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The Use of Rwanda's External Debt (1990-1994)

The Responsibility of Donors and Creditors

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Ten years after the 1994 Genocide, the role of financial institutions has to be fully understood. Development aid and foreign loans were channelled towards financing the military and paramilitary. The donors turned a blind eye. This report examines the role of multilateral and bilateral donors including Western governments and the Bretton Woods institutions.

The mission was composed of Belgian Economist and Senator Pierre Galand (Mission head) and Canadian Economist Professor Michel Chossudovsky. The report, was based on field work conducted in Rwanda in 1996. The mandate of the mission was to identify the role of international financial institutions, donors and creditors in relation to the genocide and ethnic massacres of 1994.

The mission was set up at the request of the Rwandan authorities, formally under UNDP auspices (PROJET RWA/95/005 RÉHABILITATION DES CAPACITÉS DE GESTION DE L'ÉCONOMIE (CAGE).

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I INTRODUCTION

1.1 The aim of this report is to study the profile of Rwanda=s foreign debt acquired during the period between 1990 and 1994 so as to advise the Rwandan Government on methods of negotiation with the donors.

1.2 The process of debt acquisition during the 1990-1994 period was an exception compared to the previous debts. The debts of the former government (1990-1994) were mainly used to finance the armed forces and civilian militia.

1.3 The mission noted the increase in the debt load during the period immediately prior to the genocidal killings and massacres. This showed the importance for the Rwandan authorities of establishing methods of negotiation specially related to debt contracted between 1990-1994.

1.4 Mindful of the circumstances experienced by Rwanda as a result of the genocidal killings and massacres of 1994 and the difficulties related to the reconstruction of the country, the approach taken is therefore aimed at the reduction and conversion of foreign debt to relaunch lasting economic development.

1.5 The motive for such an approach was clearly stated by the Rwandan Government, and taken over by participants of the donors Round Table held in Geneva on 21 and 22 June 1996.

1.6 At this meeting, M. G. Livi, spokesperson for the EU made the following proposals:

On one hand, we have observed that according to any criteria – World Bank Atlas, Index of UNDP Human Development, eyewitness of anyone visiting Kigali, – we are talking about an exceptionally poor country, if not the worlds most poorest. In doesn=t even take into account the tragedies lived by the Rwandan people during the last two or twenty years. On the other hand, this same country is faced with a financial crisis, with no prospect of recovery, a crises which runs the risk of making futile any long-term rehabilitation and development strategy. Note that I am saying no perspective. Because most of the debt in question is towards the international financial institutions, save some very recent and very general initiatives which will surely not get anywhere by the end of the century. – There is still no possibility of talking about the rescheduling of Rwanda's multilateral debt. We simply cannot be blinded to this issue which risk compromising all the efforts made for the development of Rwanda.

1.7 Similarly, the IMF spokesman concluded his intervention as follows:

"Finally, the international approach for assisting Rwanda in the period ahead would also need to address the external debt service problem, which, as mentioned earlier, appears to be unsustainable unless exceptional external assistance is forthcoming."

1.8 During the same meeting, the World Bank representative concluded his intervention by describing the weight of Rwanda=s foreign debt.

"We agree that pushing the debt repayment problem to other years is not a long term solution".

1.9 The approach taken by the World Bank was stated in a letter to Mr. Pierre Galand sent on the 9th of September 1996. The letter was sent on behalf of President Wolfersohn, by the World Bank's Vice President, Mr. Ishrat Husain. He stated:

"I would certainly agree with you that the conventional instruments that the World Bank has (and indeed other multilateral agencies have) are inadequate the challenge of reconstruction in such a situation".

Experts Approach

1.10 Chapter II of this report shows a detailed analysis of the follow up documents of the Technical Committee for SAP in order to untangle the developments of the Defense Ministry budget, It also analyses correspondence between government and foreign creditor representatives concerning security expenditures. Chapter III analyses the purchasing of arms and weapons by the former regime, the use of various external financial sources, negotiations within the protocol and agreement of loans. The fourth chapter highlights the financing of military expenditure spent by the former regime following the genocidal killings of 1994, and the embargo imposed by the United Nations on arms sales. Chapter V presents the conclusions and recommendations.

II THE BUDGET OF MINISTRY OF DEFENSE

Economic Context

2.1 The Structural Adjustment Program (SAP) negotiated with the donors was put into practice while the country was still at war. The measures taken by the Bretton Woods institutions were obviously inappropriate.

2.2 On September 17 1990, before the outbreak of hostilities, the first devaluation was decided. This decision took place in Washington during a meeting between the IMF and a mission led by the Rwandan Finance Minister, Mr. Benoit Ntigurirwa. The main measures taken were applied only after the outbreak of the war. Following an IMF recommendation the Rwandan Franc was devalued (to 67%) in November 1990, merely six weeks following the outbreak. The usual formulations were made; liberalization of the market, currency devaluation, withdrawal of agricultural subventions, eventual elimination of the Equalization Fund, (used to buy coffee from planters), privatization of companies and public services, dismissal of officials….. Despite the beginning of war, none of the measures set up with the SAP were either reviewed or modified.

2.3 Inflation grew and real income slumped. The price of fuel and other necessities shot up. Inflation grew from 1% in 1989 until 19.2% in 1991. There was a deterioration of the balance of payments and negative economic growth. Foreign debt increased by 34.3 % between 1989 and 1992

2.4 Following the “green light” given by the IMF in November 1990, the army suddenly swelled from 5,000 to 40,000 men, thus supposing external financing despite budgetary austerity. Juvenile delinquents, resulting from an impoverished society were enrolled by the thousands into civilian militia, responsible for the genocidal killings and massacres.

2.5 External funds enabled the regime to acquire military material to organize and supply the militia with equipment. Besides the purchase of weapons, these imports included a steady flow of agro-foodstuffs, clothing, fuel, alcoholic beverages, etc, destined for members of the Armed Forces, the militia and their families

Inflated military expenditures

2.6 The austerity measures demanded by the donors under the Structural Adjustment Program (SAP) affected exclusively non-military expenditures while the military expenditures took up a growing proportion of the State income and foreign loans (see table No. 2.1).

2.7 These cuts weighed on expenditures for education, health, infrastructure and production support. Economic reform resulted in the collapse of public services, famine, (hitting many areas since 1992), the shooting up of unemployment and an unstable social climate.

2.8 Developments of the budget structure is confirmed in a confidential letter from the Finance Minister to President Habyarimana relating to the 1991 National Defense Ministry budget estimate:

"the military expenditures brought about by the war contributed largely to the budget deficit. Military expenditures went up from 3.4 billion FRW in 1989 to 7.9 billion FRW in 1990 and from 12.7 billion FRW in 1991. Or an increase of respectively 132% and 274%.

