the public sector is expected to take a less prominent share down to about 25 percent (and 75 percent for the private sector) in the 2016-2020 period.

In addition, mobilization of private savings (both domestic and external) to finance private investments will bring about the required resources to reach the objectives of Vision 2020. On average over 2006-2020, public capital formation is expected to be 13.5 percent of GDP (against 7.7 percent on average in 2001-2005, and 10.1 percent in 2005) and would require private capital formation in the magnitude of 30.7 percent of GDP on average.

Table 4: Public and Private Investments (in billion of Rwandan francs, at 2005 prices and exchange rate)

	Total 2006-2010	Total 2011-2015	Total 2016-2020	**Total 2006-2020**
Estimated public investments	905.3	2,109.0	2,425.5	**5,439.8**
in percent of GDP	12.3	17.7	11.6	13.5
Estimated private investments	1,312.7	3,901.6	7,155.3	**12,369.7**
in percent of GDP	17.9	32.7	34.1	30.7
GDP	7,345.7	11,943.7	20,982.7	**40,272.0**

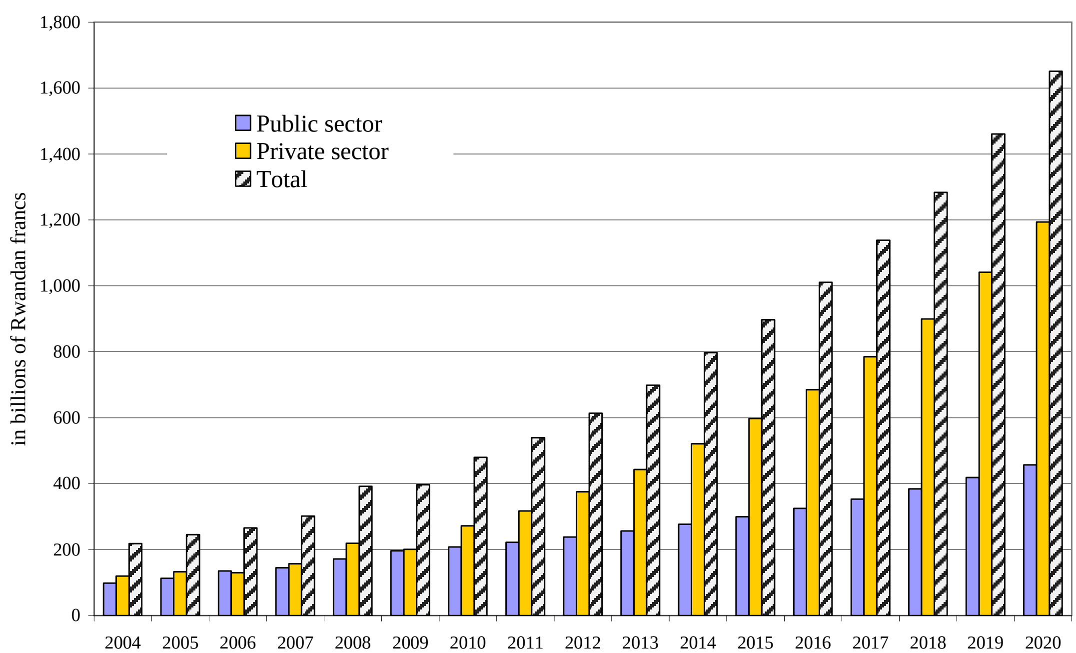
* Including Public-Private Partnerships

Source: MINECOFIN staff estimates and projections.

Realistically, neither the public sector alone, nor the private sector alone currently has the ability to finance the huge investment requirements to achieve Vision 2020: The public sector's role will be relatively larger in the next decade, because it is then that larger-scale infrastructure projects would have to be carried out. In effect, this first phase is envisaged as setting the stage for enhanced private sector participation in the later phases, 2011-2015 and 2016-2020.

The increasing private sector involvement can also be illustrated through the following figure, which shows the public and private sector gross capital formation over time.

