

# GOVERNMENT BUDGET RATIONALISATION : Expenditure Budget.

## Introduction

Budget rationalisation has to be undertaken bearing in mind the government's macro-economic policies and strategies. The three major government economic policies are the:

- i. Creation of a favourable macro-economic environment;
- ii. Increase in production in all production sectors; and
- iii. Restoration of government and private sector management capacity.

To achieve the first policy, equilibrium between production and consumption should be achieved. Also equilibrium between savings and investments has to be aimed, and lastly, equilibrium between government expenditure and revenue has to be targeted. The last strategy can be achieved through budget restriction and rationalisation of public debt.

Government financial operations in 1995-96 indicate that the current expenditure raised from Rwf 42.089 billion in 1995 to Rwf 53.147 billion in 1996 against receipts of Rwf 23.128 billion in 1995 and Rwf 39.508 billion in 1996. This situation created a deficit of Rwf 36.035 billion in 1995 which rose to Rwf 49.019 billion. The 1997 budget is projected to be Rwf 173.887 billion against receipts of Rwf 46.456 billion creating a deficit of Rwf 127.431 billion.

To meet part of the recurrent and development expenditure, the government borrows from internal and external sources of which it pays heavy interest.

*Equilibrium between Government expenditure and revenue*

<u>Item</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<b>Government financial operations (Billion Rwf)</b>			
<b>RECETTES PROPRES (Receipts)</b>	23.128	39.508	46.456
a. Fiscales (Taxes)	21.729	36.420	42.592
- Taxes directes (revenue + propriete)- direct taxes	2.899	10.486	10.709
- Taxes indirect (b/s + exterieur) indirect taxes	18.831	25.934	31.884
b. Non fiscales (non-taxes)	1.399	3.864	3.864
<b>DEPENSES TOTALES (Total Expenditure)</b>	59.163	88.527	173.887
a. Courantes (current)	42.089	53.147	60.658
i. Consommation (consumption)	30.942	42.128	46.958
- Salaires (salaries)	13.558	19.029	20.588
- biens & services (goods & services)	17.384	23.097	26.370
ii. Paiement intéréts dus (interest payment) on	7.822	6.387	5.985
- Intérieur (internal)	4.023	3.045	2.827
- extérieur (exclus. FM I)	3.799	3.342	3.159
iii. Subsidés et transferts (subsidés & transferts)	3.325	2.938	6.248
iv. exceptionnelles (contingencies ?)	0	1.698	1.466
b. En capital (investissement)-capital (investment)	28.634	45.997	105.367
i. Financement interieur (internal financing)	0	0.142	5.469
- Budget de devt (devt budget)	0	0.142	5.000
- Fonds de contrepartie (counterpart funds)	28.635	45.855	99.898
ii. Financement exterieur (external financing)	27.106	38.458	72.852
- dons en capital	1.528	7.396	27.046
- tirages sur prêts	0	0	0
iii. Prêt nets	11.561	10.617	-7.862
c. Variation des arriéres	36.035	49.019	-127.431
<b>DEFICIT GLOBAL (Caisse)</b>	36.035	49.019	127.431
Financement disponible	36.905	41.039	79.572
i. Dons (Donations)	9.799	2.581	6.720
- Courant	27.106	38.459	72.852
- en capital	11.831	9.621	23.708
ii. Emprunts extérieurs, nets (External loans)	18.316	15.781	30.696
- tirages	-6.484	-6.160	-6.938
- amortissement	-12.804	-1.641	4.700
iii. Financement interieur (Internal financing)	-12.804	-1.780	4.700
- Systeme bancaire	0.102	0.139	0
- system non - bancaire/autres			

In 1996, the current expenditure accounted for 60% of the total expenditure with only 40% going to development expenditure. Of the current expenditure, salaries accounted for 35% while interest payment accounted for 12% and other goods and services accounted for 6% of the GDP and the deficit was 7.7% of the GDP.

Rationalising expenditure would entail reducing some items of the expenditure budget while increasing those necessary and in conforming with the government policies. The expenditure items of 1996 and 1997 budget indicate that rationalisation would help to reduce overall expenditure through the following measures:

1) Retrenchment of workers :

Rwanda and the World Bank/International Monetary Fund had agreed in 1994/95 to set the ceiling of workers in civil service at 57% of the Pre-April 1994 levels. However, by 1995, there were 28,480 and in 1997 the number <sup>standards</sup> at 38,330 workers. The main cause of increase of workers is the lack of instructions by the government so that MINIFOP (Ministry of Public service) can know the number of workers each Ministry should have. The Ministers employ at will and the Ministry of finance automatically pays their salaries. This has caused continuous increase in the number of government employees. Further, the recent survey by MINIFOP indicates that 74% of these government employees are of primary school standard or illiterate. Therefore, the government must come out clearly with policies and instructions to rectify this anomaly. This could include the following:

(i) Government should have a policy of recruitment of workers.

A Study that would show the optimal size of each ministry and a restructuring of ministries would be undertaken first. The study could also recommend a reduction in the number of ministries. Should a ministry then wish to recruit more workers than the recommended number, the cabinet or a commission that could be constituted would have to approve such a request. The commission could be the Public Service Commission (PSC) or any other level, say the cabinet, if the is not yet operational.