The ratio of military goods and services on the total of goods and services went from 28% in 1989, to 60% in 1990 and 71 % in 1991. At the same time civil goods and services went from 4.013 billion RWF in 1989 to 3,900 billion FRW, or dropped from 2.8% following a devaluation of 66.7%

The ratio of total actual military expenditures went from 14% in 1989, to 26% in 1990 to 38% in 1991. This shows that other main administration services did not have the means and had a very difficult time functioning.

Compared to total income, regular military expenditures used 14% of income. With the war military expenditures represented 37% in 1990 and 51% in 1991 of total state income".

Balance of payments and imports of military equipment

2.9 In 1991, military expenditures had already soaked up around 51% of state earnings and 71% as total expenditure goods and services. Since 1990, these military expenditures have been reflected in the structure as the trade balance. (25.1 million USD in 1990 and 37.6 million USD in 1991). In 1992, 1993 and 1994, while the importation of military material was increasing, non-military imports were on an ever decreasing scale. Moreover, many so-called non-military imports were actually disguised military imports.

2.10 Imported merchandise and fuel sold on the local market was also used to generate counter-part funds to finance the military system.

2.11 On the other hand, as of 1990, export earnings were decreasing constantly. This was mainly due to the drop in the price of coffee which resulted in a fall in production. State services were in complete confusion, companies were going bankrupt, public services were collapsing, interest rates were shooting up; there was a freeze on purchase price of coffee, (in Rwandan francs) regardless of inflation (recommended by the IMF).

2.12 Fully aware of the situation, the donors covered a Afinancial gap@ owing to inflated military expenditures. According to figures from the Technical Committee for SAP Follow-up (CSTP), 96% of the Rwandan budget deficit was covered by foreign aid.

2.13 Furthermore foreign financing helped alleviate the increasing imbalance on the balance of payments owing to the imports destined for the Armed Forces and the militia.

2.14 The precarious state of public finance was confirmed in a governmental note which was widely circulated and titled "The 1991 budgetary problems and the SAP objective pertaining to public finance".

"The SAP withheld the financial GAP foreseen at 13,111 million FRW of counter-part funds originating from the SAC (World Bank Structural Adjustment Credit) and contribution of donors participating in the SPA (Special Program for Africa – (France, Switzerland, Canada) and other donors (Austria, FAD, Belgium and The United States)".

Misappropriation of funds

2.15 Confidential correspondence clearly highlights the different mechanisms used to divert funds in favor of the Defense Ministry. In his letter to President Habyarimana, the Finance Minister expressed the following:

“In his letter n 0122/01.1.5 of January 25 1991, the National Defense Minister conveyed to me the foreseen budget of his Department, estimated at 9.410,017,880 FRW. This amount was reviewed and lowered to 8,885,957,617 FRW following a credit transfer from his department from the Autility vehicles@ article to Avehicle equipment@ article of the Ministry of Public Works, Energy, and Water Ministry, in to acquire military trucks”

2.16 In this same letter, the Minister confirmed the existence of an AAgreement with the IMF and the World bank@ concerning the National Defense Ministry=s budget preview. Attention is also drawn to the former Head of State. According to him, although public accounts were manipulated to satisfy the demands of the IMF and the World Bank, as of September, the budget was to exceed 4 billion FRW.

“Your Excellency will recall that the foreseen budget of the National Defense Ministry, settled by both the International Monetary Fund and the World Bank during the month of February 1991 amounts to 9,385 million FRW, 2,887 million FRW for salaries and 6,498 million FRW for goods and services (both imports and local merchandise).

According to this budget preview, salaries seem to be within the norm, but concerning goods and services the situation is alarming. Loans have already exceeded 345 million RFW. This risks serious problems for negotiating the 1992 budget with the World Bank and the IMF. We could even fear a freeze on our Structural Adjustment Programme”.

2.17 This misappropriation of funds (known by the donors) together with the obvious manipulation of public accounts had no effect on the commitments of the donors to the former government.

2.18 At the donor conference in Paris in March 1991, the World Bank committed itself to disburse that same year 120, 3 million USD of the promised total of 139,2 million USD. The World Bank and the rest of the lenders expressed their wish that the money be spent quickly.

2.19 In Paris, the World Bank representative Mr. Francisco Aguire Sacasa, pleaded in favor of the Rwandan Government. He claimed that the government was capable of controlling their country and that only some sporadic Alow-intensity@ fighting could take place in the North and North-East.

2.20 According to the official report of the conference passed on to President Habyarimana:

“The President of the meeting briefly went through recent economic developments in our country, then he was late in mentioning the content of our programme insisting on measures already taken, and particularly on the devaluation of our franc (NDLR figured at 67% between 1990 and 1991), the increase of interest rates, the liberalization of prices, and the adjustment on prices of petroleum merchandise (increase as of November 1990, of 79% on fuel prices, a liter of petrol was 1 USD in Kigali), reflecting the impact of the devaluation of the FRW.

It is recommended that, according to the commitment taken by Rwanda, it should be eligible for the Special Program for Assistance (SPA) for Sub-Saharan Africa at the next SPA meeting taking place in April 1991…

He informed the donors, having taken into account the WB and IMF credit facilities, decided that apart from the regular cooperation program, Rwanda still needs additional financing – of 110 million USD disbursement loans of 1991, meaning disbursing between 140 and 150 million USD. For this support to be as efficient as possible, Mr. Aguire Sacasa insisted that the resources should not be linked to any given characteristics or concessions, in order to finance various kinds of imports. Moreover these loans should be very quickly disbursed so as not to delay the set up of the liberalized imports system."

2.21 At that same conference, the UNDP representative Mr. Jacques Loup launched an appeal to lenders for an Aadaptable@ aid to support government policies, especially in the financing of the balance of payments and of the State budget.

2.22 The Rwandan party was satisfied with the conclusions of the meeting and the Finance Minister assured his government colleagues (including the Defense Minister) in a confidential report-letter about the disbursement loans from the donors:

"With currency payments provided, we can assure the governments flexibility towards freely allocate money to imports, in order to rebuild reserves, or to pay other currencies"

2.23 In this same report-letter, the Minister confirmed that:

"Most of the aid toward the balance of payments will be carried out through imports, because the aid is either bound or entrusted to the World Bank. Actually some of the SPA (Special Programme of Assistance) countries entrusted loans to the World Bank to manage the SPA programme. Within the framework of the agreement settled with the World Bank, some donor countries entrusted to the World Bank, management of aid toward the balance of payments in favor of countries going through the adjustment phase. The World Bank is therefore in charge of settling all the importation invoices presented by the recipient country, through an ad hoc office in Washington. The practice of Acommon funds@ even though destined for importation aid, offers the beneficiary total flexibility regarding the imported products, and more so, regarding the use of counter-part funds to finance the budget.

