

REPUBLIC OF RWANDA

Kigali, ...

No ...



MINISTRY OF FINANCE AND ECONOMIC PLANNING

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To: Central Government Chief Budget Manager (All)

Re: Guidelines for preparation of budget estimates for the 2016/17 FY and Medium Term Expenditure Framework for the period 2016/17 – 2018/19

A. Purpose:

1. The Ministry of Finance and Economic Planning issued the first Budget Call Circular N^o 3113/10/15/NDPR on October 19th, 2015. This circular provided advance information to facilitate the process of preparing the 2016/17 budget on time. This second circular is aimed at providing detailed guidelines including indicative budget ceilings and instructions to enable you to prepare and submit detailed budget estimates for the FY 2016/17 and 2017/18-2018/19 Medium Term Expenditure Framework.

B. The Macroeconomic Context of 2016/17 Budget Preparation

2. The Rwandan economy has continued to grow and we are committed to achieving sustained economic growth and poverty reduction. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy Two (EDPRS II) and Rwanda's vision 2020. In this regard, the 2016/17 fiscal strategy will continue to focus on ensuring growth for exports and incomes, investment in hard and soft infrastructures, developing human resources and living conditions and ensuring good governance and improved public service delivery. The total revenue to GDP ratio is expected to reach about 15.9% of GDP by 2018/19. This framework predicts a modest increase in total revenues over the period 2016/17-2018/19 of about 0.6% percent of GDP annually consistent with the projected economic performance. The medium term revenue and expenditure estimates by broad category are provided in the table below:

Table 1: Medium Term Estimates for Resources and Outlays: 2016/17-2018/19

<i>Fiscal Projections for 2016/17 - 2018/19 (as % of GDP)</i>				
Fiscal year	2015/16 Revised	2016/17 Proj.	2017/18 Proj.	2018/19 Proj.
Total Resources	25.8	26.5	25.1	25.7
Domestic revenue	15.0	16.4	16.6	17.1
Domestic financing	1.8	0.5	1.1	1.1
Grants	5.3	4.6	4.3	4.3
Loans	3.7	5.1	3.1	3.2
Net Lending (repayments)	0.1	0.0	0.0	0.0
Other Receipts (errors and omissions)	0.0	0.0	0.0	0.0
Total Expenditures	25.8	26.5	25.1	25.7
Recurrent Budget	12.7	13.5	13.4	13.7
Development Budget	11.1	10.6	10.0	10.1
Net Lending (lending)	1.6	1.6	1.6	1.7
Arrears Payment	0.4	0.3	0.2	0.2
Accumulation of Deposit	0.0	0.5	0.0	0.0

- The fiscal framework for 2016/17 and the medium term aims at containing spending in line with expected external pressures. To ensure that longer term development goals are protected, the objective is to increase domestic resource mobilization while introducing more expenditure prioritization to reduce the fiscal deficit and reliance on external financing over time. In line with this objective, the 2016/17 budget projects an overall deficit of 3.9% of GDP, declining to 3.4% of GDP in 2018/19.
- Growth in 2016 is estimated at 6.3 percent and growth rates for 2017 and 2018, originally projected at 7.5%, have now been adjusted downwards to 6.7 and 6.8 percent, respectively. Inflation is expected to reach 4.1 in 2016 and gradually to remain contained below 5% in the medium term.
- The total resources available for spending is classified into three broad expenditure components namely; salaries, wages, non-wage recurrent expenditures and capital investments. The expenditure allocation by broad economic category is shown in the table two below:

Table 2: Expenditure estimates by broad category for 2016/17 – 2018/19 (in Billion Frw)

Expenditures by Broad Categories	2015/16 Revised	2016/17	2017/18	2018/19
Wages and salaries	226.3	248.1	275.2	315.1
Non Wage Recurrent Costs	806.2	860.6	907.7	1,050.2
Domestically Financed projects	488.5	402.0	424.5	481.4
Flexible Enveloppe	1,521.0	1,510.8	1,607.4	1,846.7
Externally Financed Projects	287.8	335.6	352.5	402.6
TOTAL EXPENDITURES	1,808.8	1,846.3	1,959.9	2,249.3

