



MINISTRY OF FINANCE AND ECONOMIC PLANNING
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To: Chief Budget Manager of the City of Kigali and District (All)

Re: Guidelines for preparation of Decentralized Entities budget estimates for the 2017/18 FY and Medium Term Expenditure Framework for the period 2017/18 – 2019/20

A. Introduction

1. The Ministry of Finance and Economic Planning issued the first planning Budget Call Circular N° 5623/10/16/NDPR on October 13th, 2016. The circular provided advance information to facilitate the process of preparing the 2017/18 budget on time. This second Budget Call Circular is intended to provide detailed guidelines and instructions to facilitate decentralized entities to prepare and submit detailed budget estimates for the FY 2017/2018, 2018/2019 and 2019/2020 Medium Term Expenditure Framework.

B. The Macroeconomic Context of 2017/18 Budget Preparation

2. The Rwandan economy has continued to grow and we are committed to achieving sustained economic growth and poverty reduction. GDP growth in 2017 is estimated at 6.2 percent and is projected to average 6.5% to 7% over the medium term on the back of Government's commitment to promote domestic production and add value to exports. Inflation is expected to remain contained below 5% in the medium term.

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 2017/18 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 26.6% of GDP by 2019/20.

3. As provided by the law N°59/2011 of 31/12/2011 establishing the source of revenue and property for decentralized entities, the total estimates of Government subsidy to decentralized entities have respected the minimum allocation of 5% and 10% of Government taxes for the previous year and will be allocated to block grant and capital investment projects financing respectively. The medium term estimates of Government subsidy to decentralized entities are estimated in the table below:

Table 1: 2017/18-2019/20 Medium Term Estimates for Resource Envelope to the Local Government

Government Subsidies to Decentralised Entities for 2017/2018 - 2019/2020				
Fiscal Year	Revised 2016/2017	2017/2018	2018/2019	2019/2020
Total Government Subsidies to Local Government	299.3	322.5	382.3	411.0
Block grant	43.5	52.2	67.2	75.6
Recurrent Earmarked Transfers	169.6	175.5	180.8	184.2
Local Investment Projects financing through LODA	86.2	94.8	134.3	151.2
Total Government Subsidies to Local Government (%)	32%	27%	28%	27%
Block grant	5%	4%	5%	5%
Recurrent Earmarked Transfers	18%	15%	13%	12%
Local Investment Projects financing through LODA	10%	10%	10%	10%
Government Domestic Taxes	920.9	1,198.5	1,343.1	1,512.1

4. From the table 1 above, the Government Subsidy to Local Government will be in line with the minimum provided by the law. Districts own revenues are also expected to increase as a result of ongoing tax administration reforms and other tax collection mechanisms. The total resources available for spending by decentralized entities are classified into three broad expenditure components namely: salaries and wages, non-wage recurrent expenditures and domestic capital investments. The expenditure allocation to Local Government by broad economic category is shown in the table 2 below:

Table 2: 2017/18-2019/20 Local Government expenditure on Government Subsidies by broad economic category

Local Government expenditure on Government Subsidies by broad economic category (In billion FRW)				
Fiscal Year	Revised 2016/2017	2017/2018	2018/2019	2019/2020
Wages And Salaries	122.3	128.5	138.8	149.9
Recurrent Non Wage	90.8	99.2	109.2	109.9
Local Investment Projects financing through LODA	86.2	94.8	134.3	151.2
Total Government Subsidies to Local Government	299.3	322.5	382.3	411.0

5. The primary focus of the 2017/18 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.
6. The priority focus of the 2017/18 budget and the medium term strategy is to allocate adequate resources to the priorities in the four thematic areas of EDPRS II and the foundational and cross cutting issues. As 2017/18 will be the last year of EDPRS 2, priority should be given to the fast tracking and implementation of targets partially achieved and lagging behind. Similarly, priorities from high level decisions taken in different forums such as; National Dialogue Council, National Leadership Retreat, Presidential Pledges among others should be incorporated, In line with the planning consultations and Public Investment Committee resolutions concluded in January 2017, below are some specific priorities identified;
 - Growth of exports and promotion of *Made in Rwanda* programme through collaboration with private-sector.
 - Connecting productive uses and socioeconomic facilities (industries, economic centers, schools, hospitals, etc.) to infrastructure (energy, water, roads).
 - Increasing agriculture productivity through maximizing of irrigation schemes and terraces, increasing use of inputs (fertilizers and seeds), enhanced seasons preparation and post-harvest handling.
 - 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; and developing affordable housing projects through Private Sector engagement;
 - Completion of expropriation plans with an integrated approach for resettlement of affected communities in order to fast track execution of projects.
 - Scaling up access to water and electricity in urban and rural areas with priority to planned settlements;
 - Enforcement of the framework for Land Use Management
 - Supporting sustainable graduation from poverty through coordinated interventions of social protection interventions by using the new Ubudehe categories while targeting beneficiaries and scaling up the minimum package for graduation out of extreme poverty;
 - Improving the quality of education; addressing repetitions and drop-outs, teacher training and development, infrastructure maintenance and construction, equipping of TVET centers, improving curricula, improving the framework for centers of excellence to maximize their potentials.
 - Improving the quality of health services, addressing the issue of rising malaria cases with focus on districts with highest risks.