Certain donor countries accepted the principal that aid managed by the World Bank partly served as retroactive payments of importation invoices, settled earlier by countries going though the adjustment phase.

The possibility of retroactive payment is limited to 20% as regards to the World Banks= Credit Adjustment Structure (CAS). Meaning, the day following the CAS approval of 45 million USD, Rwanda can rapidly disburse 9 million USD to increase reserve currencies"

2.24 The interest of such a proposal to the former government must be understood: To reduce budget deficit owing to inflated military expenditures by direct budgetary aid from donors.

2.25 This aid was granted by the International Development Association (IDA) and bilateral creditors by quick disbursing loans (detailed in chapter 3). According to a CTSP report published in 1991:

"This deficit is mainly financed by grants linked to projects and by exterior loans…Both sources proved to be insufficient, therefore benefited from external support within the framework of the SAP in 1991 through considerable direct aid. Initially foreseen at 13,111 billion FRW, the funds raised in 1991 would have been around 11 billion FRW".

2.25 The report goes on to emphasize the excessive increase of outstanding payments of the National Defense Ministry, also the Ministry's habit of spending sums beyond the regular procedures of control and verification standards.

"Following an investigation in different departments, a sum of about 6.5 billion FRW was uncovered, unknown to the finance Minister. This brings all the internal and external outstanding payments to a figure of 14.5 billion FRW. The investigation continues to put a stop to the increase of this amount. These overdue payments, which are of course unknown to the Finance Minister correspond to supplies or services provided without any order forms previously referred to by the General Financial Inspection Services".

Evolution in the structure of public finances in 1992

2.26 In March 1992, the experts mission, dispatched by the IMF in order to prepare the 1992 program shows that the IMF could not support the government unless a "coherent package" of economic measures war presented to guarantee a positive increase of GDP, and a substantial reduction of the budget deficit in 1992. In June 1992 an additional devaluation occurred, advised by the International Monetary Fund (IMF), followed by a new wave of inflation bringing about the collapse of internal production.

2.27 The Committee of the International Red-Cross (ICRC) and the United Nations Organisation For Food and Agriculture (FAO) drew attention to the famine hitting the Southern provinces. Health and education programs collapsed; hospital structures and medical supplies were used mainly for the militia; infant malnutrition increased dramatically; most schools had no school books or paper…

2.28 In a confidential report by the SAP follow up Committee entitled: *AThe continuation of the Structural Adjustment Programme is seriously compromised by the level of the budget instability@,* the government found that the 1991 budget deficit added up to 13.1 billion FRW, that the SAP objectives for 1992 foresaw a surplus of 0.3 billion FRW would situate the deficit at 14.246 billion FRW, as for this year, given the lack of internal and external financing, the Afinancial gap@ will foreclose at 35 billion FRW.

2.29 The authorities stressed that the budget deficit was explosive, but all the while insisted on the indispensable role of international donors in financing the war.

"On one hand, a war economy is not an increasing economy even when generating public income. As foreseen by the SAP, military expenditures to ensure public security reached unbearable heights…

If we've lasted until now, thanks to external support agreed upon within the SAP framework, the threats faced by Rwanda to actually interrupt the programme may lead to heavy consequences".

2.30 In a letter (April 1992) to the President of the World Bank Mr. Lewis Preston, General Habyarimana aimed to express his good faith by reassuring the donors:

"If it is true that since October 1 1990, because of the Ugandan war against Rwanda, military expenditure cannot be reduced as expected because the increase was based on an optimistic hypothesis to a quick ending of this aggression. It is also true that this heavy load carried because of the war, the overall public expenditures would have been perfectly within their expected limits; on the other hand we discovered a considerable sum of overdue invoices, of which a very large part were security expenditures. We are very disappointed by this discovery and the Government accepts most of the responsibility".

2.31 From then on, the former regime insisted on its good intentions. In the same letter to the President of the World Bank, General Habayrimana appeals to donors to the come to the rescue of the Rwandan people:

"It is to avoid a fatal blow to all the efforts already made, sometimes so inhumanely difficult nevertheless accepted by the people and the government, for the success of the programme -a fatal blow which will come about if the Bretton Woods Institutions did not be in his favor..

2.32 General Habyarimana continues and announces that he is contemplating progressively reducing military expenditures:

"Our aim is to progressively reduce military expenditures to reach in 1995 the pre-war trend of October 1990 of 2% GDP".

2.33 In his reply, President Preston affirms:

"*I'm particularly worried that security expenditures have increased to the disadvantage of priority development expenditures, which are essential to encourage growth and relieve poverty. If you recall Mr. President of the Republic, it was at your personal request that the bank include a social "security net" in the first structural adjustment credit loan to protect the most penalized invoices in short term adjustment. Unfortunately, in 1991, social and priority economic development expenses were well under the aims agreed in the program. Social indicators, which in Rwanda were quite above those of the South-Saharan countries, decreased during the past ten years and are now compared to the rest of the continent. Unless an effort is made to overcome this trend, these indicators will continue to degrade.*

Under these conditions, I will take note, as mentioned in your letter, of your intention to lower the military expenditures and I encourage you to do so, as a matter of urgency. This will clear enough resources for priority economic and development needs. Last February, in direct contact with the Rwandan authorities, the bank commissioned a review of your country=s= public expense program in order to identify priority needs.

As you know one of the underlying hypothesis of the adjustment programme is to reduce the States= role within the economy, to give a chance to the private sector. During the eighties, the presence and intervention of the State, both as controller and privileged competitor, discouraged private sector initiatives and thus became an obstacle for economic *development. It is therefore necessary to accelerate both institutional reform, and regulations of public sector concerns. Liberalization policies of main economic sectors must move forward to create the necessary conditions for take-up in tenders. The bank is ready to support sectorial reforms in main areas through two quick disbursing loan operations: one credit adjustment in the financial sector and one credit adjustment in the agricultural sector.*

However, we will not carry out these measures until the government and the Bretton Woods Institutions agree on a macro-economic framework reviewed to replace the one agreed upon in 1991 which was surpassed by the events".

2.33 In 1992, the IMF demanded a reduction in the budgetary deficit of at least 7 billion, and threatened it would not pursue negotiations on the new macro-economic structure if this condition was not met. The World Bank also demanded that social expenditures such as health and education increase by 33.6% compared to 1991.

2.34 This double demand from the IMF and the World Bank in fact amounted to a demand for the reduction of military expenditures by the same amounts to more than 9 billion FRW. But by the end of 1992 military expenditures were in fact more that 14 billion FRW that is an increase of 1 billion FRW, compared to 1991, and 10 billion more that the aim of the SAP. Nevertheless following the devaluation of the FRW in 1992, a very slight decrease of security expenditures in foreign currency was noticed.

