

Memorandum

**From: Principal Secretary
Ministry of Finance**

To: All Controlling Officers

Date: 30 October 2020

Our File Ref.: CF/51

Your Ref:

BUDGET CALL CIRCULAR: PREPARATION OF THE BUDGET ESTIMATES FOR THE FY 2021/22 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 2021/22 - 2023/24 Budget Estimates.
2. The circular aims to assist spending entities in formulating their MTEF Budget Estimates focusing mainly on 2019/20 outturn (whose estimates are firm) and the outturn for 2020/21 (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 2021/22 financial year.
3. The Call Circular is issued following the approval of the Fiscal Framework Paper by Cabinet to allow ministries, departments and agencies to start consultations and prepare their budgets for the medium term in line with national priorities.
4. All Controlling Officers are therefore urged to immediately convene budget meetings (though it is assumed preliminary work has already commenced) to embark on the preparation of the entity budget estimates and budget framework papers (BFPs) for the FY 2021/22 and the medium term in line with the guidelines provided in the sections below. In this regard and as we move towards 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 2021/22 National Budget will take into account trends in the national GDP growth rates as well as the Post COVID 19 Economic Recovery Plan.
6. **In 2021, global growth is projected at 5.4 percent. Overall, this would leave 2021 GDP some 6½ percentage points worse than in the pre-COVID-19 projections of January 2020.** The baseline

projection rests on key assumptions about the fallout from the pandemic. In economies with declining infection rates, the slower recovery path in the forecast reflects persistent lockdowns, quarantines and social distancing, into the second half of 2020, which government implemented to control the spread of the virus. In addition, as in the rest of the world, the health crisis has precipitated an economic crisis reflecting three large shocks which are disruption of production and a sharp reduction in demand; spill overs from a sharp deterioration in global growth and tighter financial conditions; and a severe decline in commodity prices.

7. As an open economy, Eswatini's performance follows that of global economic developments. As such, a recovery in global economic activity, particularly in the Southern Africa region and the European Union (EU), the country's two major trade partners, could spur Eswatini's growth. Underpinning this positive anticipation following a rise in global economic activity is the potential rebound in the demand for Eswatini's main exports as well as an uptick in their prices, an increase in capital inflows, and exchange rate stability owing to a potential rebound in South Africa's economic activity.
8. Economic activity was hindered by weakened demand in major advanced economies due to lockdowns and supply chain disruptions. Whilst the medium-term outlook remains indeterminate, improved economic activity is anticipated in the short term as the easing of restrictive lockdown measures was observed in the second half of 2020. **Gross Domestic Product (GDP) for 2020 is projected to contract by 5.6 percent in 2020 from a 2.2 percent growth estimated for 2019 (CSO, Provisional Estimates) due to the negative implications of the COVID-19 pandemic.**
9. Government's fiscal challenges are expected to continue to weigh down on public sector performance. Downside risks remain elevated stemming from the further tightening in the budget financing due to the accumulation of domestic arrears and volatile Southern Africa Customs Union (SACU) revenue. In this regard, the fiscal space for the coming fiscal year and the medium term is quite limited, influenced mainly by the volatile SACU receipts, limited revenue sources and the various expenditure commitments taken during the previous budget years, as such collection of non-SACU revenues cannot grow as much to meet the gap. Moreover, this year's budget execution has been a challenge as a result of cash flow constraints in spite of government's persistent efforts to explore other sources of financing.

Fiscal Adjustment Plan (FAP)

10. Government has been running persistent fiscal deficits in the recent past. Volatility in SACU receipts and lower than anticipated domestic revenue collection coupled with persistent increase in Government expenditure has put the country on an unsustainable fiscal path. This has resulted in declining international reserves, increase in public debt leading to higher debt servicing costs as well as accumulation of domestic arrears. To curb these developments Government committed to a fiscal consolidation process effective from financial year 2019/20, which is expected to translate to a decline in the fiscal deficit in financial year 2020/21, if implemented successfully.
11. The initial dire need to improve Government's fiscal position has been amplified by the pandemic and subsequent economic crisis. A Fiscal Adjustment Plan (FAP) has been adopted as a response to the economic crisis brought about by the coronavirus pandemic to prevent the crisis from deepening and further deterioration of Government's fiscal accounts. The adjustment strategy addresses both Government expenditure and revenue collection over a three-year period effective 2021/22 financial year.