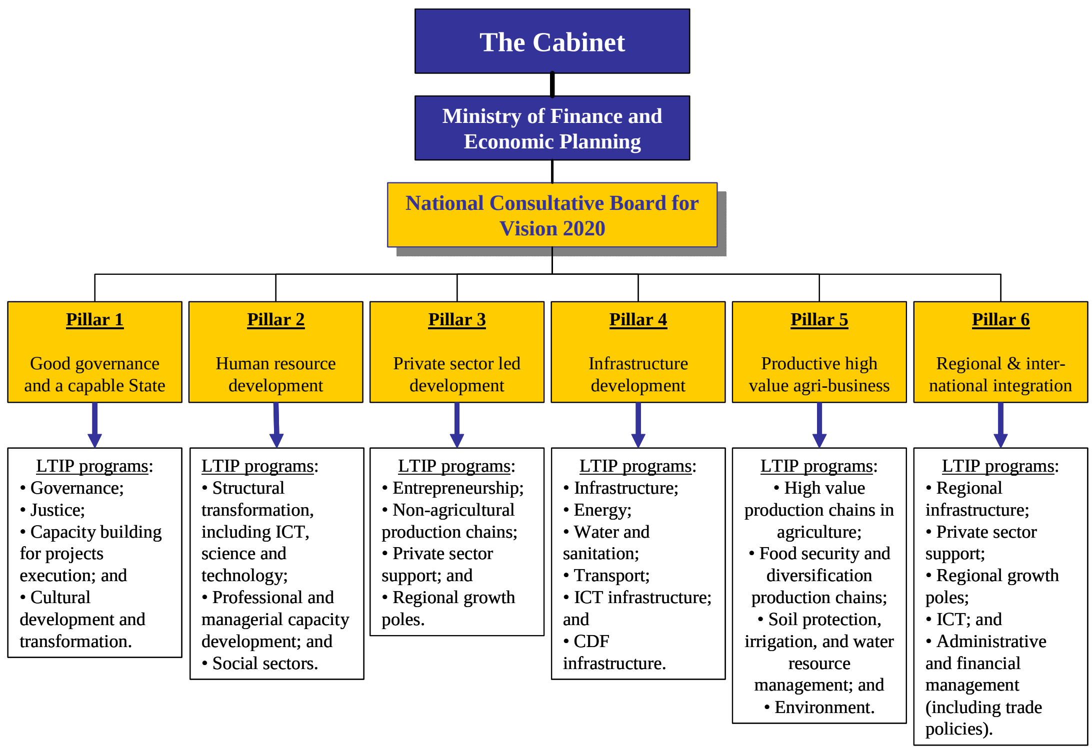
Figure 3: Public and Private Investment (in billions of Rwandan francs, at 2005 price and exchange rate)



5. Implementing the Long-Term Investment Portfolio

The Vision 2020 document contains an institutional framework for its implementation. This framework is reproduced below together with links between each pillar and the investment programs from the LTIP. Investments projects and programs may not have a one-to-one correspondence with the pillars but the important goal is to use these pillars to monitor progress in specific areas of capacity building and capital formation.

Figure 4: Institutional Framework for Implementation of Vision 2020



Outside consultations, however, substantial technical work will have to be undertaken by MINECOFIN either through its existing structure (close collaborations between planning, budget and macro units) or through a separate structure.

Ongoing Actions Plan

Key actions to support the implementation of the LTIP will require:

- Design policies and seek their fast implementation to address some of the main challenges to reach Vision 2020 (as identified in the text):
  1. Population,
  2. Poverty incidence,
  3. Entrepreneurship,
  4. Capital formation,
  5. Structural transformation,

6. Land use
7. Land conservation against soil erosion
8. Export promotion,
9. Absorptive capacity,
10. Competitiveness and doing business environment,
11. Macroeconomic stability.

- Program and adapt the LTIP on a continuing basis;
- Maintain close links between LTIP and Economic Development and Poverty Reduction Strategies (EDPRS);
- Integrate LTIP and Medium-Term Expenditure Framework (MTEF) for overlapping medium-term forecasts;
- Monitor and evaluate progress by maintaining an up-to-date database on the execution of the investment programs; and
- Communicate and disseminate information by ensuring that all data and analyses on the LTIP are available to all interested parties at any time.

Action Plan for 2006

1. Information management: MINECOFIN will revise budget allocations (i.e., recurrent budget versus capital expenditures in development budget) under the new PFM system and establish a user friendly guidelines to identify recurrent and capital expenditures. Deadline: October 2006.