*Reduction of services of DM I (Int) Reassignment of DM I Gendarm, External,*

ii. Basing on the optimal size of each ministry the returnees (both the old case and new case loads) would be recruited on merit and the rest retrenched, but with appropriate severance packages including new government jobs or being assisted to joining the private sector.

iii. Motivation of the remaining employees by increasing their salaries over a three year period done in equal proportions until the lowest paid civil servant can meet the minimum cost of living equivalent to Rwf 44,000 in Rwanda (La Question des Salaries et Des Prix au Rwanda, CESTRAR, January 1996).

iv. "Ghost" workers should be identified through a census and salary payment exercise.

## 2. Centralisation of purchases

It has been observed that ministry employees make requisitions to the Ministry of Finance, to purchase items particularly stationery and other office supplies quoting different prices for the same item. This indicates that some ministries buy more expensively than others. It is recommended that the Central Tender Board that is to be in place soon should advertise certain items required in large quantities and bids made. The lowest bidder (assuming other conditions and quality are competitive) should be given the mandate to sell these items to the various ministries. Further where ministries make various budgets estimates for a similar item, MINIFIN should correct this anomaly before accepting it in the budget.

## 3. Scrapping or reducing of some items.

During this period of budget restriction, some items should be scrapped from the budget. These items include news papers except in the Ministry of Information, Foreign Affairs, MINIPLAN, the Presidency and Premiere. Even in these ministries, not more than 2 copies of each newspaper should be purchased. A central reading room should be identified to be used by the readers. There are also some fictitious items on budget items that are never used and yet constantly appear in the budget. This should also be scrapped.

## 4. Over expenditures,

Both the concerned Ministries and the controlling Ministry of Finance allow over-expenditure on budgeted items. This gives a free hand to the implementing ministries to spend without control. To correct this, budgets must be prepared in time and each ministry given its money. If the ministry exhausts its budget it will be denied funds on that specific item. Also using votes for a particular item for another should be penalised.

## 5. Reduction of privileges of Govt top politicians - vehicle types, outside travels, external health care guidelines

## 6-5. Fuel and vehicle maintenance

Government spends a big proportion of its recurrent budget on fuel and vehicle maintenance. The proposed project of selling off the vehicles and paying officers transport allowance should be pursued and completed soonest.

## 7-6. Inclusion of control measures in all government expenditure.

Government should put in place a system to monitor ministerial expenditures, as well as evaluation systems through use of the created organs like the Auditor General, Commission for Coordination of Development and all Humanitarian Aid, and the re-energisation of the Cour de Compte. The office of Inspector General should be established. These organs would curb on the misuse of public funds or public offices.

To have a commission charged with govt payments to internal creditors as well as procedures

### 7. Indemnité de caisse

As a means to motivate those employees handling cash and to cover them in case of miscounting, a certain amount of money is given to cashiers or people handling cash to cover them in case of loss. The allowance is related to the cash handled per month. Whereas this principle is sound, it has created negative impact on the economy. First there is a tendency not to use the cheques system since the cashiers and their "masters" are interested in the allowances given when one handles a lot of money. It is possible that the masters do not want to change the status quo as the cashiers would pay to the master part of the allowance.

Further a lot of cash comes from one person (the payer to government) to the payee (government employees or suppliers) without going through the banks. This denies the banking system of this cash. Also there is a risk of theft by the individual handling the money or by robbers.

It is recommended that MINIFIN pays all the ministries or individuals in cheques and the ministries in turn pay their employees/Clients in cheques. This will require all employees to open bank accounts boosting the banking sector. Similarly, people paying the government should be asked to use bankers cheques (cheque certifié). This process should be done within the 1997 calendar year.

### 8. Payment of public debt

#### i. Internal debt

In 1989, the government internal debt was 28.838 billion Rwandese francs of which Rwf 15.838 billion (55%) was owned to the banking sector and the rest of Rwf 13.004 billion was to the non bank sector. The interest then paid was Rwf 2.030 billion (or 8% of the expenditure). Currently, the public debt is estimated at Rwf 288 billion of which over Rwf 50 billion is internal debt, of which BNR is owned Rwf 380 and the rest is external. By December 1996, internal debt arrears has accumulated to Rwf 39.3 billion of which Rwf 34.5 billion was owned to BNR and the rest of 4.84 billion owned to domestic commercial banks and non-bank financial institutions.

The government and BNR have agreed that the debt arrears be consolidated and 2% p.a interest be charged beginning January 1996, to be based on quarterly period. After 5 years, the principal will be repaid by making an appropriation of 30% against a portion of profit which BNR has to transfer to government. It is thus apparent that the debt service is crippling to the government and borrowing must be reduced soonest. Government will pay Rwf 2.822 billion in 1997 in internal public debt interest.

#### ii. External Debt

Government will also pay Rwf 10.878 billion Francs in debt service of which Rwf 4.03 billion will be loan principal and the rest of Rwf 6.85 billion in interest excluding the arrears. External debt represents 67% of the total debt.

As the government has no much room for manouverability, it is recommended that the government negotiates with creditors (IMF/World Bank) to reduce or scrap off the debt as Rwanda is below the poverty line, a criterion that is currently being proposed. MINIPLAN, MINIFIN and MINAFET should follow up this possibility. Debt rescheduling strategy should also be pursued despite its weakness. For long term strategy, however, debt contracting should only be justified on viable economic projects which will be able to generate funds and contribute in repaying the loan in question.

The development budget

The development budget can not be reduced apart from ensuring that all relevant projects are included following the prioritisation. There is need to have clear economic policies which should be the base for prioritising which projects to be considered.

Further, the current rehabilitation budget can not be reduced because of the extensive damage by the war. However, salary incentives need for people (nationals and non-nationals) involved in the projects should be rationalised.