6. The primary focus of the 2016/17 budget and the medium term strategy is to allocate adequate resources to the priorities in the four thematic areas of EDPRS II while maintaining the allocation to fundamental programmes or issues at the current levels. It is important that you prioritize allocation of resources to EDPRS II priorities since this will be cross-examined during budget consultations. All ministries and budget agencies will be expected to illustrate how the priorities and outputs identified through the planning consultations are reflected in their budget submissions. Any resources allocated to non-priority programmes and projects will be withdrawn except if such resources are funding foundational programmes which are essential to ensuring effective implementation of priority interventions. In line with the planning consultations concluded in January 2016, institutions are reminded to pay particular focus and attention to individual feedback on what they should have prioritized for the 2016/17 submissions as well as the priorities discussed and issued to cabinet as highlighted below:

- A private-sector led export diversification and increasing value addition;
- Scaling up access to off grid energy through working with the Private Sector and improving the quality of energy Supply with focus on productive Uses;
- Increasing agriculture productivity through improved coordination and monitoring of Twigire Muhinzi on season preparation for 2017 Seasons A and B;
- Accelerating transport projects to meet targets and ensure roads are connecting productive uses;
- Implementing a coordinated approach to investment conversion;
- Skills development driven by the needs of a knowledge-based economy and National Employment Programme (NEP) by focusing more on addressing private companies and emerging investment needs;
- Implementing comprehensive plans for secondary cities to become poles of growth;
- Accelerating the supply of water to ensure that the set targets are met;
- Enforcement of the framework for Land Use Management and developing affordable housing projects through Private Sector engagement;
- Supporting further graduation from poverty through coordinated interventions of social protection interventions beginning the use of new Ubudehe categories while targeting beneficiaries and scaling up the minimum package for graduation out of extreme poverty;
- Improving the quality of education through the development of reliable data and addressing repetitions and drop-outs;
- Improving the quality of health services, addressing the issue of rising malaria cases with focus on districts with highest risks.

7. Rationalization of government expenditures and cutting unnecessary expenditures is still a necessary ingredient of the 2016/17 budget. Accordingly, we have reduced the allocation to non-wage recurrent expenditures in favor of development projects to reflect this paradigm shift. We still envisage significant reductions in budget items like public relations and awareness, technical assistance remuneration, office supplies and consumables, training costs transport and travel and contractual personnel, among others. Similarly, inter and intra-sectoral coordination will be necessary to promote synergy and eliminate duplication of

activities where these exist. The Chief Budget Manager of the leading ministry is expected to spearhead the coordination effort during the budget formulation exercise.

C. Specific instructions for 2016/17 Budget Preparation

8. The total indicative resource envelope for the FY 2016/17 is Frw 1,846.3 billion as indicated in table 2 above. However, only the flexible envelope of Frw 1,510.8 Billion, Frw 1607.4 Billion and Frw 1,846.7 Billion respectively for the 2016/17, 2017/18 and 2018/19 medium term expenditure framework has been issued to budget agencies for allocation to different programmes and projects as shown in Annex 1. The envelope for externally financed projects is only indicative and the amounts provided by the Budget Agency will be the one considered accurate subject to certain qualifications to be clarified in subsequent sections.

The indicative budget ceilings have been issued at sector level (Ministries and other high level institutions) which shall be responsible for coordinating the budget consultative process together with the affiliated agencies to streamline prioritization and allocation to each Budget Agency. This coordination is imperative since Ministerial budget consultations shall be conducted at the Ministry level and prioritization will be evaluated at the level of programs. Note that the envelope provided for capital domestically financed projects includes funds for both new and ongoing investment projects as well as counterpart funds for externally financed projects.

