Memorandum

From: Principal Secretary
Ministry of Finance

To: All Controlling Officers

Date: 02 November 2022

Our File Ref.: CF/51 **Your Ref:**

BUDGET CALL CIRCULAR: PREPARATION OF THE BUDGET ESTIMATES FOR THE FY 2023/24 AND THE MEDIUM TERM

Introduction

1. The objective of this Call Circular is to provide an overview of the economy, communicate fundamental policies and set out guidelines for the budget preparation process to which ministries, departments and agencies or spending entities are to observe in the preparation of the 2023/24 - 2025/26 Budget Estimates.

2. The circular aims to assist spending entities in formulating their MTEF Budget Estimates focusing mainly on 2021/22 outturns (whose estimates are firm) and the outturns for 2022/23 (whose estimates are indicative only), accumulation of arrears, year-end accruals and deficits in the trading accounts (if any). It further seeks to communicate budget ceilings to which spending entities are expected to align their priorities to in the preparation of the budget for 2023/24 financial year.

3. Even though the Medium Term Fiscal Framework (MTFF) has not yet been approved by Cabinet, the Call Circular herein being issued is aligned to the Framework soon to be considered by Cabinet. It is being issued to give ministries, departments and agencies the required time to start consultations and prepare their budgets for the medium term in line with national priorities. The budget ceilings attached are therefore ***indicative and subject to further adjustments once the framework has been approved,*** though adjustments may only apply to selected ministries, departments and agencies. Cabinet is yet to approve certain new policies that may have budgetary implications that would warrant these adjustments.

4. All Controlling Officers are therefore urged to immediately convene budget meetings to embark on the preparation of the entity budget estimates and budget framework papers (BFPs) for the FY 2023/24 and the medium term in line with the guidelines provided in the sections below. In this regard and as we strengthen our program-based budgeting as embedded in the PFM Act of 2017, you are advised to adhere to the framework and MTEF process to facilitate smooth deliberations and subsequent approval of your submissions and estimates.

Macroeconomic developments

5. **The Macroeconomic fundamentals, internal and external, are central to the preparation of the national Budget in any country and are always taken into account.** This is because national budgets are not implemented in isolation, rather, in a dynamic medium of social and economic changes. The 2023/24 National Budget will take into account trends in the national GDP growth rates, the Post COVID 19 Economic Recovery Plan, the Fiscal Adjustment Plan (FAP) as well as Reconstruction Fund Programme subsequent to political tensions in June 2021.

6. Following an impressive recovery of about 6.1 percent in 2021, the global economy is set to grow by 3.2 percent and 2.9 percent in 2022 and 2023, respectively (IMF World Economic Outlook, July 2022). The growth, which reflect revisions from previous forecasts, indicates the strain posed by the hiking inflationary pressures, induced by the ongoing Russia and Ukraine tension coupled with the compounded supply chain disruptions partly emanating from China's economic growth slowdown. Russia and Ukraine economies account for the largest share of the globe's food and energy supply, as thus with the imposed sanctions there has been disruptions in the supply of these commodities which has then triggered price escalations. Moreover, China as the globe's economic giant, implemented its Zero COVID-19 strategy where the economy battled with a new outbreak of the COVID-19 cases, resulting in the complete shutdown of the world's largest global supply chain hub, 'Shanghai'. These developments have compounded the global trade and supply chain disruptions. There are downside risks for the global outlook in the short-medium term, including the uncertainty around the potential intensity of the tensions.

7. These global developments pose a major downside risk to the domestic economy, in particular an export-oriented economy such as Eswatini, which is highly dependent on external demand.

8. The domestic economy reflected strong resurgence in 2021, with an impressive growth of 7.9 percent, compared to a contraction of 1.6 percent in 2020. The strong rebound was underpinned by the real growth of manufacturing activity as well as better performance in agricultural production. Economic activity is envisaged to slow down in 2022, owing to moderation of most economic sectors from the previous year's high base coupled with economic strain as posed by the high inflationary environment. Growth in the medium term is expected to improve, supported by increasing public and private investment growth (i.e. construction of high growth multiplier projects such as the dam and mining) and the returns to investment (e.g. LUSIP 2 project).

9. Heightened uncertainty remains though for the domestic economy, in the short-medium term, largely emanating from global headwinds. Critically, prolonged geopolitical tension, which may intensify at any moment as well as any other potential disease outbreak, have remained the emerging source of the downside risks for the short-medium term. From a domestic perspective, the tight fiscal space arising from lower-than-expected revenue collections (esp. lower SACU revenues) and high accumulation of debt, limit the scope for discretionary spending and thereby weighing negatively on growth.

