RWANDA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: RWANDAN FRANC (RWF)

POPULATION AND GEOGRAPHY

Area: 26 340 km^2
Population: 12.208 million inhabitants (2017), an increase of 2.5% per year (2010-2017)
Density: 463 inhabitants / km^2
Urban population: 30.7% of national population
Urban population growth: 2.8% (2017 vs 2016)
Capital city: Kigali (10.3% of national population)

ECONOMIC DATA

GDP: 24.9 billion (current PPP international dollars), i.e. 2 036 dollars per inhabitant (2017)
Real GDP growth: 6.1% (2017 vs 2016)
Unemployment rate: 16.7% (2017)
Foreign direct investment, net inflows (FDI): 293.4 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.9% of GDP (2017)
HDI: 0.516 (low), rank 162 (2018)
Poverty rate: 55.5% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Rwanda is a democratic republic headed by the President who is both the head of the state and government, as well as the commander in chief of the country's defense forces. The President is elected directly by universal adult suffrage to serve for a seven-year term and can be elected for a maximum of two terms. The country has a bicameral parliamentary system made up of the Senate and the Chamber of Deputies.

Local government is enshrined in Chapter 1 of the Constitution (2003), which states in Article 6 that "Public powers are decentralized at local administrative entities in accordance with provisions of law". The main governing legislation is the Organic Law No. 29 of 2005, which determines the administrative entities for local government and establishes their number, boundaries and structure. Districts are the legal decentralized entities and responsible for the overall coordination of economic development, planning, financing and implementation of service delivery. They are subdivided in three other local sub-tiers: sectors (imerenge), cells (utugari) and villages (imudungu). At the village level, local government law stipulates that all village residents are members of their village council. Cell council members are directly elected by universal suffrage of the cell residents for 5 years. Representatives are then indirectly elected from the cell council members to the sector council, which then in turn indirectly elects a representative to the district council. Following the last 2016 local elections approximately 40% of all councillors were women.

The Government of Rwanda adopted a phased approach to implementing the decentralization policy. Phase I (2001-2004) focused on institutionalizing decentralized governance by articulating the policies and the legal frameworks, putting in place the necessary administrative structures, systems and mechanisms. The second phase (2005-2009) focused on enhancing public service delivery through the decentralization of public services from the Central Government to the districts (local level). The main outcome of this phase was the development of a suitable statutory framework that facilitates greater citizen participation in decision-making, greater resource allocation to Local Governments, better connection with other reforms and better coordination of stakeholder interventions in the decentralization program. The current Phase III (since 2011) focuses on fiscal decentralization to promote local development and strengthen the capacity of decentralized local governance units - District, Sector, Cell and Village, to implement the Rwanda Decentralization Strategic Framework (RDSF).

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Districts *(akarere)*			
	Average municipal size: 350 532 inhabitants			
	30			30

OVERALL DESCRIPTION. The Republic of Rwanda is divided into five provinces (including Kigali City) which serve as a coordinating organ of the central government to ensure the efficiency and effectiveness in government's planning, execution and supervision of the decentralized services. As deconcentrated bodies, the provinces are not identified as local governments. The central government retains a strong degree of authority over the provinces and the decision-making remains within the same level of government.

At the decentralized level, the country is made up of 30 districts. The Southern Province has the largest number of districts (8), the Eastern and Western Provinces have 7 each, and the Northern Province has 5 districts. The City of Kigali consists of 3 districts and exercises overall supervision, guidance, coordination and monitoring for implementation of national policies, spatial and development planning, and economic development in the constituent Districts. Districts are entitled to their own budgets and plans but are required by law to ensure that all their decisions are in conformity with the decisions of the Council of the City of Kigali.

Below the 30 districts, there are 416 sectors, 2 148 cells and 14 837 villages. An important political feature of districts is their elected councils and mayors, and the preparation of their own budgets. The districts have been originally created as the centre for the decentralized delivery of services. The sector is the next level of administration where people participate through their elected representatives. Finally, the cell is the smallest politico-administrative unit of the country. Its main responsibility is community mobilization.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The laws defining SNG responsibilities and distribution of competences include Act No. 87/2013 of 30/09/2013 on the organization and functioning of decentralized administrative entities and Act No. 62/2013 of 27/08/2013 establishing the Local Administrative Entities Development Agency's mandate

As far as sector services are concerned, the distinction of responsibilities regarding financial and human management has not yet been clearly defined. In fact, the complexity associated with the sectors especially health and education have compelled the sectors to process through a gradual decentralization. This includes joint planning and institutional reforms in sector ministries through the revision of policies and creation of agencies to support Districts.

