

## TABLE OF CONTENTS

<b>BUDGET SPEECH.....</b>	<b>1</b>
<b>I. INTRODUCTION .....</b>	<b>1</b>
Opening remarks.....	1
Challenges.....	1
Our strategy.....	2
<b>II. RECENT ECONOMIC PERFORMANCE .....</b>	<b>3</b>
International developments.....	3
Regional developments.....	3
Domestic developments.....	4
<b>III. FINANCIAL SECTOR .....</b>	<b>5</b>
Recent developments .....	5
New interventions.....	5
<b>IV. BUDGET PERFORMANCE.....</b>	<b>6</b>
Actual outturn for 2010/11 .....	6
Budget forecast for 2011/12 .....	7
<b>V. 2012/13 BUDGET ESTIMATES .....</b>	<b>8</b>
Revenues and Grants .....	8
Revenue estimates.....	8
Grant estimates.....	9
Strengthening revenue administration .....	9
Recurrent expenditure.....	10
Capital expenditure.....	10
<b>VI. STRENGTHENING FISCAL DISCIPLINE .....</b>	<b>11</b>
Repaying arrears .....	11
Boosting reserves.....	12
Reducing the wage bill .....	12
Reforming public finance management.....	13
Improving procurement .....	14
Combating corruption.....	14
Strengthening public enterprises and local government .....	15
<b>VII. ACCELERATING GROWTH.....</b>	<b>16</b>
National interventions.....	17
Sectoral interventions .....	18
Agriculture .....	18
Energy and electricity .....	19
Tourism.....	20
Transport and infrastructure.....	20
<b>VIII. PROTECTING THE VULNERABLE .....</b>	<b>21</b>
Health.....	22
Education .....	23
Water and sanitation .....	24
Social protection .....	25
<b>IX. PUBLIC DEBT .....</b>	<b>26</b>
<b>X. APPROPRIATION.....</b>	<b>27</b>
<b>XI. CONCLUSION .....</b>	<b>27</b>



## BUDGET SPEECH

### I. INTRODUCTION

#### *Opening remarks*

1. Mr Speaker, thank you for inviting me to present to the fourth (4<sup>th</sup>) session of the ninth (9<sup>th</sup>) Parliament of Swaziland, the National Budget for the 2012/2013 fiscal year which I have called a year of *fiscal disipline, accelerating economic growth and protection for the vulnerable*.
2. Mr. Speaker, the last two years have been trying on every level: as a nation, as a government, as head of the ministry and as an individual. But as the Chinese proverb says, *“a Gem is not polished without rubbing, nor is a man perfected without trials.”* Throughout all these struggles, I have witnessed amazing tolerance and resilience in our people and the leaders of this country to fight through the hardships.
3. Mr. Speaker, I wish to express my thanks to their Majesties for the solid support, keen interest, and dedication to the welfare of the nation that they have displayed over the past year. I will always be grateful for their assistance and advice. I would also like to thank His Majesty for His sermon from Lozitha and His speech from the throne that gave hope to the nation.
4. Mr Speaker, I also want to recognise the strong support and collective responsibility of my colleagues in Cabinet under the stalwart leadership of the Prime Minister, and the watchful eyes of the Parliament Finance Committee and Finance Portfolio Committee.

#### *Challenges*

5. Mr Speaker, His Majesty has called on us to address the economic and fiscal challenges we face as a nation, and turn them into opportunities for future prosperity. I suggest that there are four main challenges that we should work together to resolve:
  - a. **We must identify and remove the structural impediments to economic growth.** Swaziland has underperformed most other SADC countries and other

small economies since 1990. From 1999 to 2009, economic growth averaged just 2.3%, less than half the rate required to make meaningful reductions in the level of poverty. We have fallen behind our neighbours and should understand why. I hope we will know more after the forthcoming Economic Diversification Study.

- b. **We must reduce reliance on SACU receipts and address the structural rigidities in public expenditure.** Despite the projected increase in SACU receipts from E2.9 billion to E7.1 billion, the fiscal position remains unsustainable in the medium term. The Government is dependent on volatile SACU receipts for 60% of total revenue. This volatility makes maintaining high levels of expenditure risky, particularly on the public sector wage bill, which accounts for half of recurrent spending.
- c. **We must continue to develop the financial sector.** Despite the fiscal crisis, the banking sector has remained relatively strong. However, cooperatives and other non-bank financial institutions are under-regulated, which makes saving more risky. In addition, too few Swazis have access to formal financial services, leaving them reliant on the informal market.
- d. **We must protect the vulnerable and help the poor move out of poverty.** Economic growth will not improve the livelihood of ordinary Swazis unless it is shared equitably and environmentally sustainable. Over 60% of the population lives in poverty. Nearly 66% don't have a bank account. A quarter of all adults is estimated to have HIV and average life expectancy at birth is the lowest in the world. Over half of all youth are unemployed and a quarter of children who start primary school drop out before the end of Grade 7.

### ***Our strategy***

- 6. Mr Speaker, these challenges are interlinked. We cannot help people move out of poverty without faster economic growth, and we cannot create sustainable economic growth and jobs without fiscal reforms. Therefore, Mr Speaker, to address these challenges this Budget will focus resources on:
  - a. ***strengthening fiscal discipline*** by clearing arrears, boosting reserves, investing in cost-saving policies, improving public finance management

and procurement, fighting corruption and strengthening sub-national government and parastatals;

- b. *accelerating economic growth* by diagnosing the structural barriers to economic diversification and improving the investment climate through national and sector-specific interventions; *and*
- c. *supporting the vulnerable* through higher expenditure on health, education, water and sanitation and social protection.

## II. RECENT ECONOMIC PERFORMANCE

### *International developments*

- 7. Mr Speaker, before discussing these in turn, let me provide some context. Our economic performance depends largely on our ability to sell goods and services made in Swaziland to our regional and international trading partners. Inflation is also affected by international and regional commodity prices, including the cost of oil.
- 8. When the global financial and economic crisis began in 2008, it was not expected to persist until today; but the world economy remains “threatened by strains in the Euro area and fragilities elsewhere”<sup>1</sup>. Recent IMF forecasts predict that growth will continue to slow down in advanced economies from 1.6% in 2011 to 1.2% in 2012 as the hand-over from public sector to private sector demand takes longer than first anticipated. World trade is forecast to have expanded by just 6.9% in 2011, compared to 12.7% in 2010, and is expected to grow by even less in 2012 and 2013 as import and export growth slows in advanced economies.