10. Following the persistent fiscal challenges, fiscal consolidation has remained the country's major priority. The country has for the longest time, grappled with widening fiscal deficits, triggered by increasing expenditures against the slowing growth of revenues. The advent of covid-19 has exerted pressure on the fiscus and Government rechannelled resources towards social and health expenditure. In addition, the recent political unrest has resulted in unexpected expenditures.

11. To circumvent the economic crisis from deepening and further deterioration of Government's fiscal account, Government adopted a Post COVID-19 Economic recovery plan as well as a Fiscal Adjustment Plan (FAP) incorporating both revenue enhancing as well as expenditure decreasing measures. The Recovery Plan does not replace Eswatini's current development plans and strategies. Instead, the Post COVID-19 Economic Recovery Plan is a short-term high impact economic stimulus package aiming to resuscitate the economy by initiating a number of productive economic activities aimed at stimulating the private sector.

Fiscal Adjustment Plan (FAP)

12. The FAP implementation has proven to be difficult under the prevailing economic conditions and the inflation pressure as a result of the Russia-Ukraine war have also increased pressure on the Government expenditure (e.g. the demand for CoLA over and above the budgeted 3%). However, Government remains focused on the implementation of the FAP, even though the targeted quantum of 6.5 percent of GDP will not be reached.

Preliminary Resource Envelope for FY 2022/23

13. The preliminary resource envelope, as per the Medium-Term Fiscal Framework (MTFF) baseline analysis, is projected to increase by 19.6% (E3.72 billion) in 2023/24 compared to the 2022/23 budget, owing to higher anticipated domestic revenue collection, specifically on items such as income tax and taxes on goods and services, and rebound on SACU receipts.

14. In general, SACU receipts are expected to grow by 46 percent in 2023/24 to E8.5 billion from E5.8 billion in 2022/23, In tandem to that, total domestic tax collection is expected to increase to E13.52 billion in 2023/24 from E12.57 billion in 2022/23. The projected increase in domestic revenue collection is largely attributed to a number of proposed revenue measures forming part of the FAP, efficiency gains and favourable economic growth.

15. The reliance on SACU in prior years has pushed the country into unsustainable path as expenditures would increase in line with SACU but would be too sticky to come down when SACU revenue falls, resulting in unfinanced deficits. This affects the planning of multi-year commitments and the formulation of effective arrears clearance or debt management strategies. For this reason, Government will be establishing a Stabilisation Fund that would help cushion our revenues against fluctuations in SACU receipts.

16. Ministries are therefore advised to prepare comprehensive estimates for FY 2023/24 within the ceilings prescribed in Annex 1 by reprioritising entity programmes. **Ministries, departments and spending agencies are urged to adhere to the above instruction as submissions above the prescribed ceiling will not be processed until the necessary adjustments have been made.** ***If the adjustments are therefore not initiated by the respective Ministry or department/agencies, the PBC team will therefore be at liberty to process the cuts on their behalf and this may not be favourable to the relevant entities.*** Furthermore, it is requested that you take into cognizance the limited fiscal space currently facing Government when preparing budget estimates for 2023/24 and the medium term.

17. Whilst the pace of arrears accumulation is expected to slow down following the development of an Arrears Clearance Strategy aimed at clearing the stock of outstanding obligations accumulated over the past years as well as halting further accumulation, Government's current financial situation suggests that the economy will be negatively impacted as a consequence of the Russia-Ukraine war. **Ministries and departments are strongly advised to take serious note of the current government fiscal position and be factual and more realistic when budgeting for their programmes and administrative costs.** In the past years, the first claims on the new financial year's budget have been the commitments of the previous years. However, every effort should be made to liquidate these commitments from the current year's allocation. In addition, draft estimates of expenditure for goods and services must provide for the payment of Value Added Tax (VAT), particularly for the externally funded projects to avoid delays in the implementation of the entity's programmes /projects. In the same vein, these should also cater for the clearance of outstanding bills such as utilities, professional services etc. Furthermore, **in light of the financial challenges highlighted above, ministries and departments are urged to utilize government facilities in the preparation of the budget and avoid at all cost holding meetings in paid-for facilities. Ministries are also strongly urged to ensure full utilization of existing Government platforms and (such as the Government website and press) for all advertisements in order to reduce overall expenditure on goods and services.**

Alignment of the Budget to the National Development Plan (NDP) and Strategic Road Map (SRM)

18. The National Development Plan (NDP) alongside the Strategic Road Map (SRM) will continue to guide expenditure priorities and resource allocation for the 2023/2024 financial year and the medium term. Hence, sector policies and strategic plans, objectives, priorities and budget frameworks must be well articulated within the areas of ongoing capital projects, pro-poor targeted expenditures at the same time limiting non-priority expenditures, while recognizing **the importance of mainstreaming youth and gender issues.** Capital projects planned to be implemented over the medium-term, in line with the priorities stipulated in the National Development Plan aim to boost economic growth and facilitate the implementation of the sustainable development agenda. The focus should be on implementation of the National Development Plan that will stimulate economic growth and also create employment. To this effect, priority projects and activities from within the medium term expenditure framework will be considered.