9. In the prioritization process and allocation of resources to activities within a Budget Agency, consideration should be given to the EDPRS thematic priorities, foundational programmes and any pending commitments. It is important that direct references are made to the sector strategic plans (SSP) and the Annual Action Plans (AAP) developed during the Sector Working Groups with direct linkages to results attainable. Whilst it is essential that EDPRS II priorities are given adequate funds, all fixed costs and pending commitments should be covered in the available envelope and where applicable sequence activities over the medium term. Nevertheless, the broad categories should not be altered during the process of allocation of the envelope. The total amount for wages and salaries, non-wage recurrent and domestically financed capital should remain unchanged. Where there is re-allocation of the envelope within agencies of the same Ministry, the global amount of each category at the Ministry level should also remain unchanged.
10. The detailed budget estimates to be entered into the IFMIS system electronically shall be done at the Budget Agency level in line with the revised Chart of Accounts provided in **Annex 2** and within the existing programme structure. Accordingly, all budget agencies are required to prepare detailed expenditure estimates to the relevant budget items in conformity with the Chart of Accounts classifications provided in **Annex 2(a)**. Revenue estimates shall be prepared in accordance with Chart of Accounts classifications provided in **Annex 2(b)**. Budget agencies that have items that are not captured in the Chart of Accounts and are not sure where to classify certain budget items are required to seek guidance from the National Budget staff (sector experts) whose contacts are shown in **Annex 3**.
11. To fulfill the requirements of the organic law on state finances and property as amended to date especially the provision of **article 4** concerning the comprehensiveness of the budget,

all revenues to be spent by a government entity should be reflected in the budget. All internally generated revenues should be communicated to the Ministry of Finance and Economic Planning for inclusion in the budget estimates using **Annex 4**. ***We do not intend to allow local mode facilitation on funds that are not reflected in any institutions' approved budget.***

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12. In developing the budget estimates to enter into the budget system (IFMIS), all budget agencies are required to use the usual MTEF templates that are consistent with the system configuration to facilitate data entry exercise. Budget estimates for central government agencies shall be prepared in the format provided in **Annex 5** (commonly called MTEF) while earmarked transfers to Decentralized Entities shall be prepared in the format provided in **Annex 6**. **The earmarking institutions should also attach to the Annex 6 the guidelines which clarify how, why, who and which items the earmarked envelope will be spent on by local entities.**
13. This is a reminder to respect the budget programmes that were initiated to strengthen the linkage between action plans and budgets on one hand but also to enhance accountability on the other. It is envisaged that these principles will have to be respected in the formulation of the budget and specifically in the allocation of resources. In practical terms and according to new Government Finance Statistics (GFS) manual, this entails three important considerations which you are advised to observe during the formulation of the budget:
- (a) All salaries of staff have to be budgeted in the administrative and support services programme;
 - (b) All overhead costs of implementing a programme are captured in the administrative and support services programme;
 - (c) The service delivery programmes as well as enabling programmes should only reflect the direct cost of implementing those programmes.
14. Budget programmes and sub-programmes are aimed at providing a stable platform to plan, budget and implement identified priorities in accordance with commitments and legal mandates for the Ministry and Budget Agency in correlation with EDPRS II priorities. As such, budget programmes and sub-programmes cannot be changed. Where a Ministry or Budget Agency needs to change its programme structure due to changes in its legal mandate, such a request must be submitted to MINECOFIN. All requests must highlight the existing programmes and sub-programmes affected, the proposed new programme and sub-programme and justification for such a request. Based on the request received, MINECOFIN will analyze the request in terms of its alignment to the institutional legal mandate and organizational structure hence approves or declines.
15. As communicated in the previous circular, no inter-entity transfers shall be allowed in implementation of the 2016/17 budget for all expenditures committed through the treasury. No transfer of funds shall be allowed from the budget of one agency to the bank account of another budget agency during budget implementation unless the transfer is a final expenditure in return for either services rendered or goods supplied. All budget agencies are therefore advised to have consultations with their potential recipients of inter-entity transfers and indicate such resources as earmarked transfers that shall be captured under the budgets of those Agencies. **Annex 7** has been provided to facilitate those Agencies that envisage transfer of funds between Agencies within the central government institutions.