### *Regional developments*

- 9. Economic performance in sub-Saharan Africa was stronger, at 5.5% in 2010 and around 4.9% in 2011, and prospects for 2012 and 2013 remain positive. However, lower income countries are expected to perform better than middle income countries. Growth in our largest trading partner South Africa slowed down from an annualized rate of 4.5% in the first quarter of 2011, to 1.3% in the second quarter of the same year. This is the result of falling output in goods-producing sectors. Projections by the

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<sup>1</sup> IMF (2012) World Economic Outlook Update 24 January 2012. Washington D.C.

IMF estimate growth for South Africa at 3.1% in 2011, and have revised down forecasts for 2012 from 3.6% to 2.5%.

10. Mr Speaker, I wish to stress that significant uncertainty remains regarding the global economy as long as the growth in the United States remains weak and the Euro crisis is not resolved.

### ***Domestic developments***

11. Mr. Speaker, should the Euro crisis deepen, our own growth prospects will also suffer. The second round effects of the global financial crisis have already reduced demand for our major exports. The negative external shocks were exacerbated by the appreciation of the real effective exchange rate, which made our produce less competitive outside the Common Monetary Area.<sup>2</sup> As a result, a number of companies scaled down production or closed and economic growth fell from 2.4% in 2008 to 1.2% in 2009. Growth is estimated to have reached 2.0 % in 2010 and 1.3% in 2011 – considerably below the long-term average. Growth is forecast to decelerate to 0.8% in 2012 due to the lagged effects of the 2010/11 and 2011/12 fiscal crisis.
12. Mr Speaker, the manufacturing sector is the leading contributor to GDP. This sector is geared towards export and was hard hit by the global economic crisis, shrinking by 2% in 2009 after 1.6% growth in 2008. Despite this, manufacturing output was supported by positive performance of some export commodities, including sugar-based products, soft drink concentrates and refrigerators. Provisional figures suggest that the sector shrank by a further 0.7% in 2010 before expanding by 1.5% in 2011.
13. Performance in the agriculture sector declined in 2009 by 2.0% after stagnating in 2008<sup>3</sup>. This was driven by negative performance in the forestry industry which was still recovering from the forest fires and lower demand in 2006. The growth rate increased to 1.6% in 2010 and again to 4.3% in 2011 due to favourable rainfall and higher yields from sugar cane production and other crops under the Lower Usuthu development project.
14. The mining sector shrank in 2009 by 21% after declining by 16% in 2008. Coal production was affected by the limited global demand for anthracite coal. Quarrying also fell as Government's capital investment slowed. However, prospects are

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<sup>2</sup> IMF in 2011 estimated that the real effective exchange rate was over-valued by 19%-33%.

<sup>3</sup> Agriculture shrank by 0.1% in 2008.

promising following the re-opening of the iron ore mine. With new investment, the sub sector is projected to reach a growth rate of 15% in 2012.

15. Real production in the construction sector shrank by 3% in 2009 mainly attributed to the slow implementation of Government's capital programme. The sector declined further by 10% in 2011.

### **III. FINANCIAL SECTOR**

#### ***Recent developments***

16. Mr Speaker, a resilient, well regulated and fair financial system is essential for macro-economic stability.<sup>4</sup> I can confirm that the financial system in Swaziland is generally sound. The banking sector's profitability ratios remained strong and adequately capitalised throughout the year despite Government's fiscal position. The financial institutions maintained capital adequacy ratios above the minimum statutory requirement of 8.0%. Banking sector assets grew by 10.6% from E10.7 billion in December 2010 to E11.9 billion at the end of December 2011.

#### ***New interventions***

17. However, not all parts of the system are adequately regulated. It is also not inclusive enough. In 2012, the Government will strengthen regulation of the financial sector by operationalising the new Financial Services Regulatory Authority (FSRA), which will supervise the activities of non-bank financial institutions such as capital markets, insurance companies, pension funds and cooperatives. This will reduce risks that may threaten depositors' funds and provide an environment for stable and balanced growth in the sector. In the meantime, I urge the Governor of the Central Bank of Swaziland to continue supervising non-bank financial institutions until the FSRA is up and running.
18. My Ministry is preparing a National Credit Bill to regulate the consumer credit market. This will promote fair and non-discriminatory access to consumer credit and improve the standards of consumer information. It will also help curb unfair lending practices.

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<sup>4</sup> Problems in the financial sector can reduce the effectiveness of monetary policy, exacerbate economic downturns or trigger capital flight. Access to credit, especially for smaller enterprises, is a key driver of inclusive economic growth and development; and a well-developed financial system can improve the efficiency of capital allocation within the economy.

19. Mr Speaker, only 35% of the country's rural population is banked, with 38% relying on the informal sector for financial services. To improve the access of rural communities to formal financial services, the Ministry of Finance has initiated a Rural Finance and Enterprise Development Programme, which will enhance the development of local micro-finance institutions, improve their linkages with other financial institutions and build the capacity of entrepreneurs in micro-, small- and medium-sized enterprises.
20. Mr. Speaker, we will also facilitate innovative financial solutions, including the Mobile Money scheme, which is expected to change the ways through which people access financial services. These solutions will make financial services more inclusive for remote communities and those without bank accounts.
21. Mr Speaker, we also have a new Anti-Money Laundering and Financing of Terrorism (Prevention) Act. This Act empowers the Financial Intelligence Unit of the Central Bank to intensify the fight against money laundering and to counter the financing of terrorism.

#### **IV. BUDGET PERFORMANCE**

22. Mr Speaker, to stimulate higher economic growth, the Government must begin by setting a platform for macroeconomic stability. After SACU receipts fell by 60% in 2010, Cabinet approved the Fiscal Adjustment Roadmap targeting a deficit of less than 3% of GDP in 2014/15. A third of the adjustment would come through increases in revenues, with the remainder coming through real-terms spending cuts, mostly through the wage bill, which is the largest single item of expenditure. Budget controls would be strengthened to improve the quality of spending over time. Under this plan, Government intended to borrow domestically and externally to ease the impact of spending cuts on the economy until 2014/15. Public debt would stabilise below 45% of GDP, limiting the risks of debt distress.

