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 FM SECSTATE WASHDC  
 TO AMEMBASSY KIGALI  
 INFO AMEMBASSY BONN  
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TAGS: ECON EFIN IBRD RW

SUBJECT: AMBASSADOR RAWSON'S CONSULTATION WITH WORLD BANK

1. SUMMARY. ON DECEMBER 22, AMBASSADOR DAVID RAWSON MET WITH WORLD BANK OFFICIALS PRIOR TO HIS DEPARTURE FOR RWANDA. AS THE COUNTRY ENTERS A NEW PEACE CONSOLIDATION PHASE, THE BANK IS COMMITTED TO REACHING AN AGREEMENT WITH THE GOVERNMENT ON A NEW MACROECONOMIC FRAMEWORK IN AN EFFORT TO BRING RWANDA'S ADJUSTMENT PROGRAM BACK ON

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TRACK. HOWEVER, COMPLETING NEGOTIATIONS WITH THE IFIS ON A SECOND POLICY FRAMEWORK PAPER (PFP) IS CONTINGENT ON THE GOVERNMENT'S COMMITMENT AND UPFRONT ACTION TO REDUCE ITS FISCAL DEFICIT AND DEVALUE ITS CURRENCY. THE BANK HOPES TO RETURN TO RWANDA IN JANUARY, AND TOLD AMBASSADOR RAWSON THAT ONCE THEY COMMIT TO A MACROECONOMIC FRAMEWORK, THE BANK PLANS TO RECONVENE A SPECIAL DONORS MEETING TO REASSESS AND DISCUSS RWANDA'S EXTERNAL FINANCING REQUIREMENTS. THE BRIEFING ALSO COVERED ISSUES RELATED TO RESETTLEMENT, INTRA-REGIONAL TRADE AND THE ENVIRONMENT. AMBASSADOR RAWSON TOLD BANK OFFICIALS THAT THE USG WAS COMMITTED TO SUPPORTING THE PEACE PROCESS, WITHIN A DEMOCRATIC FRAMEWORK. HE HIGHLIGHTED THE NEED TO FOCUS MORE ON DEVELOPMENT EFFORTS IN ORDER TO HELP SOLIDIFY NATIONAL RECONCILIATION. END SUMMARY.

2. ON DECEMBER 22, MESSRS. JEROME CHEVALLIER, NAT COLLETA, DAVID BERK AND MS. HERMINIA MARTINEZ OF THE WORLD BANK GAVE A FORTY-FIVE MINUTE BRIEFING TO AMBASSADOR RAWSON. ALSO ATTENDING WERE REPRESENTATIVES

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FROM THE USED'S OFFICE, STATE AND TREASURY. MOST OF THE PRESENTATION WAS MADE BY CHAVALLIER, WHO INFORMED THE AMBASSADOR THAT THE RECENT IMF/WORLD BANK DISCUSSIONS WITH A JOINT DELEGATION OF THE RWANDAN GOVERNMENT (GOR) AND RWANDAN PATRIOTIC FRONT (RPF) WENT WELL. THE DISCUSSIONS FOCUSED ON REVISING THE PFP AND THE STEPS THAT NEED TO BE TAKEN TO RESUME NEGOTIATIONS. WHILE THE GOVERNMENT IS RECEPTIVE TO IMF AND WORLD BANK SUGGESTIONS, THE BANK STAFF NOTED THAT IT IS FACING MANY CONSTRAINTS, AND HAS PIVOTAL DECISIONS TO MAKE SOON.

3. GOR/RPF JOINT DELEGATION: CHEVALLIER NOTED THAT THIS WAS THE FIRST TIME THE BANK HAD HAD THE CHANCE TO TALK TO BOTH THE GOR AND RPF. HE SAID THE TWO RWANDAN DELEGATIONS HAD NOT REALLY HAD A CHANCE TO DISCUSS RELEVANT ISSUES TOGETHER BEFORE THE TRIP. SO THE BANK LET THE TWO SIDES MEET WITH EACH OTHER ALONE ON BANK PREMISES FOR TWO OR THREE DAYS, BEFORE THE JOINT DELEGATION BEGAN ITS DISCUSSIONS WITH THE BANK. CHEVALLIER SAID THE RPF DELEGATES WERE MUCH MORE ECONOMICALLY SOPHISTICATED THAN THEIR GOR COUNTERPARTS, AND MORE PRIVATE SECTOR ORIENTED.

4. UPFRONT ECONOMIC ACTIONS: THE IMF/IBRD ECONOMIC TEAM

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TOLD THE RWANDAN DELEGATION THAT THE RESUMPTION OF THE PFP NEGOTIATIONS WOULD BE CONTINGENT ON THE GOVERNMENT'S TAKING SOME "TOUGH MEASURES" UPFRONT TO REDUCE THE FISCAL DEFICIT AND DEVALUE THE CURRENCY. RWANDA'S ADJUSTMENT PROGRAM WAS DERAILED BY A DROP IN COMMODITY EXPORT PRICES AND THE WAR, WHICH LED TO THE BUILD UP OF MILITARY SPENDING. MILITARY EXPENDITURES, WHICH REACHED 8 PERCENT

