Government of Rwanda

INFF | Integrated National Financing Frameworks

MTRS and INFF

FINANCING SUSTAINABLE DEVELOPMENT WITH A FOCUS ON DOMESTIC RESOURCE MOBILIZATION: RWANDA CASE

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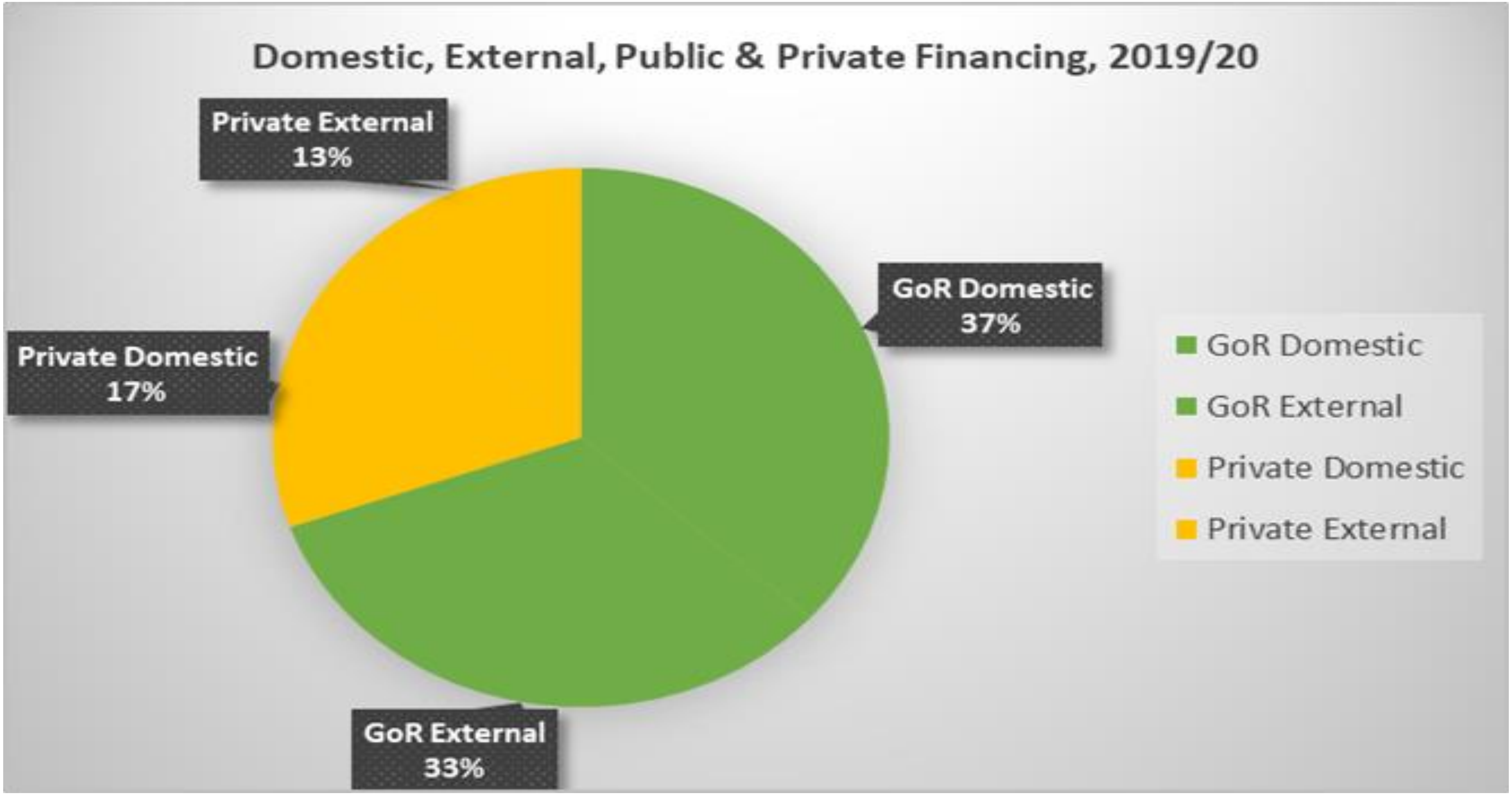
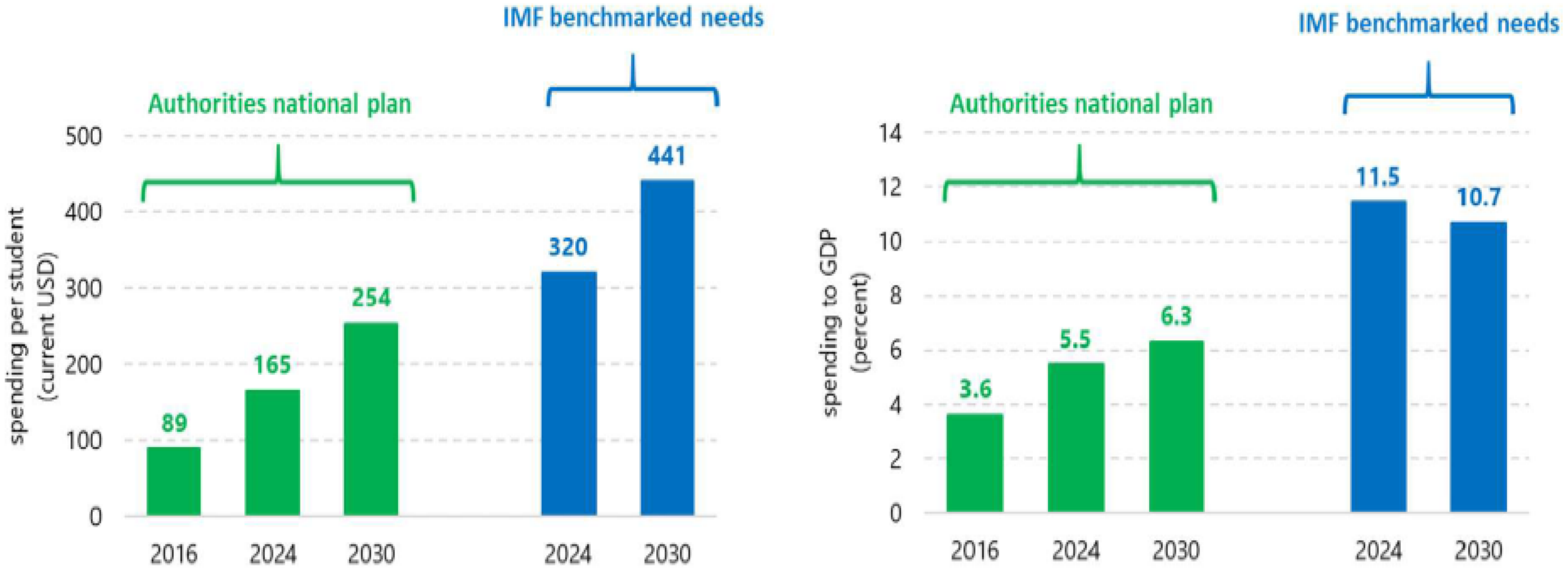
Financing landscape: INFF and MTRS