##### ***Actual outturn for 2010/11***

23. The Government has maintained steady progress against the deficit targets set in the Roadmap. In 2010/11, the IMF estimated that the budget deficit widened to around 13% of GDP, against an interim target of nearly 14% of GDP in the Roadmap. Actual figures from Treasury show that the cash deficit was even smaller, at around E2.6 billion or around 9.4% of GDP, though this may exclude some arrears.



24. Because of the decline in SACU receipts to E2.6 billion, total revenues fell by nearly 25% from 2009/10 to 2010/11. To improve non-SACU revenues, the Government implemented a series of measures as part of the IMF Staff-Monitored Programme. It increased tax rates on a number of goods and services, to bring them in line with South Africa, and broadened the tax net by bringing in items such as air time and electricity. Government also operationalised the Swaziland Revenue Authority (SRA) to improve the efficiency of tax collections and increase compliance. Non-SACU tax revenues increased by 15% in 2010/11, with the largest gains coming from income tax and sales tax.
25. Most of the adjustment has come through reducing expenditure – especially on goods and services. Our final statistics for 2010/11 show that expenditure was lower than the appropriated budget of E10.3 billion, at around E9.5 billion, with E7.7 billion going to recurrent items and E1.8 billion spent on capital projects.

***Budget forecast for 2011/12***

26. The fiscal adjustment continued in 2011/12. Spending cuts announced through the supplementary budget in October 2011 reduced the planned deficit for this fiscal year to around 9.5% of GDP against a target of nearly 11%. However, limited access to financing has exacerbated existing cash-flow constraints and means that the final outturns will be lower still.
27. SACU receipts increased by E250 million in 2011/12 to E2.9 billion. Despite cash-flow constraints, the SRA has performed well against revised targets set by the supplementary budget. Non-SACU taxes are forecast to remain approximately at the level collected in 2010/11, with total non-SACU revenues expected to be around E4.2 billion this fiscal year. In comparison, non tax revenues are forecast to shrink by nearly a quarter. Total revenue is projected to be E7.1 billion by the end of the fiscal year.
28. The supplementary budget reduced planned expenditure by around E554 million, to under E10.2 billion. Without access to domestic or external financing, Government has been forced to borrow from the Central Bank and to draw down on Government's bank balances. However, this can only be done up to a limit, and Government was forced to cut in-year expenditure further by restricting releases. Forecasts suggest total spending will be around E8.3 billion at the end of March, with most of the

additional savings coming from the capital budget. Inevitably, further arrears have accumulated that will need to be paid using 2012/13 revenues.

## **V. 2012/13 BUDGET ESTIMATES**

29. Mr. Speaker, the country has been handed a lifeline and the Government must use this opportunity wisely to invest in the future stability and prosperity of the country. The Budget estimates presented today shows that total revenues will increase by two thirds to E11.9 billion. The Common Revenue Pool is forecast to grow by over 15% in 2012/13 and E6.1 billion is Swaziland's share. The remaining E985 million is a one-off repayment from the surplus of 2010/11. As a result, SACU receipts will increase by 145% in 2012/13, to over E7 billion.

30. Mr. Speaker, there is a fundamental concern, shared by the SACU Council of Ministers, that the current global economic uncertainty could have a negative effect on the future performance of the pool. A lower outturn of the Pool would require each member state to make payments back to the Pool in future years.

31. We must also remember that the revenue sharing formula is under review. While the new formula will be subject to negotiations, it is vital, Mr Speaker, that the country prepares itself for any negative impact that this may have on future revenues.

### ***Revenues and Grants***

32. With this in mind, the 2012/13 budget will continue to introduce measures to reduce the dependence of Government on SACU receipts.

### **Revenue estimates**

33. The Budget estimates that taxes on income will increase by 9% to around E2.7 billion, while taxes on sales of goods and services will increase by 20% from 2011/12. Total non-SACU revenues are forecast to be around E4.8 billion.

34. Mr Speaker, the SRA has assured me that they will be ready to introduce VAT to replace Sales Tax from 1<sup>st</sup> April 2012. This will not only increase the efficiency of tax collection, but will also ensure neutrality across economic activities and eliminate the danger of "cascading" of taxes across different stages of production. VAT is expected to generate nearly E1.5 billion in 2012/13, E300 million more than the 2011/12 forecast for Sales Tax. Registration for VAT is ongoing, with registration forms

available in all SRA offices in the country. Also the form can be found on the SRA website. I wish to encourage all taxpayers to register early.

35. For simplicity VAT rates on goods and services, including alcohol and cigarettes, will be either 14% or 0%. To ensure tax rates on alcohol and tobacco remain at 30% and 20%, respectively, the Government will introduce specific levies on these items.

### **Grant estimates**

36. Mr Speaker, I would like to take this opportunity to thank all our donor partners for their financial and technical support over the past year to make Swaziland a better place. Project grants included in the Budget will increase from E207 million in 2011/12 to E376 million in 2012/13.

37. The Taiwanese Government and the EU have increased their assistance for the implementation of a number of projects. The EU funding is mainly supporting sector-interventions including agriculture, water, governance, health, and education, while the Taiwanese Government is supporting infrastructure projects. The UN is providing funds for health, gender programmes, statistics and poverty reduction initiatives. PEPFAR and Global Fund continue to be vital partners in the fight against HIV/AIDS.

38. Total revenue and grant for 2012/13 are projected to be E12.2 billion.

### **Strengthening revenue administration**

39. Mr Speaker, I am aware that since it was operationalised, the SRA has been received with mixed feelings. This is not unique to Swaziland. Paying tax is an obligation not a choice. The SRA is enforcing existing legislation that was not being complied with. To minimise the impact of compliance, taxpayers holding substantial tax arrears may negotiate reasonable payment terms. The Authority is also working to improve the level of customer service.

40. Mr Speaker, the Government has also committed to reduce the administrative burden of tax compliance. A new Revenue Administration Bill will consolidate all revenue acts administered by the Swaziland Revenue Authority and remove inconsistencies between existing revenue laws. This will make taxes easier to predict and understand. The Revenue Authority will implement an integrated revenue system, introducing a single taxpayer identification number and the option to file tax returns electronically.

We will also move to establish a Revenue Appeals Tribunal to facilitate the processing of tax cases.