Allocative Efficiency in Budget Allocations

19. The application of MTEF requires all spending agencies to exercise a high degree of allocative efficiency in light of the limited available resources. Under MTEF, the spending agencies are expected to identify priority areas and efficiency measures within the entities and reallocate resources to those areas and interventions that will have the greatest impact for realization of objectives of the entity and Government. It is important to align your resources with your priorities to avoid in year virements as the PFM Act 2017 restricts reallocations to 5% of activities total allocation. **Ministries are therefore urged to liaise with their counterparts (sectoral officers) at the Ministry of Finance, to facilitate the re-alignment and this should be done immediately after PBC Budget Consultations.**

Linking Resources to Development Results (MTEF Approach)

20. The Medium-Term Expenditure Framework approach is the process employed by Government in the preparation of entity and national budgets. As enshrined in the PFM Act 2017, the MTEF approach to budgeting places Government policies and priorities at the heart of budget planning. It provides a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objectives. Therefore, the major purpose of MTEF is to prioritize resources within a resource constrained environment and to link them (resources) to development results for purposes of improving performance and monitoring of all Government programmes.

21. The selection of priority key outputs to be implemented at entity/sector level should thus be guided by the identification of those outputs that are likely to have the greatest impact on achieving its objectives and development results. Following submission of your Budget Proposals on the **15th November 2022,** the PBC Technical Team will review the proposals to ensure this has been adequately done. Costing of your objectives, outputs and activities should be done using the MTEF costing template.

22. It is also critical to note that MTEF places more emphasis on a bottom up approach to budget preparation that will ensure participation by relevant stakeholders in the budgeting process in an open and transparent manner. This is aligned to budget transparency and participation in the budget preparation process and therefore a necessary requirement. Governments ministries, departments and agencies are therefore urged to ensure that participation is extended to all sector stakeholders, including women and children, the disabled and other vulnerable groups in the preparation of entity budgets. **All Ministries are therefore implored to keep records and all other proof documents including minutes of budget meetings, budget meeting invitations to demonstrate that budget consultations have been extensively undertaken and attendance registers to prove all groups were represented. Kindly note that this is not a choice but a requirement, all Government ministries, departments and agencies are required to include such proof documents when submitting their budgets.**

MINISTERIAL MTEF/BUDGET PROCESS:

23. As a build-up to the determination of sectoral strategies, Ministries, Departments and Agencies (MDAs) are involved in the bottom-up expenditure review and planning. The following steps should be considered;

Step 1: Review the Ministry's / Department's programmes against its functions and objectives to establish their relevance.

Step 2: Bottom-up expenditure analysis of past expenditure and performance for the preparation of programme spending proposals and performance targets.

Step 3: Resource allocation proposals which match resource availability with spending needs through a process of trade-offs.

Step 4: Finalizing Resource Allocations in line with sector development plans and crafting the detailed Budget estimates in consultation with the Ministry of Finance for submission and approval by Parliament. Please see Figure 1 for your necessary action.

Figure 1: MTEF Budget Process

	Goals/Objectives		
	↓		
	Strategy		
	↓		
	Programs		
	↓		
Agree on outputs	Yr 1 Outputs	Yr 2 Outputs	Yr 3 Outputs
	↓	↓	↓
Activities to deliver outputs	Yr 1 Activities	Yr 2 Activities	Yr 3 Activities
	↓	↓	↓
Identify inputs	Inputs (Rec + K)	Inputs (Rec + K)	Inputs (Rec + K)
	↓	↓	↓
Prepare 3yr estimate	Total cost Est	Total cost Est	Total cost Est
	↓	↓	↓
Compare needs with ceiling	Ceiling	Ceiling	Ceiling
	↓	↓	↓
Prioritize to fit in ceiling	Priority Outputs	Priority Outputs	Priority Outputs

Performance Contracts

24. Controlling Officers should note that they are required to sign Performance Contracts, which will form the basis of accountability on how public resources are being linked to intended results and form the structure for quarterly progress reporting as required by the PFM Act 2017. These quarterly reports will indicate the achievement of planned outputs within the expenditures that

were appropriated to every Entity. The planned outputs should be the same as those included in the MTEF costing template and Budget Framework Papers.