- Initial resources estimated to be needed for the NST1 (2017-2024) were over 41 Billion USD
- Working with the IMF we have estimated the pre-covid-19 financing needs to meet the SDGs in key sectors of: education, infrastructure and health
- We have had further FSA in the social sectors
- All these assessments point to the need for increased role of domestic resource mobilization going forward as even currently domestic financing has a significant share


Domestic, External, Public & Private Financing, 2019/20
Private External
13%
GoR Domestic
37%
Private Domestic
17%
GoR External
33%
GoR Domestic
GoR External
Private Domestic
Private External

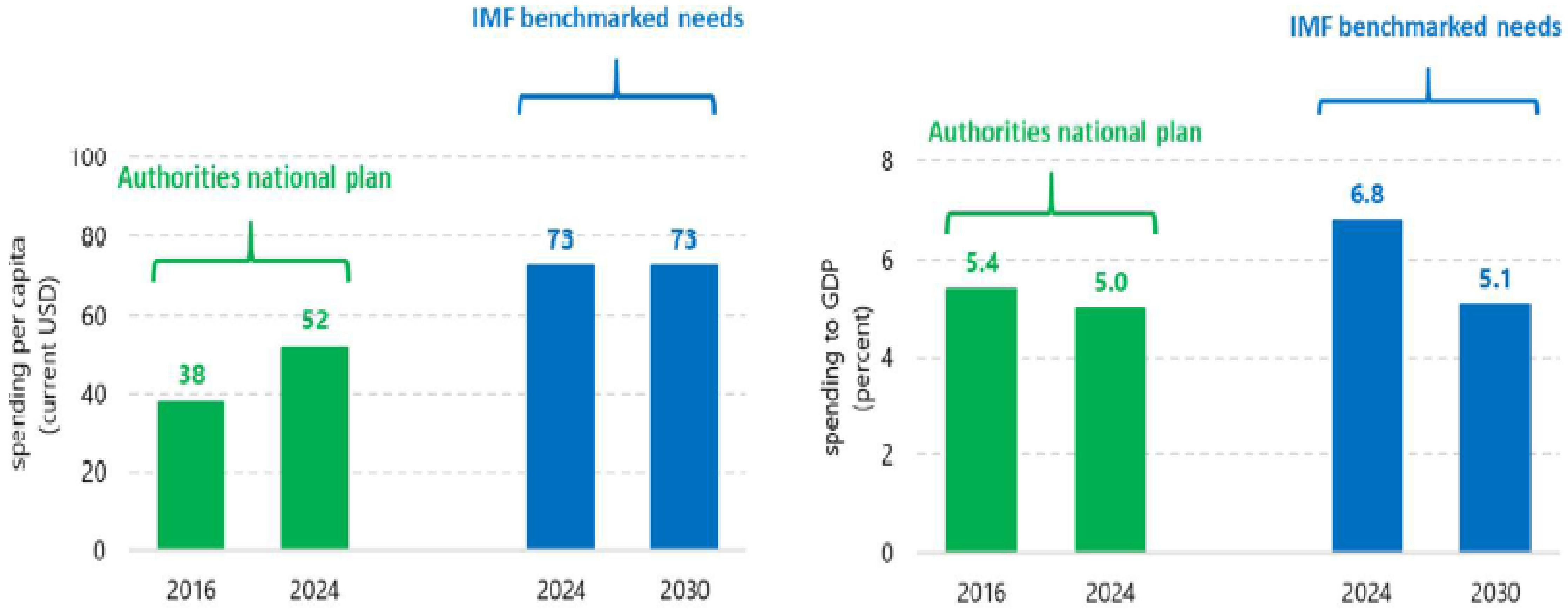
Education spending needs to achieve the SDGs

- Education spending needs to increase by about 7 percentage points of GDP to meet quality needs and more than quadruple spending per student e.g. teacher pay and motivation, classroom construction and equipping, school feeding, etc.



Health spending needs to achieve the SDGs

- Spending needs to increase from $38 per capita to $73 per capita



Infrastructure spending needs to achieve the SDGs

- **Transport**: improving quality of rural roads to access markets and basic service requires additional $4.5 Billion

	2030
Additional Km Needed	4,068
Total Cost (Million USD)	4,436
Cost per year (% of GDP)	3.9%

Infrastructure spending needs to achieve the SDGs

- **WASH**: improved access to water and Sanitation an estimated $5 billion is needed