41. The Government will also continue to investigate options for abolishing graded tax in the medium term.

### ***Recurrent expenditure***

42. Mr Speaker, the increase in SACU receipts means that Government has the fiscal space to introduce the necessary reforms to increase the sustainability of the Budget and meet the targets set by the Fiscal Adjustment Roadmap. That is why Government has committed to invest the additional revenues to address the structural weaknesses in the budget and the economy, while continuing to support key social spending.

43. Mr Speaker, overall recurrent expenditure will increase from E8.3 billion in the supplementary budget to E9.7 billion, driven mostly by an increase in the transfer budget, which finances parastatals, payments to individuals, and inter-ministerial transfers. I wish to encourage subvented organisations to restructure to ensure resources are spent on service delivery, and not just salaries.

44. Mr Speaker, E455 million has been provided to improve the accuracy of budget estimates and should not affect actual expenditure. E150 million has been provided to cater for regular overspending on CTA by a number of ministries, recognising the limitations of existing expenditure controls. The total allocation for CTA services will be E406 million. My Ministry is concerned with the slow progress made in transforming the CTA into a parastatal. The quicker the restructuring of CTA will take place, inefficiencies and corruption which had plagued the organisation will be reduced drastically. A further E30 million will be provided to cater for personnel overspending due to notch increases awarded in 2011/12. E275 million has been provided to budget for Government's employer contributions to the Public Service Pension Fund. Although Government holds arrears to the Pension Fund, I wish to make it clear that public pensions are underwritten by Government regardless of the cash contributions.

### ***Capital expenditure***

45. Mr Speaker, capital expenditure will also be increased from E1.8 billion to E2.3 billion. Limited cash resources mean that many capital projects that were to be

completed this year could not be finished. Of the E830 million released, less than E500 million has been spent. The commitment rate is higher, at nearly 70% of the budget allocation. This has resulted in the accumulation of arrears which we are carrying over to financial year 2012/13. Therefore, Government will continue to focus on completing on-going projects.

46. The largest projects in 2012/13 will be Sikhuphe International Airport, the Sikhuphe-Mbadlana Road, the Sicunusa-Nhlangano road, construction of houses for the security forces, Lubombo Regional Hospital. However, the Government will continue to prioritise health and education projects, as well as infrastructure projects, the feasibility studies for two major dams Mkhondvo and Nondvo, and LUSIP Phase II.

## **VI. STRENGTHENING FISCAL DISCIPLINE**

47. Mr Speaker, because there can be no sustainable growth or jobs without a sustainable fiscal policy, the Government will continue to implement measures that address the key structural rigidities in the budget, improve the quality of spending, and increase the value for money of each lilangeni spent by Government.

### ***Repaying arrears***

48. Mr Speaker, priorities for Government in 2012/13 is to clear debts owed to private sector suppliers and to improve the confidence in the Lilangeni by boosting reserves.
49. I want to personally thank the many suppliers who supported Government and are still waiting to be paid, as well as commercial banks that have played an important role in supporting the economy over the past months. The Government currently holds arrears of nearly E1 billion, most of which is owed to the Public Service Pension Fund. These payments will continue to be the responsibility of each ministry's controlling officer, and must be paid by each ministry from within the budget ceiling. In case this is not enough, a contingency allocation of E150 million has been provided under Inter-ministerial Transfers – Head 60.
50. Over the years, we have reminded suppliers that Government procedures for purchasing goods and services are clear and transparent and must be complied with. Arrears will be audited before they are cleared, and those that have not complied will not be paid. Controlling officers are again reminded of their responsibility to ensure government procedures are followed for all procurement.

### ***Boosting reserves***

51. Mr Speaker, I would like to emphasise that there is currently no significant threat to the currency peg. Without financing, Government has been forced to use reserves to fund part of the deficit in 2011/12, as it did in 2010/11. However, gross official reserves remained relatively stable in nominal terms – falling just E300 million from E4.5 billion at the end of 2010 to E4.2 billion at the end of 2011. The level of import cover has fallen from 2.8 months to 2.3 months because the level of imports increased in 2011. Government remains unwaveringly committed to maintaining an adequate level of reserves and has budgeted E400 million to boost reserves. Also, for the record, let me state that Government continues to have a good working relationship with the Central Bank. Without their help this year would have been even more challenging for all of us.

### ***Reducing the wage bill***

52. Mr Speaker, we cannot talk about having a sound budget without discussing the wage bill. The wage bill represents the largest single item of spending in the 2012/13 Budget, accounting for E4.6 billion. This is equal to nearly 40% of total expenditure and 97% of non-SACU revenues. Should SACU receipts fall again, like in 2010/11 and 2011/12, the salary payments will squeeze out other areas of spending such as capital investment and transfers to more vulnerable people such as the elderly and OVCs. The large public sector workforce also draws people out of more productive areas, damaging economic growth.

53. To ensure fiscal sustainability, the Government is targeting a wage bill equal to less than 60% of non-SACU revenues by 2014/15. To do so, the Government will continue to maintain the existing wage and hiring freeze, as well as abolishing duplicate or non-priority vacancies. The Government will also continue negotiations with staff associations on salary cuts and will review automatic notch increases which currently have no reference to performance.

54. Mr Speaker, I would like to thank the politicians and royal committees who have shown leadership by accepting a 10% cut in their salaries, saving Government around E6 million in 2011/12. My only concern is that I have been personally persecuted and fined by some for carrying out the Parliament Resolution. Even as I stand before the House, I have a letter which states that I will be taken to court by one or more for effecting the salary cut. *Ngingahle ngiyewugcoka masinyane*. Other than that, this

August House has been sympathetic to the situation. I wish I could say the same for others who contribute to the wage bill.

55. Acknowledging that salaries are only one driver of personnel expenditure, an allocation of E34 million is provided for the Ministry of Public Service to implement its Voluntary Early Retirement Scheme, supplementing the E166 million from 2010/11. In addition, the World Bank will provide technical assistance to conduct a comprehensive payroll audit to clean up the payroll.
56. In line with the Fiscal Adjustment Roadmap, the Government will continue transforming the Central Transport Authority and the Civil Aviation Department into parastatals, improving efficiency while reducing the immediate wage costs to Government.
57. To improve work incentives within the public sector, the Ministry of Public Service will be introducing a new Performance Management System, more closely linking compensation to performance. New schemes of service will modernise the rules for appointing, promoting and transferring staff. A skills audit will identify skills shortages and mismatches within the civil service, and address these through training, redeployment or redundancy.