Law 62/2013 established the Local Administrative Entities Development Agency (LODA) as a Government Agency under the supervision of the Ministry of Local Government. The Agency's mission is to coordinate the local development interventions of the local government entities focusing on Local Economic Development, Social Protection, Capacity Building of local administrative entities, and monitoring and evaluation of implementation process and programs in local administrative entities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Development planning and management; Administrative services (marriage, birth, etc.); Voter registration Public buildings and facilities
2. Public order and safety	Community policing; Fire and rescue services (jointly with the Ministry of Internal Affairs)
3. Economic affairs/transports	Employment services and job information; Local roads, park spaces, urban transport, local tourism Electricity grid expansion and connections; Markets, abattoirs, storage space, warehouses
4. Environmental protection	Parks & green areas, Waste and water management, Sewage systems, Street cleaning, Tree planning, Construction of dams
5. Housing and community amenities	Construction/renovation of public housing; Spatial planning, land use and building regulation; Distribution of drinking water, public lighting
6. Health	Primary healthcare (medical centres) and secondary healthcare (district hospitals); preventive healthcare
7. Recreation, culture & religion	Sports, libraries, local museums
8. Education	Pre-primary, primary and secondary education
9. Social protection	Social protection; support to vulnerable groups (extremely poor and historically marginalized) Orphanages, centres for children in streets, welfare homes

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: districts.	SNA 1993	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

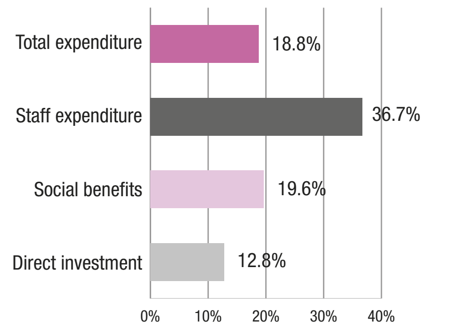
GENERAL INTRODUCTION. Rwanda has implemented progressive fiscal decentralization since 2000. As part of the Fiscal and Financial Decentralization Policy adopted in 2011, the main subnational government finance legislation includes Act No. 59/2011 on the source of revenue and property of decentralized entities and their management, Act No. 12/2013 of 12/09/2013 on state finances and property as amended to date, and the Presidential Order No. 25/01 of 9 July 2012 on the fees charged by denationalized entities.

Significant progress has been made in the implementation of the Decentralization Policy, in particular regarding the provision of grant funding. However, the evaluation of the third phase of implementation of the Decentralization Policy also indicated a number of challenges with fiscal and financial decentralization that should be addressed, including (a) Resources not matching devolved roles and responsibilities; (b) Earmarked transfer mechanisms and procedures that hinder the effective functioning of Local Governments; and (c) Financial management responsibilities that overload district staff, with no delegation at lower levels.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**107**	**5.6%**	**100%**
Inc. current expenditure	81	4.2%	75.0%
Staff expenditure	46	2.4%	42.6%
Intermediate consumption	14	0.7%	12.6%
Social expenditure	7	0.4%	6.4%
Subsidies and current transfers	0	0.0%	0.0%
Financial charges	0	0.0%	0.1%
Others	14	0.7%	13.4%
Incl. capital expenditure	27	1.4%	25.0%
Capital transfers			
Direct investment (or GFCF)	27	1.4%	25.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



RWANDA

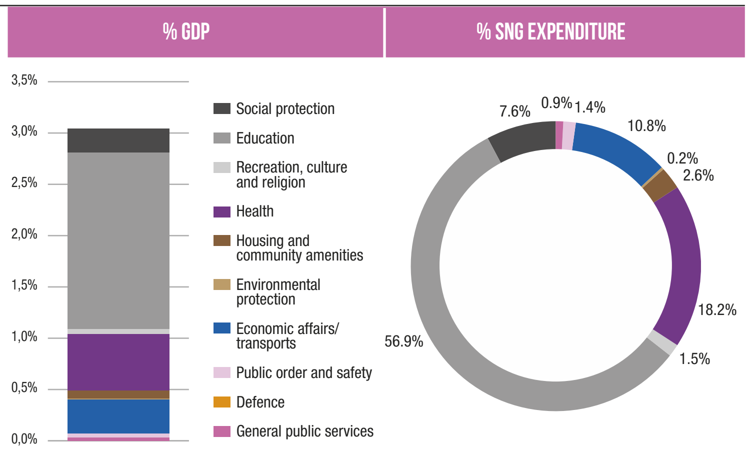
UNITARY COUNTRY

EXPENDITURE. Rwanda has a low level of total Local Government expenditure per capita compared to more developed countries ($6 817 for OECD countries on average). Compared to other countries in the region, It is ahead of Uganda (PPP$57.3), Kenya (PPP$89.7) and Tanzania (PPP$93.7), but far behind South Africa (PPP$1 728).
There has been no significant change in Local Government spending over the past 5 years. An increase in some categories (e.g., staff and other costs) were in line with the overall increase in Local Government budget allocations.