- Improving the quality of service delivery in public (including Judiciary) and private sectors.

Rationalization of government expenditures and cutting unnecessary expenditures is still a necessary ingredient of the 2017/18 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 City of Kigali or District is expected to spearhead the coordination effort during the budget formulation exercise.

C. Specific instructions for 2017/18 Budget Preparation

7. As indicated in the table 1 and 2 above, the total indicative resource envelope to the Local Government budget agencies for the FY 2017/18, 2018/19 and 2019/2020 is FRW 322.5 billion, FRW 382.3 billion and FRW 411.0 billion respectively as indicated in **Annex 1**. This envelope has been derived from the national macro-fiscal framework. The envelope from other sources of revenues for Local Government to fund local projects and local recurrent cost will therefore be taken as provided by the Local Administrative Entities Development Agency (LODA) subject to certain qualifications to be clarified in subsequent sections.
8. The broad indicative ceilings have been provided as indicated by the **Annexes 1 and 2**. In developing the budget estimates to enter into the budget system (IFMIS), the Local Government budget agencies are required to use the usual MTEF templates that are consistent with the system configuration to facilitate data entry exercise. Budget estimates shall be prepared in the format provided in **Annex 4** and the revised local government programme and sub-programme structure provided in **Annex 3** that is consistent with the revised Chart of Accounts, which has been uploaded into the IFMIS. Data entered in IFMIS as activities should correspond with the PPDs (project titles) of approved LG projects available in LODA Monitoring and Evaluation Information System (MEIS).
9. Technical Ministries are reminded to share with LODA the district earmarked budget and corresponding activities/projects to be financed in each district. This information should be sent to LODA not later than 27th February 2017 to allow LODA and districts to proceed with the budgeting process.

10. Local Administrative Entities Development Agency (LODA) should liaise with its Development Partners intervening in Local Economic Development and Social Protection, channeling their support through LODA to agree on the final figures to be committed in 2017/2018 – 2019/2020.
11. The detailed budget estimates to be entered into the budget system electronically shall be done at the budget agency level in line with the revised Chart of Accounts. All Local Government 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 4(a)**. Revenue estimates shall be prepared in accordance with Chart of Accounts classifications provided in **Annex 4(b)**. **Annex 4(b)** was slightly modified to gather all changes brought about by the local tax legislation.
12. This is a reminder to respect the revised 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, this entails three important considerations which you are advised to observe during the formulation of the budget:
 - a. Salaries of staff that provide support services should be budgeted in the administrative and support services programme while salaries of staff that are engaged in service delivery are provided in the substantive programmes of service delivery. For Teachers and Health Workers Salaries, the decentralized entities should strictly respect the revised new chart of accounts (on the side of the item level) during the data entry so as to circumvent the misallocation and misposting errors.
 - 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.
 - d. Decentralized entities that work with other Government Agencies as partners should mobilize the resources/funds in the opportune time so that they can be affected on time during the data entry.
13. The commitment to improve service delivery at all levels of Government is making the need for result-based budgets and programme based budgeting eminent. It is therefore imperative to establish key outputs for each budget programme with very clear performance indicators. Accordingly, funds allocated to each sub-programme in the budget can be evaluated against the results it is set to achieve in the action plan.

14. As indicated in the First Planning and Budgeting Call Circular and in line with the Government Public Investment Policy, starting from 2014/15 FY, you are required to carefully prepare the budget for local development projects in line with the guidance provided by the Local Administrative Entities Development Agency (LODA). Please note also that the envelope for all domestically financed projects in Local Governments has been allocated to LODA which will determine the ultimate ceiling of development projects for each District and City of Kigali. You should submit a list of prioritized projects from the approved ones by the LGAC and councils consistent with the format shown in **Annex 5**. Additionally, it is imperative that Local Governments provide for operations and maintenance budget for capital projects at all times. Therefore you are required to finalize the Maintenance Plan submitted in P&BCC 1 as part of your budget documentation with the format shown in **Annex 6**.