### ***Reforming public finance management***

58. Mr Speaker, the fiscal crisis has revealed a number of weaknesses in the systems used to manage public funds. To improve expenditure controls, enhance the quality of spending and improve the value for money of public spending, the Ministry of Finance has agreed on an ambitious public finance management reform plan that will be supported with coordinated financial and technical assistance from the EU, African Development Bank, IMF, World Bank and UNDP.
59. To guide the reform process, the Ministry of Finance will submit a new Public Finance Management Bill to Parliament before the end of 2012. The Bill will introduce best practice reforms in budget planning, execution and reporting and cover all relevant institutions. It will make government more accountable for its expenditure, and increase the transparency of its operations.
60. However, Mr Speaker, while waiting for the Bill to be approved, the Government will implement a series of short term measures. In the Budget, Government has provided

funding to Treasury to abolish the chequing system, in order to reduce double payments, and to begin the process of upgrading public sector accounting standards. Internal Audit will be capacitated so that it can begin to take over the work currently outsourced. And together with donor partners, Government will begin work towards implementing a new integrated financial management system that will increase our control over expenditure.

### ***Improving procurement***

61. Mr Speaker, Government understands that improving public procurement can generate savings without compromising services to the public. It is also an area prone to corruption. That is why we have a new Procurement Act. In 2012, the Government will apply the changes required. This will include:

- a. establishing the Procurement Regulatory Agency to oversee procurement in all public entities and offer an independent forum for judging complaints from suppliers;
- b. applying a code of conduct for public officers involved in procurement;
- c. establishing a Government Tender Board with representatives from the private sector;
- d. linking prices paid by Government to market rates through regular surveys; and
- e. disqualifying all public officers and politicians, from supplying Government with goods and services.

### ***Combating corruption***

62. Mr Speaker, Government cannot implement fiscal discipline without addressing the issues of governance and responsibility. Despite the noise I have made almost every year on issues of wastage, corruption and mismanagement, it seems my words have fallen on deaf ears. We have not kept pace with global efforts to reduce corruption. I would like to echo the stance taken by His Majesty in His speech from the throne on zero tolerance on corruption.



63. I appeal for the support, co-operation and commitment of all Swazi Citizens to partner with Government in this fight to do everything possible to eradicate the cancer of corruption that is causing moral decay in our society. I would also like to request for a change in attitude, particularly from the “Swazis” who do not report corruption and simply say “*kubindvwa kubonwa*”. A person who sees corruption taking place and does not report it is as guilty as the perpetrator. At the same time I implore those in positions of authority to decisively deal with corruption once it is identified and reported. The fight against corruption can only be won if we all work together and we all take responsibility as citizens.

***Strengthening public enterprises and local government***

64. Mr Speaker, no area of public spending will remain untouched as we strive to improve efficiency. Transfers to parastatals represent a significant proportion of the Budget, and 22 of the 39 public enterprises rely solely on Government to fund their operations. The Government will continue to review downwards the subventions and subsidies to parastatals that deliver services that can be provided by the private sector. Where appropriate, plans will be made for privatisation.

65. Mr Speaker, revenue generated by the profit oriented entities amounted to E2.2 billion and net profit amounted to E368 million. The ratio of operating surplus over total revenue was 7.7%. The Government has invested in many profit-making public enterprises, and expects this investment to achieve rates of return that are comparable to alternative investments of similar risk. To ensure an appropriate rate of return is made to the public, the Government will implement a new dividend policy for state-owned enterprises.

66. Local governments also receive substantial direct and indirect support from Government. This Budget provides nearly E84 million for local authorities, of which 75% will come from rates payments on public property. To improve the efficiency of local urban and rural government, we have secured a US\$26.9 million loan from the World Bank to support the Swaziland Local Government Project. Implementation will begin in 2012/13. Mbabane City Council will also begin to restructure using an E18 million allocation from 2011/12.

## VII. ACCELERATING GROWTH

67. Mr Speaker, fiscal adjustment is not an end in itself, but a platform for improved prosperity. To make significant reductions in the level of poverty, the economy must grow at least at 5% per annum or more.
68. The global economic slowdown has had a significant effect on growth. However, the economy is also suffering from structural weaknesses that have slowed growth over the past two decades to below the level of our neighbours. Swaziland is currently ranked 124 of 183 countries in the World Bank Ease of Doing Business report, 134 of 142 countries in the Global Competitiveness Index, and 106 of 179 in the Index of Economic Freedom.
69. As a country, we are contributing a smaller proportion to global trade than in the 1980s. We are running a current account deficit of around 8%, which means that we are importing more than we are exporting. While Swaziland produces a wide range of export products, these exports are mainly targeted at preferential markets in the United States of America and the European Union. Unemployment is high, especially for youths, over half of whom are without formal work.
70. Mr Speaker, these are substantial challenges, but it is not all bad news. Swaziland remains a safe and stable place for investment and is ranked among the top 50 countries by the World Bank in:
- a. Strength of auditing and reporting standards (43);
  - b. Quality of roads (39) and railroad infrastructure (44);
  - c. Government debt (24);
  - d. Rigidity of employment (19); and
  - e. Soundness of banks (44).
71. Mr Speaker, to ensure that efforts to accelerate growth are evidence-based and coordinated the Government has (i) commissioned an economic diversification study financed by the African Development Bank; (ii) focused existing proposals through the Economic Recovery Strategy and an updated Investor Roadmap in the first quarter of 2012.; and (iii) committed to continue supporting and investing in areas

where we have a strong track record, for example by providing an additional E30 million for roads maintenance in 2012/13.