2.35 Of a total of 14 billion FRW, wages paid to the members of the Armed Forces and Defense Ministry personnel represented 3.442 million, or 26% of total expenditures. Local expenditures included, subsistence, fuel, technical materials amounted to 3.675 million FRW (28%). Arms imports, ammunition, vehicles, uniforms, etc. represented 46% of a total of 6.066 million FRW.

2.36 In a note to the government, it was proposed to resort to the make various persons redundant in order to reduce these budgetary positions by appointing a "control unit" for the Defense Ministry.

2.37 In addition, the government would have to resort to systematic distribution of State resources where there are Atoo many@ in certain civil services favoring the National Defense Ministry.

2.38 According to the testimony of the present Director General of the Health Ministry, recorded in August 1996 by the mission, since the World bank demanded an increase in health service expenditures, soldiers and militia drove around in health service vehicles and often helped themselves to a supplies of fuel vouchers from the above mentioned Ministry.

2.39 This behavior was carried out on a regular basis by the authorities of the former regime.

Macro-economic policies in 1993 and 1994

2.40 At the end of 1992, a joint mission of the IMF/WB in Kigali stated:

"to evaluate the macro-economic framework as defined by mid-year following the second devaluation. Data must be gathered to allow the elaboration of a new Structural Adjustment agreement for the 1993-1995 period".

2.41 The responsible persons of the Plan Ministry were worried because of the worst ever preview of military expenditures, in spite of all the above-mentioned make-believe, the expenses were surpassed by the end of September 1992. Taking into account the urgent needs named by the National Defense Ministry, expenditures reached 20.4 billion FRW before the end of the year.

2.42 The news was not taken lightly by the World Bank representative Mr. F. Aguirre Sacassa, and he threatened to suspend all negotiations. In an urgent meeting, the government canceled an order for the purchase of arms, and of course without financial control, for an amount of USD 2,140,000. By announcing this, the government aimed to show its good faith toward the IMF and WB. It also announced that it would send public finance controllers to military units.

2.43 In his note, the Director General of the Plan, submitted that he doubted any possibility of negotiating a new 1993-1995 SAP agreement under such conditions. The same note also announced the reactions of bilateral donors, Canada and the EC refused to contribute anything to the Rwanda Treasury until follow-up on expenses was carried out.

2.44 In a very subtle manner, the author of this note suggested that the Ministry settle the deadlock by requesting counter-part funds from the European Union which could be allocated to the Finance Ministry (an amount of 800,000 ECU).

2.45 It is therefore, as in 1991, 1992 and 1993, made to believe that in spite of the budgetary deficit and economic diversion, the Structural Adjustment Programme is not only possible but necessary towards the recovery of a war-torn country. Pertaining to this there is a “consensus” between the donors and the former regime. According to the World Bank representative Mr. Aguirre Sacasa:

‘In our opinion the only option for your country in order to avoid deterioration of the human conditions and overall poverty, is an orientation towards an open society, in which the State, makes an effort to carry out its main role. This role is to set up an appropriate macro-economic framework and to fit surroundings for private investing; to supply basic services concerning infrastructure and the social sector. In this perspective the State can encourage private initiatives rather than take their place.”

2.46 At the beginning of 1993, the Minister for the Plan called directly on the Prime Minister to announce that the SAP technical follow-up committee was powerless in proposing to the World Bank and the IMF to take up talks on a new SAP, because, he says:

“The government should have no illusions concerning the leeway it has to reduce the budget deficit besides the revision to lessen the military budget.”

2.47. He insisted that there was no hope concerning public income. Tax rates in Rwanda were among the highest, compared to neighboring countries. The Prime Minister’s attention was drawn to the political risk of a third devaluation, which he judged unacceptable to the population, given the social impact of adjustment measures taken since November 1990.

2.48 This being said, he promised the Prime Minister to take up talks with the IMF and the World Bank “*to obtain their understanding in order to relaunch the adjustment agreement*”. (sic)

2.49 Meanwhile the World Bank and the IMF would stick to their position until September 1993 Annual Assembly in Washington, where the situation was still blocked. No IMF mission is foreseen until the end of 1994.

2.50 To meet the demands of the Bretton Woods Institutions the government tried to make gestures of supposed good faith. For example it prepared a decree to reduce food aid to the militia and their families. But it was only a facade, the decree-law in question was not put into practice until October 1993.

The Freeze of Civil Service salaries

2.51 In the same way, the government proposed to reduce the overall public service wage. To reduce the number of civil servants, numbered at 11,129, not including the militia. Also proposed was a 30% decrease of Auseless@ personnel and a 5 % decrease of Aineffective@ personnel.

2.52 Other measures demanded by the donors consisted of eliminating Auseless projects@ from the development budget (public investment program), which had not reached their objective and had been of no use. The Plan Minister advised that officials being of no use to other projects should also be fired. In doing so the former government could economize a billion FRW for military expenditures.

2.53 In fact, the Finance Ministry appealed for a special advance of 14.5 billion FRW from the BNR mainly to pay off the militia in Kigali, Ruhengeri-Byumba and technical expenditures of the National Defense Ministry.

2.54 Otherwise said, the Public Sector wage freeze and job cuts demanded by the Bretton Woods Institutions allowed the government to transfer money in favor of the Armed Forces and militia.

2.55 The same note also asked to arrange provisions for the same Ministry for an amount of 423,5 million FRW and for various supplies costing 300 million FRW. These expenses were mentioned under the same emergency clause as overdue interest rates of BAD, IDA, OPEP and Kuwaiti Funds.

The financing of the budget deficit

2.56 The analysis of chapter II confirms that the war was the main factor resulting in the State budgetary deficit. In their financial interventions, in their donations and loans, the international donors consciously agreed to meet the defense budgetary deficit, and by doing this financed the war and in the end the militia.

2.57 If the government manipulated the figures, the donors accepted the misappropriation of funds intended for development aid. This resulted in the serious deterioration of social conditions for the majority of the population. Private militia in this situation became key-elements in social control and the manipulation of social groups.

III FOREIGN FINANCING OF MILITARY EXPENDITURES

3.1 In this chapter we analyze the importation of military equipment along with its financing. We examine and highlight the disbursement mechanisms negotiated within the framework of the protocols and loan agreements. The objective is to identify how foreign aid supplied by the donors was put to use.

Importation of military equipment

3.2 The former regime had at its disposal an arsenal of military equipment, including 83mm missile launchers, French made ABlindicide@, Belgian and German made light weaponry, and automatic weapons such as kalachnikovs made in Egypt, China and South Africa. Their arsenal included 12 armored AML-60 vehicles, and 16 M3 French made vehicles.