Personnel Expenses

25. The Ministry of Public Service will continue to budget for salaries and other personnel expenses for all Ministries and Agencies. By far the largest single item of Government expenditure is the compensation of Government employees and growth in the wage bill has been unavoidable due to the automatic notching built into the salary structure. The wage bill has been contained in recent past years owing to the hiring freeze and no award of cost of living adjustment policies implemented. Government through the Fiscal Adjustment Plan continue to implement policy measures that are expected to further decrease the wage bill in the medium term. All Controlling Officers are therefore urged to submit Personnel Emoluments based on the staff on the ground at the end of the financial year and desist from requesting to fill posts which are not critical. However, as a measure to ensure that adequate provisions are made in the budget, **all Ministries and Agencies should provide relevant information on the number of staff in-post by directorate/department/section, and by salary scale and workplace/workstation/school. The number of vacant posts within the approved structures and staff ceilings should also be provided.** This information should be updated and submitted to the Ministry of Public Service for their analysis and recommendations in an attempt to rationalize the Public Service with a view to improve efficiency while at the same time ensuring cost saving.

Budgeting for Utilities, CTA and any other Statutory Expenditures

26. The Ministry of Finance is aware that spending agencies continue to face challenges when it comes to budget allocations for their utilities. All ministries and agencies should attempt to develop evidence-based estimated expenditures for utilities (water, telephone, electricity). The utilities estimated to be not paid up to March 2023 and in arrears due to lack of sufficient budgets should be incorporated in the budget of 2023/24 to achieve realistic estimates. To complement this, efforts to reduce spending on this item should continue in order to realize the intended savings. All Government Offices must switch off all electrical appliances such as computers and heaters when not in use especially during the night and weekends.

Every spending agency should provide relevant information on the number of vehicles on the ground by directorate/department/section, and by type, boarded vehicles, new ones acquired in the past one year by workplace/workstation/school. This information should be updated and submitted to the department of CTA under the Ministry of Public Works and Transport for their analysis and recommendations. The reforms on CTA spending introduced by the Ministry of Public Works and Transport (through Circular no. 1 of 2020 on the CTA transition) will continue to be implemented in the medium term. Challenges of the transition and reforms were expected and some have been noted in the implementation of the 2021/22 budget, the Ministry of Finance together with the Ministry of Public works and Transport will continue to work with all stakeholders to address them.

Budgeting for Capital Projects

27. As per normal practice, Ministries are requested to prepare and submit Form 2A to the Ministry of Economic Planning and Development. Given the financial constraint highlighted above, Ministries are advised not to come up with new capital projects. The focus should be on the on-going projects.

28. As per the PFM Act of 2017, all ministries are also required to submit multi-year commitments for each capital project which should form the basis for committing funds under the capital projects. Thus, all ministries are required to indicate the cash and commitment requirements separately.

Expenditure Rationalization

29. The process of expenditure rationalization has been incorporated into the FAP which seeks to correct Governments fiscal imbalances by making adjustments to governments expenditure and revenue. All Controlling Officers are urged to follow the procedure of commitment of funds circulated to line ministries, to avoid over expenditure against the allocated budget. The purpose of this procedure is for the Ministry of Finance to be able to control and monitor the budget implementation and to hold ministries accountable for the commitment of funds. This is to avoid misuse of funds and to instil a culture of fiscal prudence pertaining to budget management.

Grants

30. As per the PFM Act of 2017, ministries, departments and agencies cannot receive grants unless it is approved in the annual budget or approved by Cabinet after considering the advice of the Minister responsible for Finance and the line minister. The only other exception is when such grant is exempted by the Minister responsible for Finance and Minister responsible for donor funding and placed before the Parliament within 10 days of such exemption.

31. Thus all ministries are requested to declare all grant funding (both recurrent and capital) received from various development partners and submit to the Aid and Coordination Management Section (ACMS) under the Ministry of Economic Planning and Development, for consolidation and submission to the Ministry of Finance to incorporate these for the financial year or medium term for proper planning, budgeting and reporting purposes in line with the requirements of the PFM Act 2017.