### *National interventions*

72. Mr Speaker, we will work to deepen regional integration to facilitate trade. The Southern African Customs Union (SACU) is the oldest existing customs union in the world, and Swaziland benefits significantly from its membership to SACU. We have now engaged in regional negotiations towards a Tripartite Free Trade Area (TFTA), encompassing the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC). Government expects the outcome of this expanded market access will act as an incentive for our traders to diversify their profiles in terms of products and exports by destination.
73. At the national level, the Ministry of Commerce, Industry and Trade is working with SIPA to review the legislative framework to improve the investment climate. The new Trading and Licences Amendment Act was passed in 2011 and will eventually reduce the time needed to acquire a trading licence to just three days. To facilitate trade, commercial trading hours have been extended.
74. Mr. Speaker, foreign direct investment into Swaziland has been targeted at a limited number of industries, including the textile industry which relies heavily on preferential markets. These investments create thousands of jobs for Swazi people, and I am happy to note that Swaziland has been granted permission to expand its exports that enter preferentially to the United States market on over 6,500 product lines. To reduce dependence on preferential trade quotas, efforts are being taken to diversify Swaziland into a services hub, and ultimately a knowledge-based economy.
75. Mr Speaker, it has been suggested that more than six companies who would have started operations in 2011 could not do so because of lack of factory space. This Budget provides E100 million to construct new factory shells. This will be combined with creation of Special Economic Zones in areas such as Sikhuphe to take full advantage of the airport.
76. Mr Speaker, we can also help existing companies become more competitive. Swaziland is ranked 130 out of 142 countries for internet band width, and the cost of mobile phone communication remains high. These are two significant costs of doing

business that will fall with the deregulation of the communications sector. To support this process, the Budget provides E1.8 million to establish an independent telecommunications regulator as soon as the new Bill is passed by Parliament.

77. Mr Speaker, we have also provided E80 million for the Regional Development Fund. I am glad that the Fund will now be audited by the Internal Audit Department to improve the transparency of spending. We should not undermine the potential in the Regional Empowerment Fund to impact on the economy. However, I will urge my colleagues to use the fund efficiently and effectively to boost development. We support the recommendation from the Finance Committee to establish regulations for the Empowerment Fund.

### ***Sectoral interventions***

78. Mr Speaker, the Government will also continue to invest in specific sectors. Key areas for intervention in 2012/13 will be agriculture, energy and electricity, tourism and transport infrastructure.

### **Agriculture**

79. Mr. Speaker, Government remains committed to supporting agricultural development, which remains the major source of livelihood for most of the rural population and is an important source of raw materials needed by the manufacturing sector.
80. However, the real contribution of agriculture to the economy has barely increased in the past ten years and Swaziland continues to rely heavily on rain-fed crops, making us vulnerable to the effects of climate change. To ‘climate-proof’ agricultural production, the Government will continue to invest in irrigation and dams – large, medium and small.
81. The Swaziland Water and Agricultural Development Enterprise (SWADE) has successfully developed 4,900 hectares of irrigable area under Komati Downstream Development area. Another 2,200 hectares have been developed under Lower Usuthu (LUSIP) downstream development area and Phase II of the project will develop a further 5,000 hectares. An allocation of E102 million is provided in the Budget to continue this investment. Government is committed to the construction of small earth dams in the dry areas of the country in order to provide drinking water for livestock and small scale irrigation.

82. Mr Speaker, maize production has increased from 70,672 metric tonnes in 2009 to 84,686 metric tonnes in 2010 resulting from increased amount hectares planted from 52,455 hectares in 2009 to 70,344 hectares in 2010. More efforts will be put towards increasing production.<sup>5</sup>
83. In its endeavour to achieve food security, the Ministry of Agriculture is intensifying its commercialization and diversification programme, to help farmers produce more for their own consumption as well as local and international markets. The Government has budgeted for a E100 million food security project, and I will come to seek authority from Parliament to borrow US\$37.8 million for this purpose. Old Mutual and other insurance and retirement funds are discussing the possibility of establishing an Agricultural Fund of up to E200 million targeted at both small- or large-scale farmers.
84. In the meantime, Government continues to encourage private companies to purchase the agricultural commodities they need from small-holders. There has been initial support from companies for commodities such as sunflower and cassava. We will also continue to ensure support for farmers to meet the standards necessary to export produce from livestock.

### **Energy and electricity**

85. Mr. Speaker, improved energy security and fair regulation is vital for attracting investors, and has positive spill-overs for the poor. The Ministry of Natural Resources and Energy with the assistance of the European Union Energy Initiative has developed the Swaziland National Energy Policy into an implementation strategy to improve access to energy for all. The Energy Regulatory Authority has been established to complement legislative efforts to liberalise the energy sector, including the provision of electricity.
86. Government will engage potential financiers to invest in increasing local power generation capacity – including through coal, thermal and hydro plants. Ubombo Sugar and the Royal Swaziland Sugar Association have now increased their generation capacity by 25 megawatts and 30 megawatts, respectively.
87. Mr Speaker, only 35% of rural households are currently electrified. To ensure that all parts of the country can access electricity, the rural electrification programme will

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<sup>5</sup> Vulnerability Assessment Committee Report, 2010

continue with the extension of electricity lines to rural schools, health care facilities, Tinkhundla centres, youth care centres, and densely settled communities around the country. In the past year, the programme has managed to electrify more than 60% of rural schools in the country. The Government will also continue working with its development partners to promote energy efficient stoves to reduce the impact of burning wood on the environment.

88. Mr Speaker, the Government will also improve the governance of fuel. A new Petroleum Bill will streamline legislation governing the petroleum sector, by consolidating existing legislation. To reduce the risk of fuel shortages, the Government will build a large fuel storage reserve that could buffer fuel shortages for up to 90 days. Further consideration will also be given to the potential of green energies to reduce reliance on petroleum products.

### **Tourism**

89. Mr Speaker, tourism has great potential to contribute to the economy, and E63 million has been provided for the Ministry in 2012/13. However, global economic conditions mean that the number of international visitors continues to decline. In 2011, a total of 1.2 million visitors came to Swaziland, 1% less than in 2010. Notably, visitors to the Swaziland National Trust Commission centres increased by 31.2% at the end of 2011.

90. The Swaziland Tourism Authority will continue to work with the private sector and other stakeholders to market Swaziland to attract more tourists into the country. The Government has also completed the National Tourism Strategy and Action Plan and will begin its implementation in 2012/13. This will include the implementation of a formal grading system of accommodation standards to ensure that visitors receive comparable quality to other tourist destinations in the region.

### **Transport and infrastructure**

91. Mr Speaker, Swaziland can be proud of its transport infrastructure, which is ranked among the top 50 countries in the world.
92. To continue development of the sector, Government has received US\$560,000 or E3.9 million from the African Development Bank to prepare a national Transport Master Plan. The Plan is expected to guide the future development of the

organizational and institutional set ups in the sector, make projections of traffic growth and propose infrastructure development appropriate for the transport needs of the country over the next 20 years.