3.3 The main arms suppliers during the 1990-1994 period were France, Belgium, South Africa, Egypt, and the Peoples= Republic of China. Data from the BNR indicates imported goods amounting to 83,056,115 USD during the 1991-1994 period. These imported goods were weapons, ammunition, military equipment, pyrotechnic supplies, explosives etc.

3.4 According to information and witnesses, gathered by the mission, the 83 million USD represented at least part of the expenses for military material. Many deliveries consisting of material destined for the Armed Forces were carried out by military planes without adhering to the required importation procedures or to government verification standards. Delivery of foodstuffs and civilian equipment provided for the Armed Forces (including the purchase of vehicles) are not included in the 83 million USD.

3.5 Furthermore, information gathered by the mission confirms that some of the arms purchases were negotiated outside of the military aid protocol through go-betweens and arms traders. Nevertheless, some of these purchases showed up on the regular State budget expenses. Aid granted towards the balance of payments in the form of quick-disbursing loans was the main instrument for financing the budget.

3.6 According to BNR data, Egypt granted a sum of six million dollars through an Agreement protocol. Furthermore, China also agreed to assist the militia under an interest-free loan of 1,500,000 USD.

3.7 The first orders for military material coming from Egypt was negotiated since the beginning of the civil war for a sum of $10,861,000 (from October 24 to April 4 1991) according to the BNR. South Africa provided arms to the former regime for a sum of 29,999,531 USD from October 29 1990 to May 29 1991 (bank transfer dates). Other purchase of arms from South Africa was carried out at a later date for an amount of 26,236,685 USD. The total bank transfers to South Africa amounted to 56,263,217 USD. The South African supplier was Nimrod International (Pty) Ltd. Transfers were made from the former government to the Belgolaise Bank (Brussels) and to the Banque National de Paris (BNP) to the Nimrod account, also to the Volkskas Bank Ltd. Pretoria.

Transfers toward Belgium and France amounted to BF 96,986,711 and FF 47,887,804 (from October 29 to August 14 1991).

3.7 Military material supplied by China to the former government included mortars, type-54, machine guns , multiple missile launchers 107mm type-63, mortar shells type-53 , missiles type-63, shells and grenades. These purchases supplied by China were regulated under a Agreement protocol signed in December 1989.

Supplying the Civilian militia

3.8 The Civilian militia were partly financed by counter-part funds in Rwandan Francs. Expenditure included foodstuffs and imports of machetes and various objects used during the genocidal killings and massacres.

3.9 According to BNR data, huge quantities of machetes were imported as of 1992 from China. These imports were funded by quick-disbursing loans supposedly destined for non-military expenses. (see Annex I).

3.10 Between 1991 and 1992, 581.000 kilos of machetes were imported with a total value of 725,669 USD. Imports during 1991-1994 of machetes, hoes, pickaxes, picks, axes, billhooks, scythes, sickles and spades used in the genocide, amounted to FRW 640,338,414 or 4,671,533 USD, according to information from the BNR.

Quick disbursing loans

3.11 These loans were granted to the former regime in June 1991 from the International Development Association (IDA), the African Development Fund (AFD), The European Development Funds and other bilateral donors including, Austria, Switzerland, Germany, the United States, Belgium and Canada.

3.12 According to the terms of protocols and loan agreements were to support the civil economy. This was support for the balance of payments to help the country=s economic recovery and for the authorities to import highly necessary goods such as (inputs, agro-foodstuff products, equipment etc.).

3.13 The loan agreements explicitly specified the list of what was considered as Aeligible importation provisions@. Not included, were a certain number of goods classified according to headings in the CITS (Standard International Trade Classification).

3.14 In the majority of quick disbursing loan agreements, *military expenditures on arms, ammunition other military material*, (according to headings in the CITS), were part of the Anegative list@. In some cases, military expenditures were explicitly excluded from the Athe list of eligible importation provisions.

The IDA Credit

3.15 The agreement within the context of the International Development Association (IDA) and the World Bank specified the exclusion of *Amaterial destined for military or paramilitary use* (see schedule 1.2 of the Development Credit Agreement with IDA, 27 June 1991, CREDIT IDA 2271 RW).

3.16 This last clause referred to the use of imported merchandise rather than the category it would come under (according to the heading in the CITSC). Otherwise said, the IDA Loan Agreement IDA June 27 1991, stipulated the exclusion of all imported merchandise destined for military and paramilitary use. Otherwise said, the clause not only excluded importation of military material (according to the heading in the CITSC) but all merchandise due for civilian use (fuel, agro-foodstuffs, medicine, clothing, boots, etc.) destined for the National Defense Ministry and the civilian militia.

3.17 The IDA credit loan heading (schedule 1.2) was applicable to the loans from Belgium and Switzerland. These two countries had an agreement with the IDA to manage their Structural Adjustment loans(co-financed with IDA).

Canada

3.18 The agreement with Canada in December 1990 stipulated that the grants could not be use to purchase A*arms, weapons, guns, ammunition, or other articles destined for military or police use*@. (agreement protocol art. 6.b.)

Austria

3.19 The agreement with Austria imprecisely lists the eligible importation provisions as: A*assorted equipment, raw materials, and spare parts*@. Seventy percent of the total grant should have been used for highly necessary imports stipulated in annex I of the Agreement; a) petrol and petrol product, b) pharmaceuticals including medical equipment, other equipment, raw materials and spare parts.

3.20 While military material was not explicitly excluded from this list, it nevertheless indicates that counter-part funds in FRW corresponded to the value of imports intended for civilian expenditures.

3.21 The second part of the Austrian loan was destined to reimburse part of the Government=s internal debt. i.e. to the Treasury.

Furthermore, the counter-part currency funds (Austrian Shilling) *Aserved to finance the importation of other goods@ w*ith no restrictions.

The European Community

The European Community grants were towards the balance of payments, granted on the September 23 1991 for the amount of 5.5 million ECU of which 3 million in the form of loans. These loans were allocated for importation of transportation equipment, medical supplies industrial supplies.

The fungibility of currency

3.22 The protocol and agreements on loans indicated precise procedure for the disbursement loans:

1) The donors deposited quick disbursement loans by installments on a "*Credit Account*".

2) To withdraw from the Credit Account, the borrower had to justify invoices and bills to the National Bank of Rwanda proving "*eligible importation provisions*".

3) These currency withdrawals from the Credit Account had to be deposited on a "*Special Account*"known and approved by the creditors.

3.23 Let us emphasize that invoices relating to these highly necessary products were used by the government to disburse hard currency funds from the Credit Account. Once deposited in the Special Account, the government could spend these sums freely while respecting (to the letter) the relevant clauses of agreements. These amounts in currency became completely "fungible", thus allowing the former regime to allocate amounts required for the importation of military equipment.3.24 While this practice respected (legally) the relative clauses concerning the negative list of merchandise, it flagrantly violated the objectives of quick disbursement loans destined for the country=s economic and social support.