Non Tax Revenue (NTR) Estimates

32. The process of transferring the collection of Non Tax Revenue (NTR) to the Eswatini Revenue Authority is still underway even though it has taken longer than earlier anticipated. In the meantime, every Ministry and Agency that collects non-tax revenues is requested to continue to cooperate with the Ministry of Finance in the review of the rates for each NTR source and propose new rates that are economical and realistic. The NTR estimates should be submitted as per the following format:

Summary of Non Tax Revenue by Source (in '000 Emalangeni)

NTR Outturn FY 2021/22			NTR Budget FY 2022/23 Half Year Collection			Estimated NTR FY 2023/24			
ATR Source(s)	Rate	Outturn	Rate	Budget	Projected outturn	Current Rate	Estimated revenue at current rate	New proposed rate	Estimated revenue at new rate

Structure of the Budget Framework Papers (BFPs)

33. **All Heads should prepare their BFPs based on the format attached in Annex 2.** In brief, each BFP should include the following:
    1. *Minister 's Forwarding Letter*
    2. *Overview of Entity Expenditures/Snapshot of the Medium Term Budget Allocations*
    3. *Entity Background*
    4. *Medium Term Policy Objectives [for the Entity as a whole]*
    5. *Entity past Performance and Contribution to NDS.*
    6. *Contribution to Strategic Roadmap*
    7. *Entity Challenges*
    8. *Three year (Medium Term) Planned/Priority Outputs for each Department/Unit*
    9. *Proposed Budget Allocations by Objective/outputs (for each department/unit)*
    10. *Proposed Budget Allocations by Control Items (for each department/unit)*
    11. *Estimates of receipts and expenditures under trading accounts (Cash required for below the line accounts.)*
    12. *New Policies and Programs*
    13. *Status of Entity Key Performance Indicators and Targets for the Medium Term*
    14. *Proof documents that extensive budget consultations have been undertaken*
    15. *Conclusion*

Submission of BFPs and Preliminary Budget Estimates

34. Controlling Officers /Heads of Departments should indicate in their covering memoranda, that the draft estimates of all departments and agencies under their control, have been fully examined at the most senior level and that the recommendations reaching the Ministry of Finance and the Ministry of Economic Planning and Development have their full concurrence. Controlling Officers/Heads of Departments are also encouraged to identify a person who will serve as the point of contact within the organization, for all enquiries concerning the Draft Estimates for FY 2023/24.

35. Entity BFPs and preliminary budget estimates must be submitted in both hard and soft copies to the **Principal Secretary Ministry of Finance, for the attention of the Director Budget not**

later than November 15, 2022. The submissions will immediately be analysed by the PBC to ensure compliance with the above guidelines.

36. Ministries and Departments are expected to organize themselves in a manner that would facilitate or ease the coordination and smooth running of the PBC meetings, allowing for timely and adequate consultation by the entity Controlling Officer and his/her Minister where required.

Thanking you in advance for your usual co-operation.

SIZAKELE P. DLAMINI
PRINCIPAL SECRETARY

CC: Hon. Minister of Finance
Hon. Minister of Economic Planning and Development
Hon. Minister of Public Service
The Secretary to Cabinet
The Principal Secretary/Ministry of Public Service
The Principal Secretary/Ministry of Economic Planning and Development
The Auditor General

Head	Proposed Budget Ceilings 2023/24
02 Parliament	113,699,000
03 Private and Cabinet Offices	80,801,000
04 Ministry of Tourism & Environmental Affairs	81,182,000
05 Police	1,017,522,000
06 Deputy Prime Minister's Office	780,356,000
07 Ministry of Foreign Affairs & International Cooperation	333,247,000
08 Ministry of Defence	1,230,143,000
09 Ministry of Tinkhundla Administration & Development	345,877,000
10 Ministry of Natural Resources and Energy	90,729,000
15 Geological Surveys, Minerals and Mines Departments	18,914,000
20 Ministry of Agriculture	310,828,000
23 Ministry of Economic Planning & Development	126,083,000
24 Ministry of Housing & Urban Development	308,341,000
26 Fire and Emergency Services	113,347,000
29 Ministry of Commerce Industry and Trade	131,698,000
30 Ministry of Education & Training	3,511,554,000
34 Ministry of Finance	730,955,000
35 Treasury and Stores	51,887,000
38 Internal Audit	14,586,000
40 Ministry of Labour and Social Security	466,254,000
41 Ministry of Public Service	211,944,000
43 Ministry of Information, Communication & Technology	200,391,000
44 Elections & Boundaries Commission	28,694,000
45 Ministry of Health	2,460,502,000
46 Ministry of Justice and Constitutional Affairs	93,507,000
47 Anti - Corruption Commission	26,554,000
48 Judiciary	83,933,000
49 Correctional Services	512,578,000
50 Ministry of Home Affairs	104,507,000
53 Ministry of Public Works and Transport	870,008,000
56 Ministry of Sports Culture and Youth Affairs	56,533,000
58 Audit	27,741,000