93. To improve the management of road infrastructure the Government will establish a semi-autonomous Roads Authority. This authority will implement the user-pays principle where road users contribute their fair share towards the construction and maintenance of roads. This proposal is in line with the SADC Protocol on Transport, Communications and Meteorology which Heads of State signed on 24th August 1996. The Bill establishing the Roads Authority and Road Fund will be presented to Parliament soon.
94. Mr. Speaker, the Governments of South Africa and Swaziland have signed a Memorandum of Understanding for the Lothair project. The project involves the construction of a rail link with South Africa on the Western side to Lothair in Mpumalanga. The construction of this rail link is expected to attract much through-traffic from South Africa especially in regard to minerals and coal. The link will reduce rail distance and costs between Gauteng and Mpumalanga provinces and Maputo.
95. Mr Speaker, the Government has also invested heavily to improve airline infrastructure. The Swaziland Civil Aviation Authority (SWACAA) has been established and will be both a regulator and an operator. In order to deliver its mandate, SWACAA is continuing to recruit and train staff in critical areas. Government has provided approximately E77million to implement the Swaziland Aviation Act and to cater for terminal benefits following the restructuring of the Directorate of Aviation.
96. A lot of work is required in marketing the Sikhupe International Airport so that it can be utilised to its fully capacity in the long term. This has to be a collective effort involving all Government institutions, including Swaziland Tourism Authority and SIPA. SWACAA is also engaged in discussions with other international airlines in an endeavour to secure their services for Sikhuphe International Airport

## **VIII. PROTECTING THE VULNERABLE**

97. Mr Speaker, the Government has made it clear that at the centre of its economic developmental agenda, there should be strategies to address the issue of poverty. We

will continue to support high-quality interventions and sustainable social expenditure that will alleviate poverty. That is why Government will continue to prioritise policies consistent with Poverty Reduction Strategy and Action Programme. In total, around E3.5 billion will be spent towards expenditure on water and sanitation, health, education, and social protection.

### ***Health***

98. Mr Speaker, challenges in the health sector may arguably be the greatest of all. Swaziland has one of the highest rates of HIV in the world, the highest incidence of TB and the lowest life expectancy as well. The poor especially depend on their health for economic survival, because their able bodies and labour ensure their livelihood.
99. Despite the challenges, Government has made great strides in this sector. Swaziland's programme for prevention of mother-to-child transmission is the best in the world. As a result of this programme, the latest statistics show that under-five child mortality has fallen from 120 deaths per 1000 births in 2007 to just 104 deaths per 1000 births in 2011.
100. Mr Speaker, despite such success stories, the Government recognises that there is still much to do, and Government remains committed to providing good healthcare for all Swazis. An additional E92 million will be provided for the Ministry of Health in 2012/13, increasing the total recurrent budget to over E1.1 billion. E35 million of the additional allocation will go to ARVs, reagents and other life-saving drugs. E5.5 million will go to support clinics and hospitals subvented by Government, while E1.5 million will be used to ensure that clinics have adequate provisions to pay all their utility bills.
101. Mr Speaker, the primary focus for Government remains the fight against HIV/AIDS. As a result of HIV and AIDS, the crude death rate has increased from 17.68 to 17.72 deaths per 1000 people in 2009 and 2010 respectively. Projections show that the crude death rate is moderating thanks to a scaling up of government interventions, including the construction of clinics, provision of ARVs, and extending outreach programmes to move closer to the communities. These efforts will be enhanced through a loan of US \$20 million from the World Bank and a grant of Euros 20 million from the European Union totalling to approximately E300 million for a five-year HIV/AIDS and TB project.



102. The Government is grateful for the assistance it has received from donors in combating HIV. In particular, the Global Fund has provided Swaziland with nearly US\$120 million since 2003, and will continue to provide a further US\$54 million under ongoing programmes up to 2014, of which around US\$19 million will be disbursed in 2012. I hope that this cooperation will continue despite the low economic confidence and austerity budgets in Europe and the United States.

103. Mr Speaker, the Government will also continue to support the Phalala Referral Fund for special medical cases. To improve the targeting, reduce misuse and improve the service delivery of the Fund, E2.5 million will be used to support a formal Phalala management unit in the Ministry of Health. I encourage my colleague in the Ministry of Health to address the existing inefficiencies, implement a clear national referral plan for the health system and continue to look for ways to improve the in-house capacity of our hospitals and clinics, including through e-health initiatives.

### ***Education***

104. Mr Speaker, His Majesty underscored the importance of investing in education. The Government echoes this sentiment and has agreed to increase the total budget for the Ministry of Education by over E68 million to around 18.5% of the total budget, excluding statutory. The recurrent budget will increase to over E2.1 billion.

105. Mr Speaker, through the Constitution, the country committed to make primary education free for all Swazi children. Primary education exhibits some of the greatest social returns on investment, with positive effects on health, fertility rates and child mortality. That is why, the Government will continue to roll-out state-funded primary education for Grade IV and the first quarter of Grade V in 2013 at a cost of over E80 million. Total grants to schools will increase to nearly E100 million. From this year, the EU will take over school fees for Grade 1 students.

106. Mr Speaker, state-funded primary education will gradually replace OVC education grants at primary level. However, the Government has committed to continue to provide grants to OVC students currently in Grades 5 or above. An additional allocation of E9 million will be provided taking the total OVC budget for 2012/13 to over E170 million.

107. Mr Speaker, the Government cannot sustainably fund both free primary and free tertiary education. It is also unfair to the poorest households that those who were able

to pay their way through primary and secondary schools receive subsidised tertiary education. Therefore, the Government will continue to implement the new scholarships policy. Even so, the Government will need to increase the budget for scholarships by nearly E15 million to E289 million. To make the scholarships programme sustainable in the long run, the Ministry of Labour will be assessing options for increasing loan repayments, for establishing a revolving fund, and for improving private university financing options.

108. The Ministry of Education plans to hold an Education Indaba, where Swazis will address the challenges of financing and improving the quality of education at the primary, secondary and tertiary level. The aim will be to come out with a realistic and sustainable model that will result in human capital development relevant to our needs.

### ***Water and sanitation***

109. Mr Speaker, the provision of safe water is critical for improving the quality of life for the majority of Swazi people, and the incidence of poverty and ill-health is strongly related to safe water and sanitation.