3.25 According to a negotiator, the donors turned a blind eye “*nothing could be done to modify the fungibility currency mechanism*“.

3.26 This application of the fungibility mechanism was applied to allow for the transfer of enormous sums (as part of the regular State budget) to the National Defense Ministry. On the other hand, while the imports were financed by contracting debt, the regime could also allocate considerable proportions of the export taking, particularly from coffee, to buy arms.

Retroactive payment systems

3.27 The former government could include within the retroactive payment systems, importation invoices concerning the period before the signing of quick disbursement loans. This procedure was included in several texts on agreement and protocol on loans including those with IDA, ADF, Belgium and Switzerland.

3.28 IDA Credit 2271-RW of June 1991 was granted in two installments, of 41,300,000 DTS and 26,200,000 DTS respectively. According to the clauses of IDA Credit, the borrower could withdraw sums of up to 13,500,000 (around one third of the value of the first installment) for expenses incurred before the date of the agreement, February 18, 1991. While on November 8 1991 IDA deposited an advance of 15,000,000 USD in the Special Account at the Banque Bruxelles Lambert (BBL).

3.29 According to an independent auditors report on IDA Credit 2271-RW the total disbursement loan in 1991, 23,821,061 USD was invoiced before the coming into force of the loan (p. 19). The total amount in Rwandan Francs (2,285,846,609 RFW) following retroactive financing went to the Treasury.

3.30 The retroactive payment system included in the loan agreements was a very efficient system allowing funds in hard currency to be unlocked immediately following the signing of the loan agreement. These funds being in hard currency could then be allocated to purchase military material.

3.31 The agreement with the ADF foresaw that 25 percent of the loan could be allocated to eligible expenditures incurred between July and December 1991 (Annex II)

3.32 The agreement with Switzerland and Belgium included the retroactive payment of invoices. This clause allowed the former government to allocate the total amount granted by these two countries to importation expenditures incurred between January and June 1991. In other words since the signing of the agreements, all the loans were deposited in special accounts of authorized commercial banks.

3.33 These retroactive payments made it possible to reimburse overdue payments for arms purchase carried out by the regime since the beginning of the civil war. We recall that in November 1990 the devaluation ordered by the IMF took place a mere six weeks after the beginning of the war. This devaluation gave the Agreen light@ to allocate short term commercial credit, therefore letting the regime immediately raise its military expenditures. Since November 1990, kalachnikovs, heavy artillery, and mortars were supplied by France along with the missiles Milan and Apila (not to mention the Mystere Falcon at the personal disposal of President Habyarimana).

Counter-part funds

3.34 The sale of imported merchandise on the local market made it possible to generate counterpart funds in FRW which could be allocated to non-military and military expenditures. These sales were applied to different categories of loans such as Food Aid and quick disbursing loans.

3.35 The ADF quick disbursement loan signed on January 27 1992 was mainly used to purchase substantial quantities of fuel, and part of this fuel made its way to the Armed Forces. Fuel sales on the local market also generated funds in FRW to be used without restriction for the budget of the Armed Forces and the militia.

3.36 The regime also generated counter-part funds from the sale of agro-foodstuffs supplied by different Food Aid programs. Moreover, agents associated with power sold consumer goods (eligible goods) on the local market, imported with quick disbursement loans. The sales profit of the merchandise was then recycled towards financing the civilian militia.

Manipulation of eligibility criteria

3.37 The criteria for eligibility (negative list) were manipulated. The same invoices were used for the different donors allowing the former regime to withdraw from the Credit account. The audit report from the Company Chazal de Mee for 1991 underlines that:

“Some of the statements of expenses withdrawn did not corresponded to the amounts requested… (…) We cannot guarantee that imports financed by IDA are the same requests made to other donors”. (p.6.).

The audit report also underlined that:

“On more than one occasion, duplicates of currency payments were made out in favor of Rwandan commercial banks for the same imports”

Violation of the clauses pertaining to the negative list

3.38 Not only did the former regime use the fungibility of currency to finance military expenditures, but in several cases, mainly concerning importation, the clauses were not even respected. Invoices related to imports destined for non-military use but again found their way to the militia, with the consent of the donors as part of the IDA context. (Credit IDA 2271 RW).

3.39 The imports within the context of Credit IDA 2271 RW were considered eligible by the firm AAudit Mee@ hired by the government and approved by the World Bank. Though they contradicted *schedule* 1.2 (f) of the Agreement with the IDA this clause referred to the use of goods and not to the category they came under, it *Aexcluded material destined for military or paramilitary use@*.

3.40 Hundreds of thousands of machetes, hoes, pick axes, razor blades and other material (classified as civilian goods (non-military) stated by the CITC) were imported between 1992 and 1994 by various commercial agents such as Radio Mille Collines (ETS KABUGA FELICIEN) on October 19 1992 (See invoices annexed).

3.41 In other words, the former regime used the loan from IDA 2271 RW (Development

Credit Agreement) to finance the militia responsible for the genocidal killings and the massacres.

3.42 It is worth mentioning that since 1992 the Bretton Woods Institutions demanded the liberalization of allocation of importation licenses. As a result of this decision, permission was given to the organizers responsible for the genocidal killings to import equipment without even having to go through the Aauthorized importers@ system.

3.43 According the BNR documents, several individuals acting as economic operators imported machetes as of 1992.

Mechanisms of follow-up and audit

3.44 The importation of machetes and other material used in the massacres and the genocidal killings did not show up in the independent audit of IDA Credit 2271-RW. For the financial exercise for 1992 they appeared to have escaped the notice of World Bank officials in charge of the SAP supervisory and follow-up missions. (This is in spite of carrying out five supervisory missions between June 1991 and October 1993, meaning over one mission every six months; see p. 11 par. 39, Implementation Completion Report, Structural Adjustment Credit, Credit N0. 2271-RW).

3.45 Our mission is of the opinion that these imports should have brought the World Bank, together with the donors to suspend, quick disbursing loans in hard currency as of 1992 following the massive importation of machetes. That decision would have necessarily led to the freezing of the special account at the Bank Bruxelles Lambert (BBL) which was to stay open and at the disposal of the former regime for over a month after the beginning of the genocidal killings and the massacres of April 1994. To our knowledge, no independent audit on the IDA agreement was carried out for the exercise of years 1993 and 1994.

3.46 Meanwhile the supervisory missions concentrated on the aims of the SAP and hardly looked into the use of funds at the disposal of the former regime. In other words, certain conditions pertaining to the implementation of economic reforms were not respected by the government and “certain objectives were not reached” the “tardiness” and “slips-ups” the brought World Bank to suspend the second installment of the program in 1993 (its fifth follow-up mission). The amounts deposited before December 1993 in the Special Account at the Banque Bruxelles Lambert were nonetheless ued by the regime until May 31 1994.