15. As it was done in the previous financial year, all budget agencies are required to submit Capacity Building Plans to the Capacity Development and Employment Services Board (CESB). The template regarding the Capacity Building Plan was provided in P&BCC1 as annex 7 which is also provided in BCC 2 as **Annex 7** of this circular. It has been developed in order to enable budget agencies submit their planned capacity building activities to be evaluated for funding in the fiscal year 2017/2018. The completed Capacity Building Plan shall be signed by the Chief Budget Manager and submitted in hard copy along with other budget documentation and CESB Cluster Specialists whose contacts are available on the following link: www.cesb.gov.rw shall provide technical support in this process.

16. As highlighted during the budget process of the previous financial year and reiterated in the First Planning and Budget Call Circular, all Local Government budget agencies shall submit gender sensitive budgets for the financial year 2017/2018 as demonstrated through a Gender Budget Statement (GBS). **Annex 8** of this circular provides a template for the submission of GBS.

17. As it was done in the previous financial year, while developing the budget estimates the Local Government budget agencies should consider the following:
 - a. Human Resource managers should be involved in the budget process to provide adequate information related to the wages and salaries budget estimates.
 - b. The allocation for contractual personnel is included in the non-wage recurrent envelope provided for each budget agency.
 - c. All pending arrears payments incurred in FY 2016/2017 should be incorporated in the budget estimates.

- d. Payment of customs duties, VAT and other relevant fees and charges on all expected imports, local purchases and contracts should be budgeted for. The amount for these payments should be part of the own local resources or should be reimbursed on allocated block grant transfers.
18. It is expected that the existing earmarked transfers to districts will naturally increase as the overall budget increases year after year. Districts and City of Kigali are advised to start preparing their 2017/18 budget estimates and MTEF on the basis of transfers provided in the **annex 1 and 2**. However, earmarking institutions have the final word on which priorities will be funded and how much will be allocated to each district. Transfers provided in **annex 1 and 2** remain indicative until the corresponding earmarking institutions provide the final earmarked transfers guidelines with final ceilings. During the data entry of these earmarked transfers into the IFMIS, the decentralized entities should inflexibly respect the allocations to the specific activities as proposed by the earmarking institution.
 19. The law establishing the Local Administrative Entities Development Agency- LODA provides the agency with responsibility to distribute the resources from Government domestic resources as well as other resources mobilized from the donors and other central government institutions on local priority projects agreed upon. The ceilings for this category were not therefore provided and will be communicated from LODA and districts are reminded that the ceilings once provided will only be allocated to projects that fulfill the basic requirements to get funding as indicated in the first planning and budgeting call circular and approved by the LGAC, City of Kigali and district councils.
 20. In addition, as communicated in the previous circulars, this is also a reminder that no inter-entity transfers shall be allowed in implementation of the 2017/18 budget for all expenditures committed through the treasury. Any commitment to providing such funds should be confirmed by signing a funding agreement by both parties. The funding agreement will be required when validating the budget to be entered in the IFMIS to be used during the 2017/18 FY. As a reminder, all external financing agreements have to be countersigned by the Ministry of Finance and Economic Planning as provided in the Aid Policy.
 21. Finally, Local Governments should coordinate the budget preparation process for their affiliated subsidiary entities. Specifically, Local Government budget agencies should request Sectors to submit their estimates for the operating budget for the FY 2017/18 and the Medium Term using the Template in **Annex 9**.

D. Conclusion

22. The authorities of the Local Government budget agencies should ensure that the contents of this LG Second Budget Call Circular are strictly adhered to and all issues therein are addressed in their draft budget proposals. The following annexes should accompany the electronic submission for a complete 2017/18 budget submission:

- (a) A completed table of 2017/18 Local Government budget estimates and MTEF as provided in **Annex 4**.
 - (b) A completed list of development projects consistent with the format shown in **Annex 5**.
 - (c) The Annual Maintenance Plan in the format shown in **Annex 6**.
 - (d) The capacity building plan in the format provided in **Annex 7**.
 - (e) The Gender Budget Statement (GBS) in the format provided in **Annex 8**.
 - (f) Sectors estimated operating budget for the FY 2017/18 and the Medium Term in the format provided in **Annex 9**.
23. For the development of the Local Government budget agencies' estimates for FY 2017/18 and the Medium Term, authorities of Local Governments can seek guidance from the Fiscal Decentralization Staff in the Ministry of Finance and Economic Planning whose contacts are shown in **Annex 10**.
24. In order to meet the constitutional obligation to submit the 2017/18 draft budget estimates and 2017/18-2019/20 MTEF to Parliament and Local Councils 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 3rd 2017** in hard copies and electronically through the IFMS.

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)**
- **Governor of Province (All)**