110. The Department of Water, with its development partners, increased coverage in potable water supply from 61% to 64% of the rural population of the country in 2011. The feasibility study for the Lavumisa-Matsanjani-Nsalitje Corridor Water Supply and Sanitation Project that could benefit more than 50,000 people, once implemented.

111. The Government will build on this progress in 2012/13, by increasing coverage in potable water supply from 64% to 69.7% of the rural population. This will be achieved by:

- a. building seven new reticulated water supply networks in the four regions of the country;
- b. drilling 200 boreholes, of which sixty (60) will be fitted with hand pumps; and
- c. Rolling out the water point mapping programme throughout the country to determine functional and non-functional water supply schemes.

112. I would like to take this opportunity to convey Government's gratitude to the continuous support received from the Republic of China (Taiwan) worth E8.75 million for procurement of tools and equipment for provision of potable water supply.
113. The Government will also continue to assess the feasibility for dams on the Mkhondvo River and the Lusushwana River. It will continue to support water projects aimed at promoting safe environment. In this regard Government has provided a substantial budget to support water projects in the Lubombo and Shiselweni regions and a wastewater project in the Manzini region. The Lukhula to Malindza gravity pipeline has been completed. This will supply water to the communities of Kalanga, Lukhula – Malindza. The completion of the Lukhula to Siteki Pipeline has addressed Siteki's perennial water problems.

### ***Social protection***

114. It is estimated that around 63% of the population lives below the poverty line, down from around 69% in 2001<sup>6</sup>. Social safety nets are vital to help these households move out of poverty and to prevent others from falling into poverty.
115. Mr Speaker, our children are the future of this country. That is why I look forward to the passing of the Children Protection and Welfare Bill by Parliament in the coming weeks, and the roll out of the National Plan of Action for Children. It is my sincere hope that this will reduce the number of children being abandoned in our health facilities and on our streets. The Government will continue to look for ways to sustainably support families affected by shocks such as the death of a family member from HIV/AIDS, so that their children can have the same aspirations and opportunities as any other.
116. Mr Speaker, we must also not neglect those who have already contributed to the building of this country. Today the elderly are the bedrock of our homes and the glue that holds our communities together. That is why the Government will continue to provide grants to the elderly. To make it easier for poorer and more remote recipients to access the grant, Government will be carefully considering how it can use existing infrastructure to make payments electronically through user-friendly vendors and institutions.

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<sup>6</sup> Swaziland Household Income and Expenditure Survey

117. Mr Speaker, the Government is currently finalising the National Disability Policy and associated regulations to provide a framework for supporting the disabled. I applaud the provision of assistive devices by the Deputy Prime Minister's Office to those in need – particularly in the Mzimpofo and Ekwelulameni schools. The new school for the deaf at Esitsatsaweni is now a beneficiary of the OVC grant scheme, while the vocational training and rehabilitation centres that provide training for disabled adults will be upgraded with a new computer lab to improve the relevance of training to available jobs.

118. Mr Speaker, the Office of the Deputy Prime Minister will also be embarking on an ambitious drive to construct a national village in Mankayane that will accommodate vulnerable groups that have been identified to have no family support structure. E1 million has been provided in the Budget to begin this project, which will allow vulnerable people a safe home, decent meal, therapeutic and rehabilitative services, and access to a learning environment so they can develop the skills they need. The private sector is invited to join hands with Government to make this vision a reality.

## **IX. PUBLIC DEBT**

119. Mr Speaker, maintaining a low level of public debt is vital for stability. After increasing from 14.0% of GDP in 2010 to 16.9% in 2011, total public debt will fall to 15.7% of GDP in 2012. This is far below critical thresholds and means that Government can borrow over E5 billion in future years without significantly increasing the risk of debt distress. Debt service is also forecast to decrease, with estimated interest payments falling from E318 million in the 2011/12 budget to E250 million in 2012/13. Loan redemption will remain largely unchanged, falling from E276 million to E275 million.

120. Mr. Speaker, external debt constitutes roughly three quarters of the total debt stock of E4.5 billion. Access to domestic financing dried up in 2011/12, which was one of the main contributors to the cash-flow crisis. The Government is also aware that greater public demand for financing has pushed up the interest rate charged on private companies, crowding them out of the market. However, Government is working to develop the domestic debt market and will continue to issue securities in 2012/13. Government will actively seek to reduce the rate of interest paid on these securities.

## **X. APPROPRIATION**

121. Mr Speaker, the budget presented today is a continuation of tight budget policy that will reduce inefficiencies and promote fiscal reforms while at the same time ensuring that the core economic recovery strategy and the social sector are supported. It is a Budget that will hopefully restore confidence in the market and our currency and bring optimism to the people of this country. I again emphasise the need to efficiently stretch the resources to the last cent in order to achieve more and turn the current situation around.
122. Total expenditure will rise to over E12 billion. Much of this will go to once-off payments, and expenditure should fall over the medium term. After investment, the budget balance will still be nearly 1% of GDP in surplus.
123. Mr Speaker, I now present to this Honourable House, the Budget Estimates for 2012/13 as follows:
- a. Revenue plus grants: E12,230 million;
  - b. Recurrent expenditure: E9,241 million;
  - c. Capital expenditure: E2,313 million;
  - d. Total expenditure: 11,553 million; and
  - e. Balance: E200 million.

## **XI. CONCLUSION**

124. Mr Speaker, in conclusion first and foremost, I wish to express my sincere appreciation to my family for their unconditional love, patience, and unwavering support; who are always there to encourage me in all circumstances.
125. Mr Speaker, once again I would like to express my appreciation for the support and guidance I have received in the preparation of this Budget from my colleagues in Cabinet, the Finance Portfolio Committee of Parliament; members of staff in the Central Agencies for putting the necessary documentation together; line ministries for their kind understanding in these frustrating times; our cooperating partners for their unwavering support particularly during this trying year; the public and the civic

society for their continued demands for accountability and transparency in the allocation and use of the tax payers money; and all those who support and pray for the success of this country.

126. Mr Speaker, I beg to move that this Honourable House resolves itself into a Committee of Supply, to enable it to consider the Estimates of Revenue and Expenditure to be paid into and drawn out of the Consolidated Fund during the 2012/2013 fiscal year.