The SAP final (completion) report

3.47 The SAP completion report carried out by the World Bank in 1995, highlights the Aslip-ups@, In other words, certain conditions pertaining to the implementation of economic reforms were not respected by the government and these Aslip-ups@ brought some of the donors, including the World Bank, to suspend their support to the program. There is no indication in this report of the use of consented funds or the misappropriation of funds by the former regime.

3.48 Otherwise said, this suspension had nothing to do with the use of foreign credit for the financing of the Armed Forces and militia. On the contrary, in the completion report carried out by the World Bank in 1995, it congratulates the former regime on its efforts.

“It made genuine major efforts– especially in 1991– to reduce domestic and external financial imbalances, eliminated distortions hampering export growth and diversification and introduce market based mechanisms for resource allocation…the war effort prompted the government to increase substantially spending, well beyond the fiscal targets agreed under the SAP"

3.49 While the World Bank expressed satisfaction concocted for the former regime, it demanded a new post-genocide government to justify the use of the special account during the 1991-1994 period.

"the Bank asked the Rwandan Government to justify the use of the special accounts funds, and it carried out several missions to determine the undisbursed balance and the expenditures made before and after April 6 1994 (the date the civil war broke out), [sic] identify substantiating documents, and reach an agreement with authorities on the settlement of the accounts".

IV THE FINANCING OF THE FORMER REGIME AFTER APRIL 1994

4.1 According to the information gathered by the mission, accounts opened with the Correspondents of the BNR (authorized by the creditors of the former regime) were left open at the disposal of members of the former regime, established in Goma, until the end of August 1994, five months after the genocide.

4.2 According to data from the BNR a total of FRW, 5,362,729,319 (17,820,000 USD) was transferred by the former regime to various destinations between April and August 1994 (see table annexed; invoice no. 3: foreign currency commitments contracted by the former authorities). Added to this sum, was an amount of FRW 1,938,500,644 (6,440,200 USD) in travelers checks contracted by members of the former regime.

4.3 The total debited from various bank accounts and travelers checks was around 7,301,229,963 FRW, over 24 million dollars.

4.4 The former regime also made considerable transfers from their foreign currency accounts to commercial Rwandan Banks (the Bank of Kigali and the Commercial Bank of Rwanda). These amounts were transferred between May 3 and July 7 1994 to their foreign accounts. (see supporting documents annexed no. 3).

Purchase of weapons after April 6 1994

4.5 Several transactions carried out by the former regime after April 6 1994 are associated to the purchase of arms, notably from the British company MIL-TEC in London. These transactions were made from the Banque Belgolaise Brussels bank accounts for an amount of 1,621,901 USD.

4.6 A payment was also made to an account in Geneva, to the Banque Internationale de Commerce for an amount of 2,097,864 USD in favor of Dyl Invest.

4.7 Meanwhile, payments to the Chinese firm -Oriental Machinery- were made from the BNR account at Banque Bruxelles Lambert on May 16 1994 for an amount of 34,430,000 BEF. A second payment was made to Oriental Machinery of 1,000,000 USD from the BNR Citibank account.

4.8 We notice on the bank transfer balance sheets, that substantial amounts in French Francs (FF) were withdrawn from special accounts funds from the Banque de France and the Banque Nationale de Paris (BNP). These amounts were transferred to various destinations for payments to two French companies: Alcatel France and GME International (Paris). Alcatel is an important arms manufacturer. In total, over two billion French Francs (FRF 2,072,532,895) were transferred or withdrawn from these accounts between May and August 1994.

4.9 The destinations of debited BNP bank accounts were mostly unknown. Most of these operations were Aready money@ withdrawals or foreign exchange transactions (FRF against USD).

4.10 The last account appropriated was from a special account in the General de Banque on August 31 1994 for an amount of 280,000 ECU (157,864 USD) in favor of the Rwandan Embassy (of the exiled regime) in Kinshasa.

4.11 Since 1990, Egypt, South Africa and China supplied a substantial quantity of light arms and ammunition. In this light, it seems that transfers made by the former regime to its diplomatic missions in Pretoria, Cairo and Kinshasa, wete used to purchase weapons form their regular suppliers. The mission has no formal proof on this subject. Still to be known is the exact use of funds transferred to the embassies.

4.12 South Africa, China and France continued to sell arms to the self-proclaimed exiled Rwandan government.

4.13 According to a study by Human Rights Watch entitled *AUnpunished Rearmament International support to the authors of the Rwandan genocide*, May 1995:

A Following the imposed embargo, officials of the South African government, who were formerly arms deliveries coordinators to Rwanda, took part in the organizing and forwarding of arms to the Rwandan Armed Forces [of the former Regime].

4.14 According to the testimony of a high official of the exiled Rwandan government:

“officials rejected the plan to have arms sent directly from South Africa, in case violating the embargo, they had to arrange the dispatching via third persons’.

Delivery of weapons from France

4.15 According to Human Rights Watch, the French government supplied five cargoes of arms to the former Rwandan regime between May and June 1994. The report is based on the testimony of the vice-consul (honorary) of France to Goma, Mr. Jean-Claude Urbano. He confirmed these deliveries, as they were contracts negotiated before the imposed embargo by the United Nations on May 17 1994.

“During the whole operation >turquoise= the FAR continued to receive arms within French-controlled area via Goma airport… the French authorities did nothing to forbid this nor did they report this to the Commission formed under Resolution 918 of the United Nations Security Council”.

4.16 The above mentioned information shows that suppliers had already been paid before the genocide for deliveries of military material in May-June 1994. Consequently bank transactions in FRF (including payments made to French suppliers) to pay Alcatel made between May and August corresponded to arms supplied to the self-proclaimed government in exile, delivered probably later than June 1994.

4.17 On this, Human Rights Watch confirms that:

"The partisans of the ex-FAR and their militia had enough funds to purchase arms on the free market. Most of the currency reserves and other financial assets were stolen by former regime officials, and ex-FAR officers as well as militia who left the country last summer [1994]. Additional funds and possessions in foreign countries (including Kenya, Tanzania, Zaire and the Netherlands) were under the exiled government=s control and continued to be at the disposal of its leaders"

The amount of military imports

4.18 The former regime purchased (according of available data) various military equipment; machetes, for at least 12 million USD. This amount included the 83 million incurred between 1991 and 1994 for military equipment, almost 5 million USD for machetes, hoes, picks, axes and other supplies used during the genocide and massacres. An amount of over 24 million dollars, was withdrawn by the former regime on April 4 1996 from BNR foreign accounts. It is likely that the actual amount for these imports was considerably higher: several transactions were not accounted for and information relating to these imports is incomplete.