DIRECT INVESTMENT. Local governments play a minor role in direct investment due to the limited funds available. These funds are routed through LODA, which in fact manages all Local Government investments. Key areas of investment include education (class rooms), health (health facilities), general public services (sector and cell administrative buildings) as well as water and road sectors. The entire capital investment budget for local governments is funded from external resources (grants from foreign organizations and foreign governments). Although Act No 59/2011 on the source of revenue and property of decentralized entities mentions loans as one of the local government revenue sources for investment, there are no regulatory provisions for borrowing by local governments in Rwanda.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

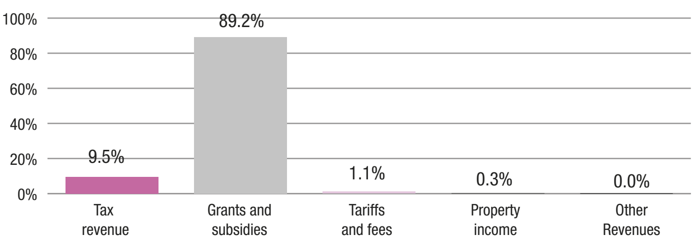
COFOG data are available for general government but not for local governments. However, the Ministry of Finance issues annual Earmarked Transfers Guidelines to Decentralized Entities (i.e. districts) by program. The programs broadly follow COFOG classification and allow reconstruction of LG expenditure by economic function, at least with respect to the earmarked transfers. The table above is likely to underestimate the expenditure for general public services because the recurrent block grant accounts for the bulk of the difference between the total expenditure and the amount of earmarked transfers. The results show that education and health are the two main expenditure categories (56.9% and 18.2%, respectively). Transport and social protection also receive sizeable financing (10.8% and 7.6%) whereas environment protection is the least funded category (0.2%).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**108**	**5.6%**	**17.5%**
Tax revenue	10	0.5%	3.5%
Grants and subsidies	96	5.0%	
Tariffs and fees	1	0.1%	
Property income	0	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Fiscal decentralization is one of the main priorities of the Government of Rwanda. However, local entities remain highly dependent on central transfers, as local own revenues, and in particular the collection of local taxes, are not increasing as expected. To date, the government has neither the capacity nor the intention to increase the volume of transfers to local entities, so increasing the collection of own-source revenues is an essential step

The main source of funding is grants and subsidies from the central government, particularly earmarked grants. However, Local Governments have the ability to raise own-source revenues, in accordance with Act No 59/2011. These include a variety of local taxes and fees from the provision of administrative and other decentralized services, fines, loans, government subsidies, etc. The three main taxes are Fixed asset tax, Trading license tax; and Rental income tax.

TAX REVENUE. In 2016, total aggregated locally raised revenue amounted to RWF 39 441 186 720 (about $20.5 million PPP, or $1.7 PPP per inhabitant). They correspond to between 10 and 15% of the total income of the districts. However, adequate local revenue collection remains a challenge. Key issues include: local own revenues are much lower (about 20%) of revenue potential; the tax base is narrow, about 3% of properties are subject to Fixed Asset Tax; tax rates are low (property tax rate is 0.1%, one-tenth of the average international rates); collection efficiency is very low (percent is unknown due to lack of solid data, but empirical evidence suggests 30%).

As part of a national commitment to reform local taxation, in August 2018, Parliament passed a law determining the sources of revenue and property of decentralized entities, commonly known as Property Tax. It replaces the old law 59/2011 enacted in December 2011. The key change includes an increase in tax rate (to be set by the districts) for residential buildings after exempting those used by owners as their residence. The new law also introduces other measures to improve property taxes:

- **Efficient land use:** The law provides a standard plot size corresponding to each type of building to guide the land tax rate to pay. This tax will increase by 50% for each extra square meter beyond the set standard rate.
- **Promotion of commercial and industrial buildings:** The law will support urbanization policies in place by providing preferential tax rates on commercial buildings. It will also promote industrial and SME development by providing special tax rates for industrial buildings to make them competitive on both regional and international markets. In addition, SMEs will receive a 2-year tax trading license exemption upon establishment.
- **Rental Income tax:** Under the new law, the income threshold reserved for maintenance and upkeep of rented property (which is not taxed) has increased from 30% to 50%. For rented property financed through loans, actual interests will be subtracted while calculating taxable value.