Inter-entity transfers from central government to Decentralized Entities are captured in Annex 6 provided in paragraph 12 above.

16. The ceilings of wages and salaries for the 2016/17 budget estimates have been prepared on the basis of each institution's approved organization structures. Past experience has demonstrated however, that salaries and wages are often over or under-estimated which limits efficiency in use of public funds. To minimize these shortcomings, you are required to complete the attached **Annex 8** for estimates of wages and salaries. As a reminder, Human Resource Managers should be involved in the budget process to provide adequate information related to the wages and salaries of budget estimates.
17. Some budget agencies employ contractual staff to provide support in the routine business of the institutions or any other unforeseen activities. Those employees are paid from the category of goods and services rather than from wages and salaries. The allocation for contractual personnel is included in the non-wage recurrent envelope provided for each Budget Agency. You are required to provide information on all contractual personnel to be paid during the financial year 2016/17 to justify the allocation for this budget item. Justification should be in form of a letter from the Ministry of Public Service and Labour approving those contractual staff for your budget agency. This information should be submitted in the format provided in **Annex 9** with supporting documents.
18. It is prohibited to pay salaries of the Single Project Implementation Unit (SPIU) staff using recurrent budget. The rules governing management of Single Project Implementation Units (SPIUs) require that all salaries paid to staff of SPIU are budgeted under the development budget corresponding to the projects. The salaries related to SPIU staff shall not exceed the total gross salaries for the SPIU structure approved by the Ministry of Public Service and Labour.
19. It has become imperative to effectively align capacity building initiatives in budget entities with the national priorities in order to achieve desired development targets of the country. This requires an apparent linkage between capacity building activities in budget entities with the national planning M&E and budget cycle. This linkage has been articulated in the revised Capacity Building Handbook toolkit which entails tools for Capacity Building Needs Assessment; Capacity Building Plans; Stakeholder Mapping and M&E of Capacity Building that had been posted on the National Capacity Building Secretariat (NCBS) website www.ncbs.gov.rw. The Capacity Building Plan template which is **Annex 10(a-d)** of this circular is intended to enable budget entities cost their planned capacity building activities for the next Fiscal Year. The completed Capacity Building Plan shall be signed by the Chief Budget Manager and submitted in hard copy along with other budget documentation. NCBS Cluster Specialists shall be available to provide any required technical guidance.
20. As mentioned in **paragraphs F&G** of the first Planning and Budgeting Call Circular, the submitted new projects through PPDs and ongoing projects through project investment plans were tabled before the Public investment committee (PIC) for further review and approval. The exercise involved decisions to drop projects without sufficient justifications for

continued funding as well as sequencing adoption of new projects depending on the available resource envelope and their contribution to delivery of the EDPRS II.