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OF GDP IN 1992, CONTINUED UNABATED IN 1993, CROWDED OUT DEVELOPMENT EXPENDITURES AND JEOPARDIZED THE SOCIAL SAFETY NET UNDERLYING THE ADJUSTMENT PROGRAM. THE BANK TOLD AMBASSADOR RAWSON THAT IT WILL MOVE QUICKLY ONCE THE GOVERNMENT TAKES CONCRETE STEPS TO FIX THE SERIOUS FISCAL IMBALANCE. AMONG POSSIBLE ACTIVITIES WHICH THE BANK COULD UNDERTAKE ONCE THE RWANDAN AUTHORITIES RESUME A CREDIBLE ADJUSTMENT POSTURE IS RELEASE OF THE SECOND TRANCHE (USD 35 MILLION) OF THE FIRST STRUCTURAL ADJUSTMENT CREDIT (SAC), DELAYED BY THE GOVERNMENT'S INABILITY TO MAINTAIN A SATISFACTORY MACROECONOMIC FRAMEWORK AND MEET THE SPECIFIC TRANCHE CONDITIONS. CHAVALLIER ALSO MENTIONED DRAWING ON CREDITS SUCH AS THE FINANCIAL AND AGRICULTURAL SECTORS ADJUSTMENT CREDITS. A BANK TEAM IS EXPECTED TO VISIT RWANDA IN JANUARY TO REAPPRAISE THE AGRICULTURAL SECTOR. IT IS LIKELY THAT THE FINANCIAL SECTOR CREDIT WILL NEED RENEGOTIATION AS WELL. THE BANK ALSO SUPPORTS HAVING A UNDP-LED ROUNDTABLE ON RWANDA TO ASSESS HUMANITARIAN (INCLUDING DEMOBILIZATION) NEEDS, BUT ONLY AFTER THERE IS A COMPREHENSIVE MACROECONOMIC AGREEMENT AND FUNDING IS FOUND TO SUPPORT IT. THE BANK SIMPLY WANTS TO MAKE SURE THERE ARE NO CONFLICTS BETWEEN UNDP'S HUMANITARIAN EFFORTS AND THE IMF/IBRD MEDIUM-TERM ECONOMIC PROGRAM. AMBASSADOR RAWSON SHARED THE BANK'S CONCERNS AND WELCOMED THE CHANCE TO SEE THE "BIG PICTURE" FIRST.

5. EXTERNAL FINANCING REQUIREMENTS AND PROSPECTS:  
RWANDA'S SHORT TERM ECONOMIC AND FINANCIAL PROSPECTS HINGE ON THE ABILITY OF THE TRANSITIONAL GOVERNMENT TO MAINTAIN PEACE AND TO REVITALIZE THE ADJUSTMENT PROCESS.

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ONCE AN AGREEMENT HAS BEEN REACHED WITH THE BANK AND THE

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FUND ON A NEW MACROECONOMIC FRAMEWORK, THE BANK NOTED THAT RWANDA'S EXTERNAL FINANCING REQUIREMENT WILL BE REASSESSED AND DISCUSSED AT A SPECIAL DONORS MEETING ON RWANDA WHICH THE BANK IS COMMITTED TO RECONVENE.

6. RESETTLEMENT OF REFUGEES: AMONG THE MANY CHALLENGES IS THE ARDUOUS TASK OF RESETTLING UP TO 2 MILLION REFUGEES WHICH SOME PROPOSED TO RESETTLE IN THE AKAGERA PARK. THE BANK NOTED THAT REINTEGRATION EFFORTS ARE JUST TOO MASSIVE, EMPHASIZING THAT THE IDEA OF CONCENTRATING ALL REFUGEES IN ONE AREA COULD BE AN UNWORKABLE SOLUTION AND MAY CAUSE PROBLEMS FOR THE GOVERNMENT. CHAVALLIER NOTED THAT THE RPF WAS PARTICULARLY INTERESTED IN ASSISTANCE TO THE REFUGEE REPATRIATION EFFORTS (WHICH HE NOTED WOULD HELP BOLSTER THE RPF'S ELECTORAL STRENGTH).

7. DEMOBILIZATION: BANK TECHNICAL SPECIALIST NAT COLLETA, WHO TOOK THE LEAD IN ASSISTING UGANDA WITH ITS SUCCESSFUL DEMOBILIZATION PROGRAM, IS EXPECTED TO HEAD A BANK MISSION TO RWANDA AT THE END OF JANUARY. COLLETA SAID THAT A WORKING PAPER ENTITLED, "DEMOBILIZATION AND REINTEGRATION OF MILITARY PERSONNEL: THE EVIDENCE FROM EIGHT COUNTRY CASE STUDIES" HAS BEEN SHARED WITH RWANDA GOVERNMENT OFFICIALS. (NOTE THAT THIS DOCUMENT IS NOT A FORMAL PUBLICATION OF THE BANK AND HAS A RESTRICTED DISTRIBUTION). COLLETA SAID HE UNDERSTOOD THE REGIONAL SENSITIVITIES INVOLVED AND WAS CAREFUL NOT TO MENTION HIS EXTENSIVE WORK IN UGANDA AT HIS FIRST MEETING WITH THE GOR AND RPF. THE BANK APPEARS TO HAVE A STRONG DESIRE TO CREATE A PROGRAM THAT MEETS RWANDA'S NEEDS, AS CONDITIONS

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ARE VERY DIFFERENT THAN IN UGANDA. THE BANK PLANS TO SEND LETTERS TO KEY DONORS INVITING THEM TO PARTICIPATE IN SOME FASHION IN THE JANUARY DEMOBILIZATION MISSION, EITHER AS AN ACTIVE PARTICIPANT OR BY SIMPLY ATTENDING DISCUSSION MEETINGS.

8. BUJUMBURA: MINIMIZED CONSIDERED.  
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