Preliminary Resource Envelope for FY 2021/22

12. The preliminary resource envelope, as per the Medium-Term Fiscal Framework (MTFF) baseline analysis, is projected to grow by 2% in 2021/22, largely due to an expected increase in domestic revenue collections specifically in income tax, taxes on good and services meant to cushion the negative effects of declining SACU receipts.
13. The projected increase in domestic revenue collection is largely attributed to a number of proposed revenue measures as well as administrative efficiency gains forming part of Government's Fiscal Adjustment Plan (FAP). The proposed revenue policies passed during the financial year of 2020/21 lined out in the FAP are planned to be implemented from financial year 2021/22. However, this does not imply increased expenditure in the year 2021/22. Any additional revenues will be directed to reducing the financing gap and subsequently reduce the accumulation of arrears as over the medium-term, total revenue is projected to slightly decline and average 25% as a share of GDP.
14. The volatility of SACU receipts remains a challenge for Government in estimating its resource envelope over the medium-term. This affects the planning of multi-year commitments and the formulation of effective arrears clearance or debt management strategies. In view of the status regarding the accumulation of arrears and cash flow challenges, the ceilings proposed have been aligned to the 2020/21 budget allocations with a few adjustments based on policy measures pronounced by Government in the Fiscal Adjustment Plan (FAP) and the Post COVID 19 Economic recovery plan.
15. Ministries are therefore advised to prepare comprehensive estimates for FY 2021/22 within the ceiling 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 considered.** Furthermore, it is requested that you take into cognizance the limited fiscal space currently facing Government when preparing budget estimates for 2021/22 and the medium term.
16. 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 economic crisis brought about by the coronavirus pandemic and simultaneous pressure to increase health and social security related expenditure. Ministries and departments are advised to take serious note of the current government financial cash flow constraints 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 budget. Ministries are 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)

17. The National Development Plan (NDP) alongside the Strategic Road Map (SRM) will continue to guide expenditure priorities and resource allocation for the 2021/2022 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

18. **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.**

Linking Resources to Development Results (MTEF Approach)

19. **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.
20. 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 **20th November 2020**, 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.

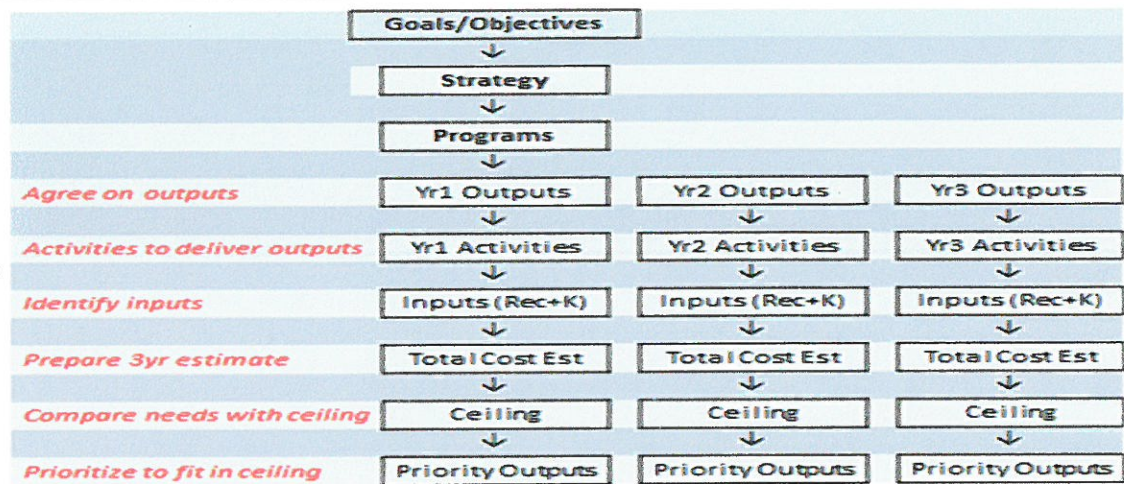
MINISTERIAL MTEF/BUDGET PROCESS:

21. 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



Performance Contracts

22. 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

23. **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. Government through the Fiscal Adjustment Plan is introducing policy measures that are expected to slightly 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

24. 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 endeavor to develop evidence-based estimated expenditures for utilities (water, telephone, electricity). The utilities estimated to be not paid up to March 2021 and in arrears due to lack of sufficient budgets should be incorporated in the budget of 2021/22 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. Reforms on containment measures on spending on this budget line have been initiated by the Ministry of Public Works and Transport as communicated (through Circular no.1 of 2020 on the CTA transition) to all controlling officers. A 40% deduction on CTA budgets has been effected and realigned to the department of CTA for fuel supplies, hence ceilings have been adjusted accordingly in line with the reforms.

Budgeting for Capital Projects

25. 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.
26. 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

27. The process of expenditure rationalization has been incorporated into the FAP by committing to closing of trading accounts for certain expenditure items. Further, 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 commitments of funds. This is to avoid misuse of funds and to instill a culture of excellence pertaining to budget management.

Grants

28. 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.

29. 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

30. The process of transferring the collection of Non Tax Revenue (NTR) to the Eswatini Revenue Authority is underway. 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 format below:

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

NTR Outturn FY 2018/19			NTR Budget FY 2019/20 – Half Year Collection			Estimated NTR FY 2020/21			
<i>NTR Source(s)</i>	<i>Rate</i>	<i>Outturn</i>	<i>Rate</i>	<i>Budget</i>	<i>Projected Outturn</i>	<i>Current Rate</i>	<i>Estimated revenue at current rate</i>	<i>New proposed rate</i>	<i>Estimated revenue at new rate</i>

Structure of the Budget Framework Papers (BFPs)

31. **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. *Conclusion*

Submission of BFPs and Preliminary Budget Estimates

32. 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 2021/22.
33. 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 20, 2020**. The submissions will immediately be analyzed by the PBC to ensure compliance with the above guidelines.