21. We have provided the indicative ceilings for externally financed projects. This has been done deliberately to allow agencies to provide as much information as possible to ensure that all projects should be captured on-budget. It is not appropriate to include funds for externally financed project in your budget submission without binding commitment from the donor. Consequently, all budget agencies shall be required to provide copies of financing agreements for all new projects before they are entered in the IFMIS system. For projects that require counterpart funds, this shall be deducted from the envelope provided for domestically financed projects. It is imperative to note that all government projects funded by donors should be captured in the budget as long as the project funds are spent using the national execution procedures and has an annual disbursement plan.
22. As required under article 167 of the Constitution, all international agreements that commit State Finances shall be ratified after authorization by Parliament. Accordingly, budget agencies shall be required to have ratified agreements as provided in Annex 19 specifying the annual membership fees payable both in foreign and local currency and submit to the Ministry of Foreign affairs and cooperation as it is its sole responsibility. This will justify the allocation of funds for membership fees in the 2016/17 budget.
23. All Ministries and Decentralized Entities [Districts] are requested to submit Gender Budget Statements (GBS) together with Gender Distribution of Employment (GDE) for the financial year 2016/17. Annex 22 of this circular gives detailed guideline for gender mainstreaming in the budget. Sector focal persons in Annex 3 will be available to provide any required technical support.
You are also required to provide progress report on the implementation of 2015/16 GBS outcomes as presented during budget preparation for 2015/16 budget.
24. All Budget Agencies should continue to budget for payment of customs duties, VAT and other relevant fees and charges on all expected imports, local purchases and contracts. This serves to remind all budget agencies that the Ministry of Finance and Economic Planning shall not pay any such commitment on behalf of a budget agency. The amount allocated for payment of taxes, duties and fees is part of the envelope provided.
25. It has been observed that some Budget Agencies request for the issuance of Letters of Credit and Promissory Notes without the necessary budgetary provision to support them when they mature. To avoid delayed payments and ensure effective budget implementation, all Letters of Credit and Promissory Notes whose maturity go beyond the 2015/16 fiscal year should be provided for adequately since there will be no extra funds to cover those claims.
26. We have learnt from experience that some budget agencies have foreign exchange related transactions (subscriptions, letters of credit, promissory notes etc...) and require exchange rates to derive local currency equivalent in the budget estimates. It is important to have a uniform basis for budget estimates from all budget agencies. Accordingly, the exchange rate to be used during the 2016/17 budget preparation is shown in the table 3 below:

Table 3: Exchange Rate Forecasts of selected currencies against the Rwanda Francs

Exchange Rate Forecasts	2015/16	2016/17	2017/18	2018/19
RwF/USD exchange rate (period average)	747.2	794.5	826.7	866.5

27. As required under article 26 of the Organic law on State Finances and Property, Public Enterprises should adhere to the principles of budget preparation provided in this circular. Specifically, and in line with the requirement of article 7 of Organic law on State Finances and Property, Public Enterprises shall be required to submit estimates of their revenues and expenditures for the period 2016/17-2018/19 to accompany the 2016/17 budget. The parent Ministry/Institution is required to provide a completed **Annex 12** from the relevant Public Enterprise(s) under its responsibility together with the substantive budget submission for 2016/17.

D. Fiscal Decentralization Issues:

28. Similar to what was done in the previous financial year, the Ministry of Finance and Economic Planning in collaboration with Sector Ministries and other Agencies, developed guidelines for execution of 2015-2016 earmarked transfers as shown in **Annex 21**. According to article 32 of the Organic Law N° 12/2013/OL of 12/09/2013 on State Finances and Property, we should submit these guidelines to the Parliament as part of the Budget Framework Paper (BFP) in April 2016. Accordingly, you are required to update the activities to be earmarked to Decentralized Entities that are applicable to your institution and submit them together with budget estimates for the 2016/17 budget.

29. The 2016/17 new earmarked transfers to Decentralized Entities are included in the Sector Ministries' ceilings whilst existing earmarked transfers are incorporated in the districts' ceilings. Accordingly, all existing earmarked transfers shall be mapped to their corresponding revised programmes and sub-programmes in Decentralized Entities. Similarly, in providing new earmarked transfers, special reference has to be made to the programme and sub-programme structure of Decentralized Entities as shown in **annex 13**. Sector Ministries that have new earmarked transfers are required to use **Annex 6**. The updated **Annex 6** will be submitted together with other budget documentation.

30. The earmarking Ministry or Institution is required to provide the purpose of the earmarked transfers, the allocation formula to be used, and standards to be respected in executing the earmarked transfer by providing additional information to **Annex 21** as mentioned in paragraph 32 above.