2. Programs and projects studies: All necessary studies have to be initiated without delay by districts and line ministries. MINECOFIN will collaborate with all line ministries to ensure resource mobilization for those studies. Deadline: November 2006.

3. Resource mobilization 2007-2010: MINECOFIN in collaboration with districts and line ministries will coordinate the resource mobilization efforts in conformity with Vision 2020 objectives analyzed in the LTIF. Deadline: December 2006.

4. Action plan for capacity building: MINECOFIN will elaborate a capacity building plan based on an assessment of the gap between current skills and necessary skills to ensure proper implementation of the LTIP, both in general and for each program of the LTIP. In this context, decentralization of investment projects management should be promoted whenever it is adequate. Deadline: December 2006.

5. Action plan for communication: MINECOFIN establish both internal and external communication channels to promote dialogue with development partners on LTIF and leaders/coordinators of externally financed projects that already contribute to the LTIP. Deadline: December 2006.

Appendix: Vision 2020 Indicators and Quantitative Targets

Indicators	Situation in 2000	Currently in 2006	Target in 2010	Target in 2020
1. Rwandan population	7,700,000	8,200,000	10,200,000	13,000,000
2. Literacy level (percent)	48		80	100
3. Life expectancy (years)	49	49	50	55
4. Women fertility rate	6.5	6.1	5.5	4.5
5. Infant mortality rate (per 1,000)	107	86	80	50
6. Maternal mortality rate (per 100,000 births)	1,070	846	600	200
7. Child malnutrition (Insufficiency in percent)	30	152	20	10
8. Population Growth rate (percent)	2.9	2.6	2.3	2.2
9. Net primary school enrolment (percent)	72	92	100	100
10. Gross secondary school enrolment (percent)		24	100	100
11. Secondary school transitional rate (percent)	42		60	80
12. Gross secondary school enrolment (percent)	7	23	40	60
13. Rate of qualification of teachers (percent)	20		100	100
14. Professional and technical training centers (number)			50	106
15. Admission in tertiary education (percent)	1		4	6
16. Gender equality in tertiary education (percent of female)	30		40	50
17. Gender equality in decision-making positions (percent of females)	10	47.5	30	40
18. HIV/AIDS prevalence rate (percent)	13	3	11	8
19. Malaria-related mortality (percent)	51		30	25
20. Doctors (per 100,000 inhabitants)	1.5	3	5	10
21. Population in a good hygienic condition (percent)	20		40	60
22. Nurses (per 100,000 inhabitants)	16	22	18	20
23. Laboratory technicians (per 100,000 inhabitants)	2	-	5	5
24. Poverty (percent will less than 1 US dollar/day)	64	-	40	30
25. Average GDP growth rate (percent)	6.2	5.6	8	8
26. Growth rate of the agricultural sector (percent)	9	2.8	8	6
27. Growth rate of the industry sector (percent)	7	6	9	12
28. Growth rate of the service sector (percent)	7	18	9	11
29. Gini coefficient (income disparity)	0.454		0.40	0.35
30. Growth national savings (percent of GDP)	1		4	6
31. Growth national investment (percent of GDP)	18		23	30
32. GDP per capita in US dollars	220	250	400	900
33. Urban population (percent)	10		20	30
34. Agricultural population (percent)	90	86.6	75	50
35. Modernized agricultural land (percent)	3		20	50
36. Use of fertilizers (Kg/hectar/year)	0.5		8	15
37. Financial credits to the agricultural sector (percent)	1	1.9	15	20
38. Access to clear water (percent)	52	69	80	100
39. Agricultural production (kcal/person/day)	1,612		2,000	2,200
40. Availability of proteins/person/day (percent of needs)	35	44	55	65
41. Road network (km/km2)	0.54		0.56	0.6
42. Annual electricity consumption (Kwh/inhabitants)	30		60	100
43. Access to electric energy (percent of population.)	2	3.5	25	35
44. Land portion against soil erosion (percent)	20		80	90
45. Level of reforestation (hectare)				
46. Wood energy in the national energy consumption (percent)	94		50	50
47. Non-agricultural jobs	200		500	1,400,000

Source: Vision 2020 document; indicative estimates for 2006.