Consultative Meetings by the Planning and Budgeting Committee (PBC)

34. Controlling Officers are aware that the budgeting process for the upcoming financial year and medium term is done during the most perilous time of our lives as a result of the coronavirus epidemic. Under this new normal, we are all expected to comply with the conditions set by our Government to help curb the spread of the deadly virus. As such, the second round of PBC budget consultation meetings will be held virtually and these will be hosted by the Ministry of Finance through the ZOOM platform. As usual, a schedule for these meetings will be issued ahead of the commencement date for each ministry/entity and an invitation and link/login details for the meetings will be sent not less than a day before the meetings (unless a swap has been facilitated and there is a change in the meeting schedule). The first round of consultative meetings is expected to take place immediately after receipt of this circular and these will be coordinated and managed by the sectoral officers.
35. Ministries and departments are expected to submit a list of all key officers and their email addresses **under a memo signed by the respective Controlling Officer, not later than two days upon receipt of this circular**, to the **Director of Budget and Economic Affairs at vusie.apple@gmail.com, copied to b.ndzinisa@gmail.com**, Ministry of Finance, in order to facilitate timely organization of the meetings. Furthermore, 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. The ZOOM meetings will be held under very strict conditions and **only officers, whose names and email addresses have been submitted through the memo signed by their controlling officer/Head of Department will be allowed to participate.**

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	Head Ceiling 2021/22
02 Parliament	106,295,705
03 Private and Cabinet Offices	74,794,849
04 Ministry of Tourism & Environmental Affairs	82,633,508
05 Police	1,008,909,321
06 Deputy Prime Minister's Office	719,410,629
07 Ministry of Foreign Affairs & International Cooperation	437,186,623
08 Ministry of Defence	1,227,273,474
09 Ministry of Tinkundla Administration & Development	353,793,654
10 Ministry of Natural Resources and Energy	105,036,332
15 Geological Surveys, Minerals and Mines Departments	19,660,985
20 Ministry of Agriculture	348,257,123
23 Ministry of Economic Planning & Development	117,765,982
24 Ministry of Housing & Urban Development	164,834,445
26 Fire and Emergency Services	99,530,641
29 Ministry of Commerce Industry and Trade	127,874,153
30 Ministry of Education & Training	3,287,980,087
34 Ministry of Finance	658,266,837
35 Treasury and Stores	56,085,224
38 Internal Audit	12,471,785
40 Ministry of Labour and Social Security	453,076,677
41 Ministry of Public Service	329,384,959
43 Ministry of Information, Communication & Technology	203,648,780
44 Elections & Boundaries Commission	14,963,744
45 Ministry of Health	2,237,500,264

46 Ministry of Justice and Constitutional Affairs	87,651,487
47 Anti - Corruption Commission	27,841,728
48 Judiciary	72,518,470
49 Correctional Services	506,195,338
50 Ministry of Home Affairs	106,396,156
51 Swazi National Treasury	426,418,314
52 King's Office	7,014,000
53 Ministry of Public Works and Transport	967,742,473
56 Ministry of Sports Culture and Youth Affairs	52,282,250
58 Audit	24,190,565

2021/22 PBC BUDGET CONSULTATION MEETINGS SCHEDULE

Day	Date	Morning		Afternoon	
		Time	Ministry/Government Dept.	Time	Ministry/Government Dept.
Monday	23-Nov-20	08:30 - 11:30	Public Works and Transport	14:00 - 15:30	Economic Planning
		11:30 - 13:00	Sports, Culture & Youth Affairs	15:30 - 17:00	Tinkhundla & Regional Development
Tuesday	24-Nov-20		Reserved for Cabinet Meetings		
Wednesday	25-Nov-20	08:30 - 11:30	Justice, Judiciary, ACC,EBC	14:00 - 15:30	Private & Cabinet Offices, Parliament
		11:30 - 13:00	Correctional	15:30 - 17:00	Police
Thursday	26-Nov-20	08:30 - 10:30	ICT	14:00 - 15:30	Public Service
		10:30 - 13:00	Commerce, Industry & Trade	15:30 - 17:00	Finance, Treasury, Internal Audit
Friday	27-Nov-20	08:30 - 10:30	Health	14:00 - 15:30	Home Affairs
		10:30 - 13:00	Education	15:30 - 16:30	Audit
Day	Date	Morning		Afternoon	
		Time	Ministry/Government Dept.	Time	Ministry/Government Dept.
Monday	30-Nov-20	08:30 - 10:30	Tourism & Environmental Affairs	14:00 - 15:30	National Defence
		10:30 - 13:00	Natural Resources & Energy	15:30 - 17:00	Foreign Affairs
			Geological Surveys & Mines		
Tuesday	01-Dec-20		Reserved for Cabinet Meetings		
Wednesday	02-Dec-20	08:30 - 10:30	Deputy Prime Minister's Office	14:00 - 15:30	Labour & Social Security
		10:30 - 13:00	Agriculture	15:30 - 17:00	Housing, Fire & Emergency Services