31. In accordance with Law N° 41/2010 of 25/11/2010 regulating the organization and functioning of the Local Development Agency (LODA), all development projects financed by the Central Government for implementation by Decentralized Entities shall be funded through LODA. The envelope for all domestically financed projects in decentralized entities has therefore been allocated to LODA which will determine the ultimate ceiling of

development projects for each District and City of Kigali. Accordingly, it is imperative that line Ministries and other Budget Agencies that have earmarked capital projects to communicate to LODA the priority areas for investment with clear guidelines on outputs to be achieved as well as sectoral standards and norms that should be respected in the planning and budgeting processes of the decentralized capital projects.

32. This circular is relevant to Decentralized Entities only in respect of the Central Government transfers to Decentralized Entities. Since the budget of a Decentralized Entity covers more than Central Government transfers, a separate Budget Call Circular has been prepared for Decentralized Entities detailing steps for the preparation of Decentralized Entities budgets for the FY 2016/17 and the 2016/17-2018/19 MTEF.

E. Conclusion:

33. Coordination between Line Ministry, Affiliated Agencies, Single Project Implementation Units and Decentralized Entities (on earmarked transfers) is very important to prepare a complete budget submission. It is worth noting that Ministries should undertake adequate consultations with all relevant agencies before budget hearings convene.

34. All Budget Agencies should ensure that the contents of these Guidelines are strictly abided by and all issues therein addressed in their budget estimates. The following annexes of hard copies to accompany the electronic submission shall be required for a complete 2016/17 budget submission:

- (a) A completed table of unbudgeted revenues and expenditures as provided in **Annex 4**.
- (b) A completed table of 2016/17 budget estimates and MTEF as provided in **Annex 5**.
- (c) A completed table on new earmarked transfers to Decentralized Entities for the FY 2016/17 and the medium term in the format shown in **Annex 6**.
- (d) A completed table of inter-entity transfers within Central Government institutions as provided in **Annex 7**.
- (e) A completed table of job classifications and salary structure consistent with the format shown in **Annex 8**.
- (f) A completed table of contractual staff in the format provided in **Annex 9**.
- (g) A completed Capacity Building Plan for the 2016/17 fiscal year as provided in **Annex 10(a-d)**
- (h) A completed Strategic Issues Paper in the format shown in **Annex 11** and signed by the Chief Budget Manager.

- (i) A completed table of budget estimates of Public Enterprises showing estimates of their revenues and expenditures for the period 2016/17-2018/19 as provided in **Annex 12**.
- (j) Updated guidelines for the existing earmarked transfers and additional information for new earmarked transfers to Districts for the FY 2016/17 in the format shown in **Annex 21**.
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- (k) Information on cost drivers and cost assumptions must be used to justify allocation requests in **Annexes 14 and 15**.
- (l) A draft Procurement Plan for the 2016/17 fiscal year consistent with the budget estimates and in the format shown in **Annex 18**.
- (m) A completed table of annual membership fees to regional and international organizations in the format shown in **Annex 19**.
- (n) An Annual Maintenance Plan highlighting prioritized areas for maintenance in the 2016/17 fiscal year, in the format shown in **Annex 16** and as already requested in the First Planning and Budgeting Call Circular.
- (o) A Gender Budget Statement for all Ministries and Decentralized Entities as provided in **Annex 22**.
35. In order to meet the constitutional obligation to submit the 2016/17 draft budget estimates and 2016/17-2018/19 MTEF to parliament before commencement of the budget session, the draft estimates of Budget Agencies should reach the Ministry of Finance and Economic Planning not later than March 04th, 2016 in hard copies and electronically through IFMIS. Budget Hearings for all Sector Ministries are expected to start in mid-March 2016. A tentative budget hearing timetable will be circulated in due course.

Yours sincerely,


Claver GATETE
Minister



CC:

- H.E. The President of the Republic of Rwanda
- Right Hon Prime Minister
- Minister (All)
- Minister of State (All)