	Basic			Safely Managed			Total SDG
	Fixed Point Latrines	Water	Sanitation	Hygiene	Water	Sanitation	
Total cost (million USD)	20	464	922	156	2,444	1,963	5,728
Annual cost (million USD)	1	31	61	10	163	131	382
Total cost (percent of GDP)	0.2%	5.5%	10.9%	1.8%	28.8%	23.2%	67.6%
Annual cost (percent of GDP)	0.0%	0.4%	0.7%	0.1%	1.9%	1.5%	4.5%

Overall spending needs to achieve the SDGs

- **Huge resources are needed to achieve the SDGs in key sectors in terms of additional % of GDP per year till 2030 (pre-covid19)**

Education	7.0
Health	2.2
Road	3.9
Water	4.5
Electricity	2.0
Total	**19.6**

MTRS context

- **Achieving Vision 2050 requires an expansion of tax revenue from 15.8 percent of GDP in 2021 to 21.5 percent by 2035 and to 34 percent by 2050.**
- Increasing tax revenues by 5.7% of GDP in the next 14 years will be accomplished through a comprehensive strategy that reduces rates, broadens the domestic tax base, improves tax compliance, and curbs tax evasion.
- The MTRS proposes a tax framework that is competitive, encourages investment, and redistributes wealth.
- The MTRS was elaborated in a challenging context of the COVID-19 and its impact on businesses
- An emerging challenge is the rising inflation due to war in Ukraine, depreciating currency and rising debt levels

Objectives of the MTRS

- To increase resources available to finance the development agenda: NST1, SDGs, Vision 2050
- To manage the rising debt levels as a result of the pandemic impact on the economy
- Build tax collection capacity and enhance self reliance

NB: This MTRS aims to raise tax revenue by 1 percentage point of GDP between July 2021 and June 2024, from 15.8%, the revenue increase will be 0.54 from administrative reforms and 0.46 percentage points from policy reforms

Pillar 1: Human Development

- Increase progressivity in the PAYE rate structure and regularly update the thresholds based on inflation – ensuring those with higher incomes contribute more
- Increase funding available for health sector by a gradual shift towards specific excise taxes that will be adjusted for inflation – targeting things like wines and spirits, sugar content in beverages, etc.
- Consider removing excise taxes levied on products that are beneficial to health when consumed and are produced domestically,

Pillar 2: Competitiveness

Aim: Attract investments and generate revenues to push Rwanda to a middle income country

- Implement a Manufacture, Build and Recover Program – temporary incentives for rapid implementation of manufacturing and construction projects
- Review the CIT (corporate income tax)
- Consider introducing immediate expensing of capital investments to replace depreciation.
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- To encourage investment and risk taking, consider indefinite carry forward of losses
- Minimum Alternative tax vs CIT
- Taxing digital economy,
- Expand DTAA framework, etc.

Pillar 3: Agriculture and Wealth Creation

Aim: *Support the shift away from subsistence towards productive, professional farms*

- Maintain the VAT exemptions on existing agricultural and livestock products

Pillar 4: Urbanization and agglomeration

Aim: *encourage private sector investment in affordable housing and to promote the development of low-emission cities*

- Zero rating VAT for construction materials of new residential housing
- Increasing excise duties on old vehicles with high pollution emissions
- Incentivizing electric vehicles and associated equipment

Pillar 5: Strengthening Capacity

Aim: *Strengthening revenue administration capability*

- 1. Improving taxpayer services to support voluntary compliance in domestic tax and customs.
- 2. Enhancing taxpayer compliance through targeted initiatives.
- 3. Modernizing RRA’s business operations, capacity and productivity.

Other initiatives supporting the INFF – besides MTRS

- MDRS (Medium Term Debt Strategy)
- Nutrition sensitive expenditure tagging
- Social sectors FSA
- Capital market development strategy
- Blended financing facility
- Climate sensitive/green financing
- Private sector financing
- Disaster Response and Management (DRM) financing
- Gender Responsive Budgeting
- Strengthening alignment of MTEF to sustainable development needs of the country

THANK YOU