V CONCLUSIONS AND RECOMMENDATIONS

5.1 Our study confirms that the planning and implementation of the genocidal killings and massacres required substantial financial commitments. Not counting the huge expenditures of the Armed forces and the militia, the expenditures on military equipement, machetes and other equipment add up to more than 112 million dollars. This analysis, together with the various documents and invoices confirm the setting up by the former regime of a systematic procedure for the misappropriation of funds. Military expenditures were financed by foreign debt.

5.2 The donors on the one hand demanded total restitution of public funding for civilian expenditure while at the same time establishing budgetary goals to be reached for security expenditures.

5.3 Not only were the donors aware of what was going on but the World Bank and the IMF even gave technical support to the authorities through the SAP follow-up committee to establish budget objectives for the National Defense Ministry.

5.4 In other words, through intervening with loans and donations, the donors covered the National Defense=s budgetary deficit, and by doing so financed the war and, finally the civilian militia.

5.5 The mission was able to confirm that there was negligence on the part of the donors first of all concerning the management of the State budget and secondly on the follow-up procedures, verification and auditing of loan agreements.

5.6 The situation is particularly serious in that some of the quick disbursing loans were used under Aeligible importation provisions@, for importing huge quantities of machetes. No action was taken by the supervising and auditing missions to stop these imports.

5.7 This is where the question of responsibility comes in. Do the donors not have responsibility towards the victims of the genocidal killings and the massacres?

5.8 This responsibility not only brings up the formal legitimacy of foreign debt contracted by the former regime between 1990 and 1994 and the question of it=s cancellation, but it also obliges the donors and the International Community to contribute to a special, post-genocide reparation programme aiming to bring compensation to families of victims and survivors and the economic and social reconstruction of the country.

5.9 By the end of 1995, Rwanda=s foreign debt was around one billion dollars, which is unbearably heavy. Our mission is of the opinion that all the debt contracted during the 1990-1994 period has to be treated in a very special way so that the present government can be released from the commitments contracted by for the former authorities, responsible for the genocide.

5.10 Since most of these debts are multilateral, steps have to be taken going beyond the usual procedures concerning multilateral debt restructuring.

5.11 It must be understood that in this same view, the solutions proposed by the Group of Seven (G7) for the least developed countries, following the Lyon Summit in June 1996 and the meetings in Washington in September 1996 of the Bretton Woods institutions, are completely inappropriate to the situation in Rwanda.

5.12 The foreign debt load is so heavy that all the proposals made for special treatment (with conditionality) and new capital in form of loans and donations, are at this time insufficient to secure the debt service.

5.13 The new loans will be of no use to the reconstruction of the country without complete and unconditional cancellation of the 1990-94 loans. On the contrary, they will help maintain the country in its present state and make the debt load even heavier.

Recommendations

5.14 The arrangements should aim to obtain cancellation of the 1990-1994 debt from the multilateral funders, namely; IDA, IMF, ABD, IFAD, OPEC Funds and EIB.

5.15 Furthermore, it is requested that the bilateral creditors, namely Belgium, Canada, Kuwait, China, Japan, Austria, Libya, Switzerland (via IDA), Abudhabi and France initialize a total cancellation of the 1990-94 debt including co-financed loans with IDA (World Bank) and IFAD.

5.16 It must be understood that this programme would be an act of reparation and not aid. It should be exempt from the normal conditions laid down by the donors. It should be granted in addition to aid and loan programs. Canceling Rwanda=s debt must be unconditional. In other words it must above all not be linked to the implementation of the ESAF=s macro-economic reforms.

5.17 Concerning debt contracted prior to 1990, the mission proposes:

1) the full sum of all debt related to the above period should be converted into Special Funds for Rehabilitation and Reparation (SFRR) for the families of genocide victims.

2) the European Union together with the Rwandan Government should contribute (with the help of international experts) to the creation of this Special Fund with grants to mobilize young orphans and widows, survivors of the genocidal killings and massacres, and reconstruction by setting up civilian services workshops.

5.18 The mission also suggest that a special donors conference be planned to create a program for development aid specially adapted to Rwanda's present situation and mobilize funds for this.

5.19 These steps taken by the donors would support a Programme for the reconstruction and rehabilitation of Rwanda, set up by the government and different civil society groups with the aim setting a basis for long term economic and social development. This construction and rehabilitation programme requires not only that the debt be canceled and international aid unconditionally increased but also, that modifications be made to the main components of the Structural Adjustment Program (SAP) to protect local food production and secure the rural areas.

5.20 In preparation for the construction and rehabilitation program the authors of the present report suggest:

1. The protection of all reports and documents which allow for tracing back the history of Rwanda=s dark years, from the Plan and Finance Ministries, The National Bank of Rwanda, and the private banks.

2. The organization, with those in charge of these same Ministries and institutions, of a seminar to collect all information and carry out an investigation in the country to conceive a macro-economic and social plan for post-genocidal construction.

3. That the macro-economic model for the rehabilitation and construction of a new Rwanda is based on strengthening an economy answering to the primary needs of the population; work, health, education, collective infrastructure and decent housing.

4. That economic management leans toward rehabilitation, reinforcement and protection of agro-foodstuffs production to put a stop to the famine which is affecting many parts of the country.

5. That this program takes into account the huge health and mental health needs of the survivors, and the need for young persons (survivors, orphans, street children, handicapped children, young girls who have been abused, youngsters returning from camps in Tanzania and Zaire) to find coexistence, to make themselves useful, to build their future society based on memory, justice, and well-being, and the willingness of the Rwandan women, (survivors, widow, refugees), to take up an essential position in this program.

6. That this programme will include the needs for the demobilization and reintegration of the Armed Forces, those who committed no crime and young people who have joined the FPR Forces.

7. These objectives can only be attained by the participation of the people organized on the local level. This includes proposing areas for work groups, implementation, evaluation and monitoring. Civilian service work groups, linked together between villages, prefectures and at national level will allow distribution on income and, therefore boost consumption and internal trade.

For the State this will be the essential source for recreating and managing public finance and a way to reactivate economic production toward the satisfaction and the well-being of the population. It will also be a means for the State to direct its production in such a manner that the internal market has priority, while identifying new export openings.

That the Rwandan government and the donors agree on a progressive programme for external financing, which should start mainly with grants and subsequently find the right balance between grants and interest-free loans.

Note the documents below are contained are attached to the original reports. The are not included in the internet version of this report.

ANNEX: INVOICES (supporting documents) AND TABLES

End use certificates initialized licenses: importation of machetes and various supplies by KABUGA FELICIEN ETS and other importers.

Commitments in foreign currencies contracted by the former authority of the BNR following April 1994.

Summary tables of military imports by heading and importer

Summary tables of importation of machetes and various supplies.

Purchase and transfer of weapons; transfers towards Egypt, South Africa, Belgium, France and China.

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