However, the reform envisages centralized collection of local taxes by the Rwanda Revenue Authority (RRA), which may undermine the substantial role of districts in own-source revenue administration and collection.

GRANTS AND SUBSIDIES. Transfers to Local Governments are composed of:

- **Block Grants** – local administrative budget support funding mainly to bridge the fiscal gap in the recurrent budget of eligible entities. It helps to finance administrative expenses, including salaries, running costs, and supervision of activities to ensure service delivery. The grant is formula-based.
- **Earmarked Grant Transfers** – these are project-tied grants for each delegated function. The delegating line ministry regulates the transfer mechanisms, reporting requirements and the formula for allocation.
- **Capital Block Grants** – intended to assist districts in undertaking local development projects. Currently, this grant is not applied as it has been subsumed by the Common Development Fund/ Local investment projects financing.
- **Common Development Fund** – provided under article 12 of Law 62/2013 of 27/08/2013 to LODA for disbursement to districts to assist them in their development programs. The fund comprises at least 10% of the Central Government's domestic revenues and funds provided by development partners. Funds are allocated to Districts via transparent formulas.

Local government revenues are dominated by earmarked grants which make up about 70% of total revenues. Furthermore, capital grants represent less than 10% of total revenues, the rest being current grants and transfers. Capital grants are also earmarked and leave inadequate space for local governments to decide on their priorities.

There is no equalization mechanism as such but many earmarked transfers (which make the bulk of local government revenues) incorporate an equalization dimension, which most commonly takes into account such factors as population, territory and poverty levels. A typical example is the Common Fund allocation, calculated for each district based on Population size - 40%, Area - 20% and Poverty level - 40%.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	0	0.0%	0.2%	100%
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES.

DEBT. District Councils have the authority to borrow to finance development projects, but they can only do so with the approval of the Ministry of Finance, who is also authorized to set borrowing limits. Just as is the case for normal government borrowing which requires a critical statistical review to determine the borrowing and/or fiscal space, all government guarantees are subjected to the same thorough framework to ensure there is sufficient economic space to issue guarantees. Public borrowing is made against targets set and approved by Parliament in the three-year Medium-Term Debt Strategy.

Currently, Rwanda's financial system is dominated by the banking sector. At present, the banking sector comprises 10 commercial banks, which control most of the financial assets, as well as four microfinance banks, one development bank, and one cooperative. Together, these 16 banks hold two-thirds of the financial assets in the country.

Capital-market development is a key component of Rwanda's Financial Sector Development Program. With the adoption in 2011 of the Capital Markets Authority Law, the Capital Markets Law, and the Law on Collective Investment Schemes, most of the necessary legal architecture is in place.

Currently, no debt and borrowing market exists for local governments. The depth and capitalization of the Rwandan markets are inadequate and there is no regulation on local government shares or bonds. The upside of this situation is that Rwandan Local Governments have no market loans or debts; their indebtedness consists of outstanding payments to providers of goods and services. The downside is that market capital is not available for long-term investments although considering the fiscal situation of local governments and their almost total dependence on central government earmarked transfers, the possibility of tapping into debt and borrowing markets seems rather limited.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UNCDF
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF Government Finance Statistics Database // Rwanda Ministry of Finance and Economic Planning, 2016-2017 Budget Execution By Sectors // Rwanda Ministry of Finance and Economic Planning, 2016-2017 Earmarked Transfers Guidelines to Decentralized Entities // Rwanda Ministry of Finance and Economic Planning, The Annual Economic Report Fiscal Year 2016/2017 // Rwanda Ministry of Finance and Economic Planning, Budget Framework Paper 2018/2019-2020/2021 // Rwanda Ministry of Finance and Economic Planning, Updated Macro-Framework Public Dataset by End 2017 (as of 5th April 2018).
Other sources of information: Center for Financial Markets (Melken Institute) (2015). Capital Markets in Rwanda: Assessment and Aspirations // Commonwealth Local Government Forum. The Local Government System in Rwanda. Country Profile 2017-18 // Embassy of the Kingdom of the Netherlands (2016) Evaluation of the LODA Program to Finance Infrastructure at De-central Level // IMF (2017) Staff Report for the 2017 Article IV Consultation, Seventh Review Under the Policy Support Instrument, and Second Review Under the Standby Credit Facility— Debt Sustainability Analysis Update // International Growth Center (2016) An effective property tax regime for Rwanda //PEFA Assessment Report of Rwanda (2016) // Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa.