

BUDGET SPEECH 2004

PRESENTED BY

THE MINISTER OF FINANCE

MAJOZI V. SITHOLE

TO THE PARLIAMENT OF THE

KINGDOM OF SWAZILAND

24th MARCH, 2004

1 INTRODUCTION

1. Mr. Speaker, it is truly a great honour for me to stand before this House once again to present the national budget speech. This is not a privilege that has been automatically conferred upon me. My sincere thanks go to the people of Mafutseni Chiefdom and Inkhundla, who against all negative reporting directed at me, decided to exercise their democratic right to choose a candidate of their own choice. In a special way I also wish to thank His Majesty for the faith and trust he has placed upon me. I have no doubt that God will be with me throughout. Despite the difficult economic times I am always comforted by the knowledge that with God nothing is impossible and he has assured me in his word that he will never give me a burden I cannot carry and I love Him for that.

2. Mr. Speaker, may I also be allowed to acknowledge the effort undertaken by Government in the facilitation and completion of the national elections that have brought us all together here today: I wish you all the very best in the years to come. In particular, I hope to see increased cooperation between the legislative and executive arms of Government for the betterment of the livelihoods of the Swazi Nation. This may sound like an easy task, but it is definitely not. It is a task for all of us. I pledge my support in addressing the concerns and plight faced by our economy.

3. Mr. Speaker, while this is my fourth Budget, for most of the Honourable Members it is their first. Hence, I find it appropriate that I begin with a few words to help shed some light on the purpose and role of the Budget. The budget of the Government of Swaziland (GOS) shows how Government plans to use its resources to achieve its policy goals. It gives an outline of the economic situation under which it has been formulated, and it sets out the objectives of the policies announced and describes the specific measures chosen to implement them. It also says something about the impact of new policy measures on the economy, especially on the public.

4. The economic conditions that Swaziland faces, and the financial situation of Government, severely constrain the choices that can be made more so with the increasing fiscal deficits that have been incurred in the past four years. Bringing Government expenditures back into line with the available resources is the central issue of this budget round and for the medium-term. Substantial cuts in expenditure are necessary, cuts that will impact on all areas of Government activity. In the same vein there has to be a substantial effort on measures to increase revenue collections without necessarily increasing the tax burden on those already affected.

5. While the budget is prepared each year, Government, conscious that its decisions have impacts beyond next financial year, has adopted a Medium Term Expenditure Framework (MTEF) to look not one but three years ahead, most particularly on the recurrent expenditure. Last year some Ministries piloted the MTEF; this year, all Ministries have adopted the MTEF format. All Ministries prepared estimates of revenue and expenditure for the three financial years 2004/05, 2005/06 and 2006/07.

6. The reality of having to curtail expenditures to fit projected revenue collections – in other words living within the available resources – has therefore dominated the framing of this Budget, and will continue to dominate Government's actions for the next few years. But, while addressing these matters,

we cannot ignore the major economic policy issues facing the country. These issues, particularly responses required to address the disaster that has just been declared, may require annual reviews of the sector allocations and intensification on certain activities such as addressing the HIV/AIDS pandemic, alleviating poverty and creating employment opportunities in the medium-term.

7. Mr. Speaker, with these introductory remarks I urge all members of this House to work in close collaboration with the different arms of Government in scrutinising and cutting down on unnecessary expenditure and assist in the identification of other possible revenue sources to widen and strengthen the existing base.

2 GLOBAL DEVELOPMENTS

8. Mr. Speaker, Swaziland is one of the most open economies in the world. Trade accounts for over 50% of our GDP. It therefore follows that I should present to you the global economic outlook and its bearing upon the Africa region as well as Swaziland. The majority of the world's developing countries saw reversals and stagnation in many areas related to the welfare status of their populations. Unfortunately, many of these countries are in Sub-Saharan Africa. These countries have been hit particularly hard by a significant decline in the prices of their key primary commodities. This has greatly affected their ability to provide services since they depend on their exports for revenue generation and foreign exchange.

9. World economic output growth is picking up, rising from a low of 2.4% in 2001 to a projected 4% in 2004. In particular, the US economy is set to recover sooner than expected, given both productivity growth and the ongoing fiscal policy stimulus.

10. Inflationary pressures remained low throughout 2003. In part this is due to the fact that oil prices were fairly stable – contrary to expectations of an increase due to the Iraq war. The future looks very promising as the prices are expected to decrease now that Iraq is rejoining OPEC in supplying oil.

11. The slowdown in economic growth in the Euro area has been deeper and more prolonged than expected. GDP growth declined, consumer and business confidence remained depressed and unemployment levels continued to climb. In Asia, the Japanese economy has had a mixed performance, including a continued long spell of deflation, stabilisation of the financial sector following the crisis, strengthening of the Japanese Yen and rising unemployment. Nevertheless, an improved external environment and the recovery in stock prices are leading to a sizable positive impact in the growth prospects.

12. African economies grew at an average rate of 3.7% in 2003. Expected growth for Africa in 2004 is 4.8%. Even though the present level of development is a cause for concern, there is hope for stability in Africa considering the signing of peace treaties indicating an intention to resolve conflict and unrest and greater democratisation in a number of countries.

13. It is worth noting, Mr. Speaker, that despite the resilience of last year's GDP growth performance, it still falls far too short of the growth levels necessary for achieving the Millennium Development Goals, more especially the halving of poverty by 2015. The Millennium Development Goals are intended to address the crucial socio-economic factors that are necessary for basic human survival. These include access to clean water, proper sanitation, primary education, primary health care, food security, elimination of gender disparities, HIV/AIDS amelioration and proper environmental management. To achieve these, Sub-Saharan Africa's growth levels will have to grow substantially to more than 7% a year, a tough proposition for even the strongest performers.

14. Economic growth should therefore be vigorously promoted both domestically and regionally in order to realise a positive recovery. Economies like Swaziland should seriously consider the role in development of their domestic markets for increased investment flows. Government must also maintain its debt burden and fiscal deficit within sustainable parameters, so as to ensure that issues of social inequities can be properly addressed.

15. Added to this is the urgent need to identify trade opportunities, which are still heavily weighted against developing countries. Linked to this, Mr. Speaker, are issues of governance – a precondition for the capitalisation of opportunities presented by free trade. Addressing these issues will help to deliver

our ultimate aim of fulfilling the Millennium Development Goals or MDGs. Progress on the MDGs in Sub-Saharan Africa has been very slow to date on both infant mortality rates and poverty strategies such that the levels are still as those of the nineteen nineties. This clearly shows that there are still considerable improvements that need to be made.

3. REGIONAL DEVELOPMENTS

16. Mr. Speaker, the economy of the Republic of South Africa has continued to expand, growing by 2.2% in 2003. The growth level is expected to be at 4% by 2006. The growth will be supported by increased demand driven by the recovering global economy, fiscal policy reforms, stable monetary policy and rising incomes.

17. The Commonwealth's suspension of Zimbabwe following its presidential elections is indicative of structural problems in the region that are further exacerbating the poor economic situation of the Southern African region. The poor performance will be further compounded by the drought situation experienced in the whole SADC region, which is expected to persist into the coming year.

18. For SADC, success will depend on its ability to achieve growth in intra-regional trade for the benefit of all member states. This will require, amongst others, macroeconomic stability as a condition for capacity building, and cross-border investment. SADC has agreed on macroeconomic convergence targets that are categorised into three phases. The targets as proposed by the Committee of the Central Bank Governors are as follows:

- an inflation rate of no more than 3%
- the net present value of public or publicly guaranteed debt as a ratio of gross national income not exceeding 40%
- public budget deficit as a ratio of GDP not exceeding 3% and a current account deficit as ratio of GDP not exceeding 6%

19. To ensure compliance by member states, a workshop was held in Maputo in June 2003 to establish the Macroeconomic Monitoring and Surveillance Unit.

3.1.1 Foreign Trade

20. Mr. Speaker, as I have already mentioned, we have one of the most trade dependant economies in the world. We must therefore pay close attention to managing the terms on which we trade with our major partners, as well as monitoring developments in trading conditions globally and regionally. For better or for worse, these factors will inevitably have a significant impact on the domestic economy.

21. Mr. Speaker, the World Trade Organisation (WTO) negotiations that convened in September 2002 on the Economic Partnership Agreements or EPAs to provide for the gradual removal of tariff and non-tariff barriers, starting in January 2008, are ongoing and are planned to conclude in December 2007. Eight SADC member states – including Swaziland – are participating in the negotiations and in October 2003 the second phase of these negotiations began. The impact of the negotiations is expected to be felt well before 2020 when the full removal of the tariff and non-tariff trade barriers must have been achieved. Swaziland is expected to have reached full trade liberalisation with the EU by 2012.

22. Mr. Speaker, as the negotiations on EPAs enter their second phase, it is important to conduct studies that seek to establish a thorough understanding of the key products and sectors in the Swazi economy. This understanding will assist in designing a strategy that will ensure that the current benefits derived from our trade relations with the EU are enhanced. It is also important that Swaziland identifies common interests with the region within which it will negotiate. This exercise will also assist in identifying important countries that will provide vital inputs for trade with the EU.

3.1.2 Africa Growth and Opportunity Act (AGOA)

23. The United States of America (USA), Mr. Speaker, seems willing to extend AGOA beyond 2008, although there is ongoing debate within Congress as to whether to have it extended to 2015 or 2020. Swaziland has already been confirmed as a beneficiary of AGOA for the 2004 period. However, this

could still be lost if we lose our Generalized System of Preferences (GSP) status, whose review results will only be known in April this year.

24. By December 2003, Swaziland was one of 19 countries out of a possible 39 that had qualified to benefit from AGOA. As in all other beneficiary countries, AGOA has created many new job opportunities and the challenge for Swaziland is to increase not only the exported produce but also to diversify on production. We also have to deal with the issue of transshipments. One other challenge is the coming to an end of the WTO Multi-Fibre Agreement in December 2004. This will see the removal of quotas on USA textile imports, thus enabling the Asian economies to compete with our products in that key market. Given the opportunity cost associated with losing our AGOA eligibility we need to do our part to ensure that we continue to benefit.

25. To this end, the Government has defended the country's position at the hearings conducted by the office of the United States Trade Representative (USTR), and employers and employees in the Textiles and Garments Sector have agreed on Union Recognition procedures and other worker's rights to be observed, engendering a new spirit of greater cooperation between employers and employees. The observable reduction in illegal strikes is evidence of this. The Ministry of Enterprise and Employment has also published a Textile and Garment Wages Bill that addresses the unique aspects of this sector.

3.1.3 SACU/USA Free Trade Area (FTA) Negotiations

26. Mr. Speaker, Swaziland – together with her SACU partners – commenced negotiations for a Free Trade Agreement with the USA in April 2003. We have set ourselves a target of December 2004, by which time the negotiation process should have been finalised. Four successive rounds have already been completed, with each one of these marking a further step toward meeting the deadline. At the start of the negotiations, SACU and the USA committed themselves to create a Free Trade Agreement that will confer real benefits to both SACU and the USA. SACU will ensure that the Agreement builds on the success of AGOA, securing these benefits in a more sustainable arrangement. It is also expected that the agreement will place SACU countries in a better position as linkages in the increasingly integrated global economy. The outcome of the negotiations should reflect different levels of development between both SACU and the USA and within SACU.

3.1.4 Other SACU Free Trade Agreements

27. SACU is also engaged in Free Trade Negotiations with MERCOSUR countries, comprising Argentina, Brazil, Paraguay and Uruguay, as well as with the European Free Trade Association (EFTA), which is made up of Switzerland, Liechtenstein, Norway and Iceland. Consideration is also being given to starting negotiations with India, China and Nigeria. These initiatives represent major steps towards securing favourable trade relations with the major world markets, thereby locking in the benefits of globalisation.

3.1.5 Common Market For Eastern And Southern Africa (COMESA)

28. Mr. Speaker, the derogation of Swaziland's access to the Common Market for Eastern and Southern Africa (COMESA) has been extended to April 2004. This therefore allows Swaziland to export to COMESA countries at reduced tariffs. This market is essential for the success of trade in Swaziland. Therefore, my colleague in the Ministry of Foreign Affairs and Trade will hold talks with the other SACU member states with a view to obtaining their concurrence towards a permanent arrangement with regards to the country's membership to COMESA.

4. DOMESTIC DEVELOPMENTS

29. Please allow me, Mr. Speaker, to turn to the macroeconomic indicators defining our own economic performance in the past year and the prospects for the coming financial year. GDP growth for 2003 was at a rate of around 2.9%, up from 2.7% in the previous year. However, with trade steady but not growing rapidly, we cannot expect substantial improvements in GDP growth. For 2004, we are therefore facing a projected GDP growth of around 2.5%. Growth is mainly attributable to the slightly improved economic activity within the construction and manufacturing sectors. Performance of the agricultural sector has been disappointing, mainly as a result of the drought.

30. This therefore leads me to a discussion of the economic developments Mr. Speaker, before moving onto the budgetary and financial measures we are putting in place to address the immense challenges we are currently facing.

4.1.1 Poverty Alleviation

31. Mr. Speaker, unfavourable conditions for subsistence agriculture, high unemployment in the formal economy and the social impact of the HIV/AIDS pandemic, have pushed the majority of the population to living on less than US\$1 per day. Today, over 66% of Swazis live in poverty. As a nation, Swaziland is reckoned to be a Lower Middle-Income country, but income is unevenly distributed.

32. The present economic and social environment has directly and indirectly contributed to the poverty situation in the country. Unemployment has increased, the drought situation worsened this year, and the levels of HIV/AIDS infection as well as related deaths have reached alarming levels. Mr. Speaker, it can be safely assumed that the numbers of destitute and vulnerable citizens constitute more than 50% of the population. An analysis of the poverty trend reveals that the incidence of poverty has gradually increased, while the depth and severity has worsened. Moreover, the poor face increased food insecurity, an increase in the dependency ratio due to HIV/AIDS, unemployment and a changing demographic structure.

33. Mr. Speaker, I wish to mention that there has been progress in the preparation of the Poverty Reduction Strategy and other related initiatives. The Poverty Reduction Strategy includes: rapid acceleration of economic growth based on broad participation; empowering the poor to generate their own incomes, and an equitable distribution of the benefits of growth through public spending. Government has set up a Poverty Reduction Monitoring Unit within the Ministry of Economic Planning and Development (MEPD) to look into the trend and closely monitor the achievements of the Millennium Development Goals. Whilst Government has started a number of poverty reduction initiatives, this Unit is working on a monitoring system through which Government would be advised on the effectiveness of her programmes.

34. Furthermore, the Ministry of Economic Planning and Development is analysing the data from the recently conducted Household Income and Expenditure Survey for the production of the Poverty Profile, which will give an indication of the trends of poverty since 1995. As Government we are most thankful to our cooperating partners who have helped us to reach this milestone and we urge them to provide their continued support in halving poverty by 2015 and eliminating it by 2022. The drafting of the Strategy and Action Plan is at an advanced stage and Government has increased its commitment for the implementation of the Social Protection of Vulnerable Children programme for 2004/05.

35. Mr. Speaker, 2003 saw the Ministry of Economic Planning and Development produce the first Millennium Development Goals country report for Swaziland. The MDGs, a set of 8 measurable goals, will assist the country in a comprehensive reduction of poverty if they can be achieved. The Central Statistics Office (CSO) is being strengthened with the aim of improving on its statistical capabilities and reporting of key economic data relating to employment statistics, social sector development, financial and external trade statistics. A draft strategic plan for the CSO was produced in December 2003.

4.1.2 Drought Situation

36. Mr. Speaker, as if to worsen the poverty situation projected above, the drought situation has not improved and weather experts have predicted that the 2003/04-crop year would be the worst year since the drought started. The drought's persistence during the year 2003 has led to a drastic increase in the number of victims to which the National Disaster Task Force has had to attend. That number had increased to 297,000 by April 2003. Thereafter there were limitations in the food supplies, leading to the rationing of food provision for the victims, concentrating on providing for the 100,000 victims in the Lowveld and giving out the other plus 157,000 in the Middleveld and the Lubombo Plateau.

37. Swaziland has had to import more cereal in 2003 than in past years, as a result of the severe drought situation. These imports have not, however, reduced domestic cereal product prices. As a matter of fact, the National Maize Corporation (NMC) has already announced a price increase for maize delivery by local producers. Also, it means that the 70% of the country's population that live in the rural areas will be facing severe food shortages because their subsistence farm activities are highly dependent on rain. This implies more food aid would be required in the coming year. Farmers are therefore

encouraged to take advantage of the late rains and plant other types of food crops, like legumes. This need is especially great because, since the whole region is affected, it will be difficult to import enough maize from neighbouring countries, as they will be giving priority to their own needs. Highlighting the gravity of the situation, SADC has declared the drought a humanitarian crisis.

38. The little rain received between December 2003 and January 2004 was not sufficient to make a significant impact on the water levels in the country's rivers and dams – they remain very low. This includes the dams used for irrigation by the major sugar and citrus producers and the Swaziland Water Services Corporation. Consequently, water users have been warned to use water more sparingly, with major ones like the sugar cane growers already rationing water usage. We must also remember that these rains caused damage to human life and property, destroying property belonging to households, the private sector and Government – especially schools. Let us not forget the impact of the drought on livestock either, especially for those on Swazi Nation Land (SNL). The Ministry of Agriculture and Co-operatives has already warned livestock owners to reduce their cattle herds to avoid losing them as a result of the fast deteriorating condition of the grazing lands.

4.1.3 HIV/AIDS

39. Turning to the HIV/AIDS pandemic, Mr. Speaker, the statistics paint a very grim picture indeed. The first wave of the HIV/AIDS epidemic is marked by increased infection rates. In this regard, the HIV/AIDS prevalence rate amongst 15-49 year olds increased ten fold between 1992 and 2002, from 3.9% to 38.6%. AIDS related deaths, which occur a number of years after initial infection, constitute the second wave and are now beginning to be felt. 8,000 people are estimated to have died from AIDS in 2001 and projections indicate that by 2009 this will have risen to 24,000 per year.

40. Mr. Speaker, in addition to the human suffering caused by HIV/AIDS, it undermines our growth prospects through declining productivity and quality of service due to increased illness and absenteeism amongst those in the most economically productive age groups. This will result in a loss of human resources and require increased training and recruitment to replace lost skills. On the fiscal side, we can expect to see a shrinking revenue base and additional demands placed on pension funds in the medium-term.

41. Much more encouraging however is the national response to the crisis. Our approach to tackling the pandemic, as detailed in the National HIV/AIDS Strategic Plan is: prevention of further infections; provision of care and support for those already infected, and; mitigation of the social and economic impacts of HIV/AIDS at all levels of society. This response is being coordinated through the National Emergency Response Commission on HIV/AIDS (NERCHA) and will be addressed in more detail when we tackle issues in the social sector.

42. As a word of caution, may I draw the attention of this Honourable House to the alarming signs that some unscrupulous people are using the pandemic to enrich themselves. Whatever happened to the caring Swazis who were not always driven by money? Let us all do some soul searching.

4.1.4 Employment Creation

43. Mr. Speaker, while Government initiatives centred on AGOA have contributed to an export oriented clothing industry that has created around 28,000 jobs, the rate at which new jobs were created began to decline just as the numbers of new entrants to the labour market was increasing. Increasing supply at a time of falling demand has swollen the numbers of unemployed. Prospects for a rapid decline in their numbers are not good.

44. The first part of the 2003\2004 period has created some 8,000 new jobs mainly in the textiles and garment sector. An additional 6,000 employment opportunities have been created particularly as a result of the larger sugar estates and transport haulage companies that have been set up. It is on this note Mr Speaker that I would urge companies and other institutions to consider making the statutory provident fund contributions for their employees and that there is increased awareness amongst all stakeholders of the benefits of the Swaziland National Provident Fund (SNPF) scheme.

45. Mr. Speaker, divestments in the past year have been minor, with the closure of two garment companies (First Garments and GMS Textiles). In the motor industry, this period also saw the closure of Tracar, a member of the Swaki Group that had operated in the country for a very long time. Total

employment losses experienced as a result of these business closures amounted to approximately 3,000. It is therefore imperative that other job opportunities are created to reduce the unemployment numbers.

46. The continued support from Government's cooperating partners does not go unnoticed in employment creation and more so in the areas of governance, economic and social management. Key strategic areas of support undertaken were: the constitution-making process, administration of justice, law reform and capacity building and institutional strengthening for sustainable development. This has set the pace for the economic and political adjustments necessary to create and facilitate employment creation in Swaziland and the expectations are that more jobs will be created in the coming financial year through AGOA and the expansion of the factory shells program under the Millennium Projects.

5. FOUNDATIONS FOR ECONOMIC GROWTH

5.1 Overview

47. To address these issues, Swaziland has to build solid foundations for economic growth. The preconditions for establishing long-term economic growth are:

- Establishing and maintaining a conducive investment environment;
- Addressing the employment issue;
- Controlling Government expenditure;
- Re-orienting Government expenditure toward social sectors;
- Increasing productivity and diversifying production in the agricultural sector;
- Effectively addressing the problem of corruption;
- Improving Government's cash flow balances, and;
- Proper planning.

48. Only when these preconditions are in place will we be able to properly address the problems of HIV/AIDS, unemployment, and widespread poverty. Mr. Speaker, allow me to turn to the Government policies and action programmes towards combating the thematic areas before moving onto explicit measures in this Budget.

5.2 National Development Strategy (NDS)

49. If policies are to achieve the results sought, there must be widespread support both for the objectives and for the ways in which policies are implemented. This is the role of both the NDS and the SMART Partnership Dialogue. The coming financial year will see a number of related activities taking place. These will include the hosting of the Commonwealth Parliamentary Conference in August, the establishment of a National Hub Office following the SMART Partnership dialogue in August 2003, and the hosting of the SACU/USA Free Trade Agreement Negotiations in Swaziland. It is my utmost belief that these activities will enhance the credibility of the nation and also increase trade opportunities. However, let me caution against the tendency to be extravagant when hosting such meetings.

5.2.1 National Development Strategy

50. Mr. Speaker, in July 2003 Cabinet approved the operationalisation of the NDS. This has necessitated the setting up of the appropriate institutional framework that will be responsible for the implementation and coordination of all the Government programmes under the NDS. These include the poverty, population, HIV/AIDS and unemployment issues. For the coming financial year a project is being proposed under the implementation of the NDS, which will assist with the review and analysis and also take stock of how to progress with the implementation of various growth-oriented Government projects.

5.2.2 SMART Partnership Dialogue

51. Mr. Speaker, last year the country hosted the SMART Partnership event in Swaziland for the first time. The event brought about some infrastructure development at the Ezulwini Village in terms of the road network, a facelift of the airport and the village itself. This also helped to improve the country's profile in the international community as well as demonstrating that we have the potential to host meetings of such magnitude.

52. Mr. Speaker, it is now a requirement that a national hub be set up to coordinate all the activities under SMART Partnership. For the coming financial year Government is proposing the establishment of the National Office, with an estimated annual budgetary provision of E1 million. The Swaziland Industrial Development Corporation (SIDC) has already pledged E50,000 towards the establishment of the hub and I urge for more private sector involvement in the hub since this is a facility to serve public-private partnerships in development. This would help ensure effective participation of Swaziland in the planned International Dialogue to be held in Malaysia this year.

53. Mr. Speaker, may I once again assure you that the national dialogues will continue as indicated by His Majesty King Mswati III. One is planned for April 2004 to sensitise the public regarding the intentions and objectives of the SMART Partnership dialogue, in which I would urge everyone's active participation.

5.3 Investment Environment

5.3.1 Investment Climate

54. Swaziland has enjoyed an attractive investment environment based on stability, safety and security, a free enterprise economy, the country's competitiveness in business cost factors and easy access to international markets. Its incentives, though largely centred on tax breaks and provision of ready-to-occupy factory buildings, made this country highly competitive as an investment location within the Southern Africa region. On a comparison of infrastructure (road and rail), telecommunications, electricity and water, and other cost factors, Swaziland has been rated second only to South Africa.

55. The first eight months of the 2003\2004 period saw five new companies bringing Foreign Direct Investment (FDI) into the country, thereby adding to the 28 new companies that have settled in Swaziland since 1999. The majority of these companies have invested in textiles and garments in pursuit of the obvious entry advantage of these products into the US markets under the African Growth Opportunity Act (AGOA).

56. Mr. Speaker, on domestic investment, the Swaziland Investment Promotion Authority (SIPA) has facilitated the establishment of 26 businesses, some of which were major expansions. In the 2003\2004 period, 13 new businesses have been assisted. To date, a total of 68 companies have been assisted in small as well as large operations. Some others have involved linkages with FDI through joint ventures (shareholding), subcontracting and outsourcing. The businesses involved are spread over the retail, manufacturing, handicraft, sugar, transport haulage, and catering sectors.

57. Crucial steps are also being taken towards unlocking the potential of the human and physical resources existing in the domestic economy. One of the best ways of enabling small farmers and businesses to invest and expand is to provide them with a long-term guarantee of ownership, thereby allowing them to use their property as collateral to secure loans to invest for the future. To this end, I welcome the initiative within the Urban Development Project area establishing 99-year leases on Swazi Nation Land (SNL) and wholly endorse the Ministry of Housing and Urban Development's ongoing initiative to expand this concept. This will help to facilitate asset-backed lending, one of the keys to the dynamism of developed economies.

5.3.2 Security

58. Mr. Speaker, security remains high on the agenda of Government. We earnestly desire a state where there is law and order and the people and investors can go on with their lives and businesses without fear of crime. As Government, we envisioned a state of continuous stability and a crime free society, where the environment will be conducive to socio-economic development and will ensure that Swaziland is the right destination for investment and tourism development.

59. The role played by the security forces and police in the communities in reducing crime is highly appreciated. We acknowledge problems faced by the police, where families are forced to share houses, and the pressures that this situation places on staff morale. Government is presently undertaking to address this problem, and this budget provides E44 million for police staff housing.

5.3.3 Constitutional Elections

60. Mr. Speaker, Government is of the view that the constitution should be by the people, of the people and for the people. Hence the Constitutional Review Committee (CRC) collected the contents for the constitution from the people. The Constitutional Drafting Committee (CDC) has already produced a draft constitution, which is presently with the people to incorporate their views. It is Government's hope that the final product would represent the nation's aspirations. This has been enhanced by the translation of the draft document into siSwati. Mr. Speaker, the constitutional dispensation in the Kingdom will improve our tainted international image, and help restore the judicial system's credibility, and hence restore investor confidence.

61. We urge the CDC to rapidly complete its work. As a Ministry, we are not only interested in speedy completion because of the adverse financial implications of a prolonged exercise, but also because of the positive impact that will result from the adoption of an acceptable constitution.

62. Mr. Speaker, 2003 saw the country conduct her third democratic elections since 1992. Through the process, citizens were sensitised on their democratic right to choose their legislators, through voting for their parliament. Though a couple of electoral disputes were reported, Mr. Speaker, it is worth mentioning that the country's elections were conducted in a peaceful and decorous manner and international elections monitoring agencies attest to this. Nevertheless, the Government is still facing the challenge of strengthening the Elections Order of 1992 to match international standards. This will go together with the strengthening of the Electoral Office.

5.3.4 Small and Medium Enterprise (SME) Development

63. Mr. Speaker, Government has established a Unit under the Ministry of Enterprise and Employment to consider how best to develop the Small and Medium Enterprises or SMEs. A policy is still under formulation for approval by Cabinet during the coming financial year. This policy seeks to ensure that amongst other things it addresses the shortcomings of the Export Credit Guarantee (ECG) and the Small Scale Enterprise (SSE) Loan Guarantee Schemes and, where possible, indicate the financing requirements needed to meet the demand for financing from this sector and the required institutional framework to facilitate its development and growth.

64. Mr. Speaker, these schemes were set up in the early 1990's by the Government of Swaziland with the Central Bank of Swaziland (CBS) through the Development Finance Division (DFD). These schemes focus on two main categories of borrowers, namely: small-scale entrepreneurs and small and medium scale exporters. The credit ceilings are currently E3.3 million and E150,000 for the ECG and SSE Schemes respectively. Since their inception in the early 1990's, the Schemes have been successful as an economic enlistment mechanism as most of the enterprises that benefited under the Schemes were empowered to be self-sustainable and graduated from small to medium and from medium to large business concerns. We have now reached a point where these schemes would benefit from a review to establish the extent of their usage and to identify associated problems.

65. Mr. Speaker, for the sustainable development of the indigenous business sector, I urge all Government ministries as well as the business association involved in SME development to ensure that there is proper coordination of activities and programmes. This should ensure that the new Unit is established as a successful focal point in meeting Government and private sector objectives.

5.3.5 Tourism Development

66. Tourism directly addresses the national priorities of employment creation, poverty alleviation and revenue diversification. In October 2003, His Majesty King Mswati III launched the Swaziland Tourism Authority (STA) as an agency to spearhead the marketing of Swaziland as a preferred tourist destination.

The aim of tourism promotion is to increase visitors' arrivals and lengthen their stay in Swaziland, which will in turn increase the tourism sector's contribution to GDP. Local communities are also being made aware of the opportunities available through tourism and their capacity has been enhanced to manage related projects. A spin-off from this approach is the preservation of valuable cultural, environmental and biodiversity assets within SNL.

6. INFRASTRUCTURE DEVELOPMENT

67. Turning to infrastructure development, Government is continuing with its effort to create an enabling investment environment whilst at the same time undertaking its social obligation to the Swaziland community.

68. Mr. Speaker, the Komati Downstream Development Project is now at its peak of implementation, with over 20 farmer organizations already established and engaged in the growing of sugarcane and other crops. Finances for these activities amounting to E150 million have been sought from the African Development Bank and will be disbursed to the farmers through Swaziland Industrial Development Corporation and Financial Corporation (FINCORP), previously known as the Enterprise Trust Fund (ETF). The implementation capacity and drawdown of the financing will be very much dependent on the drought situation. On completion, this project is expected to generate in excess of E100 million in revenues for the economy and will benefit over 25,000 people in the lower Komati valley.

69. The implementation of the Lower Usuthu Smallholder Irrigation Project (LUSIP) is continuing as planned with all the funding now in place from the donor community. This year will see the commencement of the detailed engineering design and intensification of the community consultation process, in preparation for construction of the Lubovane dam and canals, as well as the irrigation development. A total of E57 million is presently budgeted for work on this project in 2004/05. The project is expected to improve the living standards of the communities affected, benefiting over 2,500 households.

70. Mr. Speaker, enhancing these activities is the electricity supply system that is currently being extended to rural areas. Together with our project development partner we have set aside E14 million in this budget in order for this project to continue this year. A number of Government institutions and communities have benefited from this exercise. I can only urge communities to make good use of this infrastructure whilst on the other hand requesting my colleagues in Government to ensure that the infrastructure is put to good use timeously to maximise the benefits.

71. The Millennium Projects are continuing, with Government still soliciting private sector participation on some of the project components such as the Sikhuphe International Airport, the factory shells and the Amusement Park. The demand for factory shells continues to grow and Government has decided to explore public-private partnerships as a means of delivering the service. Three more factory shells in Ngwenya, Lavumisa and Matsapha will be constructed in the coming financial year, two of which are required to secure our eligibility for the second phase of the AGOA programme. Failure to do so may result in a huge loss for the economy with respect to the opportunities from this market.

72. The resettlement of the homesteads affected in the construction of the Airport is underway under the Ministry of Agriculture's Rural Resettlement Programme. On the same note, may I announce that the 2004 International Trade Fair will be hosted on the new premises. Government has taken a deliberate decision to run this new facility on a commercial basis, including even the management of the Trade Fair, which will be tendered out on an annual basis.

73. Mr. Speaker, within its ongoing programme, the Ministry of Public Works and Transport will be embarking on the implementation of Phase II of the Mbabane By-pass Road Project at an estimated cost of E505 million, of which E373 million will be donor funding still being sourced. A forensic audit by the Ministry of Justice and Constitutional Affairs on Phase I of this project is still ongoing and the House will be apprised of the findings in due course. The Tshaneni-Madlangempisi – Msahweni road upgrading is also ongoing at an estimated cost of E500 million and is expected to be completed in the medium-term. The Ministry of Public Works and Transport will shortly be presenting a proposal to Cabinet to introduce tollgates on the infrastructure already in place, to recoup the maintenance costs.

74. The Ministry of Natural Resources and Energy, as the entity responsible for development of water resources, is involved in a joint study of the Maputo Basin (Usuthu Basin) with Mozambique and the Republic of South Africa. The ministry also has programmes for improving the measurement of river flows on the Usuthu and Ngwavuma rivers and completing the refurbishment and rehabilitation of the infrastructure around the Mnjoli dam. Last year, the spillway of the Mnjoli dam was to be rehabilitated but due to technicalities work had to be postponed.

75. The Rural Water Supply Board (RWSB) is working towards a target of providing water to all by the year 2022. They have already managed to improve the capacity of both the communities and the technicians, through training in respect of project management and design. This programme also involves the implementation of pilot projects, which aim to substantiate the studied models. Government has made available E20 million as counterpart funding for this programme and this is seen as a vehicle towards poverty reduction. This budget has a provision of E102 million for clean water supplies in a number of areas, including Siteki and Lomahasha.

76. Within the framework of rural water supply, there is also a drilling programme for rural communities to provide hand pumps. Financial assistance to this programme is expected to start at the beginning of this financial year and Government has awarded E784,000 for the purchase of consumables and maintenance of rigs and an additional E10 million over a period of three years for the purchase of drilling equipment. I strongly urge the Department to give priority to the worst hit communities in the construction of the boreholes.

77. Mr. Speaker, water is increasingly becoming a constraint on the economic development of the country. A focused strategy and direction is required to guide interventions and investment in the sector, so as to ensure that much benefit is derived from the little water resources available. The Water Act of 2003 is now in place and will introduce Integrated Water Resources Management (IWRM), a concept adopted as best practice the world over. The Act also introduces River Basin Authorities, which are basin institutions aimed at managing water at local level, under supervision of Government. The aim is to ensure reasonable and sustainable water allocation and abstraction by water users in each river, so as to ensure equitable utilization of the shared resource.

78. In addition, Mr. Speaker, the Energy Policy has been approved while the Mining Policy is awaiting Cabinet approval. After the approval of this policy, the Ministry will review and update the relevant legislation to provide an enabling environment for the resultant implementation of policies.

79. Whilst seeking to encourage investment by mining companies, there is also a need to ensure that mining operations are conducted responsibly. The neglect of the environment and harm to local communities as a result of mining operations is not acceptable. The intention is to ensure that Swaziland is securing the full economic and social benefits which mining development promises. The Government's policies are directed not only at large-scale mining but also at small-scale mining operations, which offer opportunities to support the rural livelihoods of the Swazi nation. Small-scale mines have to be assisted in their efforts to operate in an economically and environmentally sustainable manner.

7. FISCAL REFORM

7.1 Tax and Administration

80. Mr. Speaker, Government continues to address the prevailing cash flow problem by exploring revenue enhancement strategies and implementing expenditure control measures. Corrective measures taken last year to address the situation included making a provision of about E10 million to the income tax and customs revenue agencies to enhance and strengthen their revenue collecting capacity. This has yielded great results through improved revenue performance. E8 million has been budgeted this year for these Departments to further improve their revenue collecting efforts. Let me now turn to some of the initiatives planned for the coming year.

7.1.1 Unification of the Revenue Authorities

81. Mr. Speaker, better management and administration in the revenue departments is an essential prerequisite for improved revenue collection. I am therefore pleased to announce that E10 million has been budgeted for 2004/05 to lay the foundations for the creation of a new Revenue Authority. The proposed Revenue Authority will combine the Department of Taxes and Department of Customs and Excise together with other major Government revenue streams in a new autonomous organisation, just as the South African Government has in recent years created the South African Revenue Service (SARS).

7.1.2 Introduction of value Added Tax

82. Mr. Speaker, I am proposing to this Honourable House the introduction of Value Added Tax (VAT) in 2006/07 to replace the sales tax and augment the revenue base in line with emerging Best Practice within the region. For 2004/05 my ministry will be contracting consultants to advise on the possible ways of introducing the VAT and developing the necessary institutional and legal frameworks. An amount of E10 million has been set aside in the budget for 2004/05 to develop this system.

7.1.3 Legislative Amendments

83. Over and above these proposals, my Ministry shall also:

- Make such legislative changes as are necessary to improve the administrative efficiency of the Income Tax Act and to make the tax system a more equitable one.
- Table before the Honourable House an amendment to the Sales Tax Act aimed at increasing the tax base by closing several loopholes, which are presently being exploited.

84. Mr. Speaker, I note that the most effective way to increase revenue is not to increase taxes but to ensure better compliance by broadening the tax base and showing taxpayers that their taxes are used efficiently, effectively and for viable investment programmes.

7.1.4 Personal Tax Rates

85. While Government is actively pursuing means of widening the tax base to bring in additional revenue, Government is also concerned about the welfare of the taxpayers. With the implementation of taxation of benefits-in-kind at market rates and the non-revision of personal tax bands since 2002, "fiscal-drag" has reduced take-home pay and disposable incomes. To alleviate the tax burden, my Ministry will be bringing further amendments to the Income Tax Order to revise the personal tax bands to give relief – particularly to the lower- and middle-income groups. Currently persons earning E14,000 and below per annum are exempt from tax. With effect from July 1st 2004 this figure will increase to E20,000 and the rates will also be reviewed.

86. I would also like to draw this House's attention to the provision in the Income Tax Order of 2003 that increased the exemption on taxation of benefits for retrenched workers from E10,000 to E30,000. This is over and above the complete exemption of all severance and notice pay and has already benefited retrenched workers from Swaziland Railways.

7.2 Re-Orienting Government Expenditure

87. Mr. Speaker, the fiscus continued to show signs of ailment as a result of the widening fiscal deficit and the huge drawdown of Government reserves. And while several reform measures have been proposed we have only partially implemented them. Greater urgency is needed. Hence, Government is embarking on strict, even harsh, measures to redress the situation. We will administer the doses of medicine necessary to return the economy to a sustainable path.

88. Expenditures have continued to be much higher compared to revenue receipts. Such spending has resulted in severe cash flow constraints, which have posed a serious concern to the Government in the current financial year. Mr. Speaker, Government's recurrent expenditure has increased by 50% faster than revenue at 12% per annum on average. At the same time capital expenditure has doubled, although it still stands at about one third of recurrent expenditure. It becomes very clear therefore, Mr. Speaker, that urgent harsh steps need to be adopted to correct these trends which have led to growing, and unsustainable, deficits. The major area of expenditure continues to be the payment of wages and salaries to public

servants, a trend exacerbated by the implementation of the salary reviews, which were backdated to April 2002.

89. Mr. Speaker, the poor management of Government facilities such as telecommunications and utilities continues. Coupled with the increased maintenance costs of Government infrastructure, this places stress on our fiscal position. It is saddening to report, Mr. Speaker, that almost all the Government ministries have debt outstanding with the utilities and that there are threats of closures and disconnections. This calls for Government to take punitive action on the officers responsible and I can assure you, Mr. Speaker, that I will be tabling to this House very shortly the necessary piece of legislation that will ensure that structures are put in place to surcharge overspending officers. Further, a paper will be presented to Cabinet in the next few weeks fixing Ministers' allowances for cell phones and land lines.

90. Expenditure on consumables and durables has also been on the increase. This has been mainly attributed to the tendering procedures of Government and due to the delayed payment to suppliers by Government. I can assure the Honourable House that this will be a thing of the past following the review of the Tendering and Procurement Procedures by my ministry, which is already before Cabinet for adoption and with the cooperation from the private sector itself I look forward to an improvement in the tendering process as well as the timeous payment by the Treasury Department.

91. Mr. Speaker, the commercialisation of the CTA charges was effected in October 2003 and this has been one step by CTA to minimise its operational losses. This will follow the massive implementation of reform measures within the public enterprises and the relevant support from Government ministries through proper management of vehicles. This will be coupled by the non-replacement and no purchase of Government vehicles in the coming financial year.

92. The policy on the sale of Government pool housing is being actively pursued by the Ministry of Public Works and Transport and implementation will follow based on the outcome of the consultancy work that is currently ongoing. The exercise is to reduce the maintenance burden on Government. Meanwhile, the Ministry of Public Works and Transport intends increasing the rental fees in a staggered fashion so that in the future they are more aligned to the private sector leasing costs. On another note the Ministry of Public Service and Information has agreed to the proposed review of fees on utilities for institutional housing.

93. The issue of transfers in the form of subventions to parastatals is also being addressed by my ministry through the formalisation of administration agreements between Government and the public enterprises concerned. These will include agreements with the Swaziland Nazarene Institutions and the Intergovernmental Fiscal Transfer Review that will formalise the financing arrangement of local authorities. These should be concluded and ready for implementation in 2005/06 and I trust that the ministries concerned will ensure that the financial burden and dependency on Government are minimised as much as possible.

7.3 PUBLIC ENTERPRISES

7.3.1 Restructuring

94. Mr. Speaker, the Government-owned enterprises are now faced with the challenge of restructuring their operations to ensure that they concentrate on core activities. This should reduce the demand for Government funding for activities that could be funded otherwise. We believe that the private sector is almost ready to take over some of the operations of public enterprises and run them efficiently. When shedding some of the operations of public enterprises suitable ways and means should be considered to ensure that the present employees of public enterprises are capable of taking over the operations. One of the enterprises, Swaziland Railways, has demonstrated that this is possible. A number of their operations that were costly to run have been taken over by former employees of the enterprise and are run even more efficiently. Other enterprises are encouraged to do the same where possible.

95. The National Agricultural Marketing Board (NAMBOARD) is one other Government-owned enterprise that is in the process of leasing out its business units, whilst retaining the statutory division as its core business. This will make NAMBOARD leaner and healthier.

96. The NAMBOARD case follows the success story of leasing out the Piggs Peak Hotel to Orion Hotels and Resorts on a long-term lease agreement that is bringing some revenue to Government. Another similar arrangement in the pipeline is the leasing out of the Nhlanguano Sun Hotel and Casino where

Government is currently not receiving any revenue yet she is a 49% shareholder, with SwaziSpa Holdings owning the balance. The new arrangement is expected to bring some revenue to Government.

7.3.2 Utility Regulation

97. The time has come for Government-owned monopolies to be regulated by independent regulators as against the current set up where these monopolies are regulating themselves – a situation similar to having the same person being a player and a referee at the same time. The processes of drafting legislation to regulate energy and telecommunications in the country are at advanced stages. Government will be bringing to Parliament Bills to that effect in the near future.

7.3.3 Swaziland Development and Savings Bank (SDSB)

98. Mr Speaker the success that has been recorded by the SwaziBank is commendable. Like never before, the bank has been able to record an over E39million profit for the 2003/04 financial year and can now afford to be one of the big sponsors of local football. The bank is, however, still facing the challenge of doing even better in their banking operations as they are currently generating more money from their investment activities.

7.3.4 Swaziland Development Finance Corporation (FINCORP)

99. The broadening of the base of possible clients for Swaziland Development Finance Corporation (FINCORP) gives hope that more small and medium entrepreneurs will be able to have access to funding thus contributing to the development of the economy. The creation of FINCORP, formerly known as Enterprise Trust Fund (ETF), has made it possible for even individuals, instead of organizations, to have access to funding. This will increase the number of beneficiaries that have access to funding for viable projects and this will generate more economic activity.

7.3.5 Corporate Governance

100. Just as the State must provide good governance in order for the economy to flourish, so must its companies, be they small or large. Following recent scandals in the US, Parmalat, an Italian food company, has been declared insolvent after it admitted that 3.9 billion Euros had gone missing and financial malpractice and fraud were uncovered on a massive scale. This latest scandal serves to illustrate the need to remain vigilant and to cherish the quality and integrity of our auditors.

101. Experience has shown us that there is a correlation between the composition of the board and management of a public enterprise and the decisions that are normally taken or not taken by enterprise. The time has come for Government enterprises to be both staffed and directed by individuals who have the needed skills and qualifications to run and direct them. Otherwise, our enterprises will be like runaway trains.

7.3.6 Central Transport Administration (CTA)

102. The operations of the Central Transport Administration (CTA) have been resulting in deficit for a long time now. Financial year 2004/05 is expected to be the last year for this to happen. The CTA is projecting a surplus in the 2005/06 financial year. This will be possible because of measures taken by the Board of management aimed at reducing the deficit. One of these measures has been the increase of the tariff charged to Government. The CTA is however still faced with the challenge of improving the efficiency of their operation and controls. The increase of the tariff should not be seen as the solution to the problems of CTA.

7.4 Personnel

103. Mr. Speaker, the brain drain continues to be a problem for the Government, and as such, the completion of the implementation of the Salaries Review Report remains a priority. The first part of the report commenced implementation in the 2002/2003 financial year with the salary award of 11.4% to public servants. The second and final part, which involved the categorization and evaluation of jobs in the Public Service, was to be done in 2003/04. Due to financial constraints this goal was not completely achieved as the categorised jobs needed to be re-evaluated within the assigned categories. As a result we have seen an alarming exodus of medical personnel to the developing world in recent months, owing to the low wages and salaries and unsatisfactory working conditions. An amount of E226 million has therefore

been set aside for the purpose of re-evaluation by the Ministry of Public Service and Information. However, I wish to emphasise that any awards will be contingent upon the proper sequencing of reform: the job categorisation exercise will be wholly conditional upon the right-sizing exercise. Moreover, the award will mean that there will be no salary review and no notch increases in 2004/05.

104. Mr. Speaker, running side by side with this exercise will be the review of the services provided by Government in order to rationalize service delivery and cost recovery. This exercise, I believe, will go a long way to ensuring that the appropriate numbers and types of service are retained within the Public Service.

105. Mr. Speaker, the personnel establishment is also being normalised by the Ministry of Public Service and Information. Following the discovery of anomalies in the Ministry of Education, where teachers were being hired without posts, which led to the Ministry having more teachers than were budgeted for, and where many teachers are engaged on contract or temporary terms, a normalization exercise seeking to address the problem was conducted. Its implementation is ongoing and a number of teachers have now been given post numbers. Meanwhile no new posts have been created until all the teachers without posts have been absorbed.

106. Mr. Speaker, in 2002 a consultant was appointed to conduct a forensic audit on the Public Service Pension Fund (PSPF) and to review its performance with a view to propose a solution to improve its funding level. The report is still to be considered by Government. Meanwhile my ministry will be considering the possible review of the pension scheme in line with the proposed migration from defined pension to contributory pension scheme.

107. The Government realizes that the Swaziland Public Service Pensions Fund is under-funded and could be a liability in the future. Last year I promised that Government would address the problem in the near future and this is still in our medium-term plans. Having said this, it becomes imperative to review the Public Service Pension Fund Act in relation to voluntary retirement. The size of the Public Service can be rationalised and right-sized by suspending the penal clause in the Act for at least the next five years and allow all employees above 55 years to leave the service voluntarily without losing part of their benefits. It is with that in mind that an amount of E132 million is being set aside for payment of terminal benefits to up to 1,163 employees who fall within this age group.

7.5 Deficit Financing

108. In the light of the fiscal constraints I have outlined so far, it is evident that Government needs to devise possible measures of financing its fiscal deficits and at the same time make sure that these deficits are reduced to achieve a primary surplus over the medium-term. The current course of fiscal policy will have dire consequences if it is not substantially altered in the near future. In particular it has the potential to undermine the stability of and confidence in the local currency to the extent that the currency's external viability could be placed under threat.

109. Mr. Speaker, the only options available to Government to finance the deficit are to raise additional funds through either external or domestic borrowing. In choosing a suitable balance between the two, Government must be mindful of the costs associated with each one. External borrowing usually tends to be tied to specific programmes and is therefore a cumbersome tool in the management of Government's fiscal position. Moreover, it is subject to costly foreign exchange risk.

110. Mr. Speaker, Government is therefore left with the sole option of raising deficit financing through domestic financial instruments. Ideally, Governments should not undertake long-term borrowing in order to meet recurrent expenditures since these expenditures do not generate sustainable returns. The medium-term solution available to Government therefore is to work towards achieving a primary surplus, thereby enabling Government to replenish the levels of foreign exchange reserves. In the short-term the best option is to raise finance through domestic instruments, thereby stimulating the development of the domestic financial market.

7.6 Public Debt

111. Mr. Speaker, the total Public Debt stock as at 31st December 2003, was E4.4 billion, compared to E3.5 billion as at March 31st 2002. This level takes into account the appreciation of the local currency against the major currencies at 17% as well as an additional E1.4 billion of stock contracted during the course of 2003 for the following projects:

- E770 million as partial financing for LUSIP;
- E153 million for the Komati Downstream Development Project (KDDP);
- E217 million stock of Treasury Bills, and;
- E300 million outstanding domestic debt.

112. This new debt stock level accounts for 31.4% of GDP. This ratio is expected to increase slightly by 31st March 2004, with the planned signing of two outstanding loan agreements with one financier for the Mbabane Bypass Roads Project and LUSIP. In view of the sensitivity of this stock to exchange rate movements, it would be prudent for Government to ensure that future borrowing is rand denominated.

113. Mr. Speaker, Government is committed to remain within internationally accepted debt parameters through the adoption of efficient mechanisms that will enhance the fiscal position. As an example, Government is considering restructuring its debt composition and profile as part of a broader exercise to contain future debt obligations. Time has also come for Swaziland to obtain a credit rating, which should facilitate the development of the domestic financial market.

114. Mr. Speaker, regarding the management of the E230 million stock of Government bonds, E80 million of the stock contracted with African Alliance is set to mature before 31st March 2004 with an additional interest payment of about E5 million. Issuance of this stock was one mechanism for Government to finance its investment. The medium-term stock of E100 million is set to mature in February 2005 with an accompanying E7 million interest payment. This budget makes provision for the repayment of this debt. Government will be considering the possibility of a stock re-issuance in line with the raising of the domestic debt ceiling. Moreover, I have been assured that this proposed new stock will be cheaper than the existing stock, as it will enable us take advantage of the low interest rates prevailing in the market as well as having a reduced risk spread.

115. Mr. Speaker, during the last quarter of 2003, Government started offering Treasury bills of E50 million a week as means of addressing its cash flow problem. This follows the revision of the domestic debt ceiling from E300 million to E1 billion. These bills have a maturity period of 91 days. This financing mechanism will help facilitate the development of the domestic financial market. The bills being traded currently attract an interest rate yield that is higher than in RSA. Whilst this may imply that the bills are expensive for the Government, it also means that they are a profitable investment for the private sector, and I urge both local institutions and individuals to participate in the new market. The situation is still being monitored with the possibility of introducing bills with an extended maturity period in line with developments in other SACU member states.

116. In line with the developments alluded to above, my Ministry has conducted the stakeholders review of the Public Debt Policy Paper in readiness for adoption in the coming year. This policy seeks to guide future borrowing by Government, the guaranteeing of debt to public enterprises and the management and administration of the debt stock.

7.7 Statistical Issues

117. Mr. Speaker, the importance of good statistics for Government is not to be underestimated. This need is particularly pressing in the current economic and financial climate. The severe fiscal and developmental challenges that Government is currently facing demand a more rigorous and comprehensive statistical picture than ever before. As a result, Government has embarked on an intensive exercise to improve the quality and timeliness of its economic and financial data in close collaboration with the international donor community. This exercise will improve the credibility of the country as well as assist in the mobilisation of resources to finance the Government plan of action and will also ensure proper Government planning.

8. MONETARY DEVELOPMENTS, INFLATION & INTEREST RATES

118. Mr. Speaker, the country continues to import its monetary policy through its membership of the Common Monetary Area (CMA), with South Africa as the pace setter in terms of the direction of monetary policy. The Lilangeni appreciated 25.2% against the dollar, 19.1% against the British Pound, and 13.6% against the Euro. This implies that dollar-denominated trade was 25% cheaper, thereby serving as an incentive for dollarised imports. The appreciation of the Lilangeni is evident in the slowdown in

inflation in 2003 from 11.2% in January to 4.6% in December. This has resulted in a loss of competitiveness for local firms as it became cheaper to import raw materials from outside the country as opposed to buying them locally as our prices almost match those prevalent in the world market.

119. The sharp appreciation of the Rand resulted in the slowdown in inflationary pressure in South Africa. Consequently, the inflation target was revised to 3-5%, but was later revised back to 3 – 6% for the medium-term as the Treasury Department revised its growth forecast. The rate of inflation declined by 65% between January and November 2003. Supporting the developments, among others, are the lower-than-expected oil prices after the Iraq war, and the strong currency. Although only 65% of domestic inflation is imported from South Africa, inflation in Swaziland followed a similar trend and it is forecasted to pick up in the current year as the Lilangeni eases some ground against major currencies.

120. Mr. Speaker, when the exchange rate gained ground against major currencies, the South African Reserve Bank eased her monetary policy stance and progressively reduced interest rates by 500 basis points to reach 8% by December 2003. The Central Bank of Swaziland kept in line with developments in South Africa such that the domestic discount rate and the SA's repurchase rate are at par. Commercial banks followed suit and reduced their prime-lending rate to 11.5% from 16.5%.

121. Exchange rate movements continue to be of major concern for macro-economic stability, especially as an instrument for monetary policy. In the recent four months it reached a low of E6.80 against the US Dollar, amidst election uncertainties in South Africa, a depreciation of 15.7% compared to its peak last year. The volatility of the currency is not healthy for economic activity in the country. The uncertainty caused by such movements makes investment and export planning extremely difficult. What may seem a profitable venture under one exchange rate scenario may turn out to be totally unviable should the exchange rate change substantially. This proves to us that we still need to consolidate policy credibility and economic development to reduce vulnerabilities in the economy.

122. A December 2002 to December 2003 comparison shows that bank credit extension to the private sector increased by 31.2%, while broad money supply increased by 26.9% over the same period. In December 2003 alone, demand deposits increased by 15.1% compared with the previous month in which they declined by 3.3%. Contributing to this development was the uncertainty over the interest rate developments amidst a stronger currency.

123. In ensuring orderly liquidity conditions in the money market, the Central Bank reduced the required liquidity ratio from 15% to 13% effective August 1st 2003, and the reserve requirement from 3% to 2.5%.

124. This House should also note that, following this year's 'Declaration of Legal Tender Notice,' rand bank notes are now officially recognised as legal tender in the country, backdated to October 31st 2003. This decision allows for the reinstatement of a compensation agreement between the CBS and the SARB, which will finance the administration of this agreement by CBS.

8.1 Non-Bank Financial Institution (NBFIs) Regulator

125. Mr. Speaker, Swaziland has over the years experienced the proliferation of Non-Bank Financial Institutions – or 'NBFIs' for short. NBFIs comprise savings and credit cooperatives, private and public pension funds, the provident fund, micro-finance institutions, insurance companies and capital markets and their participants. Funds with NBFIs have grown tremendously from 1994 to 2003, outstripping the rate of growth of funds with banking institutions by a wide margin. Although playing a very important role in mobilising savings, this area has been unregulated. This places confidence in the financial system at risk. It has been agreed with the relevant stakeholders, therefore, that a regulatory body, a Financial Services Regulatory Authority, be established this year to regulate and supervise NBFIs. An allocation of E15 million has been set aside to facilitate the exercise. In future years, operations of the regulatory body are to be financed by levies on the NBFIs it regulates.

9. BUDGET PERFORMANCE IN 2002/03 AND 2003/04

9.1 Outturn For 2002/03

126. Mr. Speaker, the figures for 2002/03 indicated a budget deficit of E593 million or 4.8% of GDP, as opposed to an appropriation of E564.3 million. There was a substantial increase on recurrent expenditure, particularly on goods and services, over and above the partial implementation of the salary review for the

public service. Mr. Speaker, there was minimal growth on revenue of 3% from taxes from individuals and companies and mainly from the implementation of the Amended Income Tax Order. Interest earned on Government investments showed a decline due to the substantial draw down on Government deposits and the depreciation of the local currency against the major currencies.

127. Mr. Speaker, inflation hiked to a double-digit figure, at an average of 11%, which translated to an increase in expenditure on goods and services. Capital expenditure on the other hand reflected a significant increase as a result of the peak implementation of the roads programmes and the Rehabilitation of the East-West Railway Line.

9.2 Estimated Outturn 2003/2004

128. Mr. Speaker, the appropriated deficit for 2003/04 was forecasted at E860 million or 4.1% of GDP. The estimated outturn is 5.8% of GDP. This indicates that the budget deficit has reached critical ratios and spells the need for an urgent remedy to the economic situation. Total revenue is estimated at E4.05 billion, reflecting growth of 8.5%.

129. Mr. Speaker, the 2003/2004 financial year saw the implementation of the Dupuis Salary Review at an estimated cost of E200 million, coupled with the categorisation of the posts together with the inflation adjustment for the Members of Parliament. On top of this was the increased expenditure on the SMART Partnership Dialogue, the continuing misuse of Government facilities and a general lack of fiscal discipline. Government transfers reflected an increase indicating a continued dependence of parastatals on Government subventions especially those that are outside the control and management of the Public Enterprise Unit (PEU) Act. All these factors combined have contributed significantly to the worsening deficit position of the country.

130. The capital programme recorded completion of physical works on some major ongoing projects such as Phase I of the Two International Roads Project (Luyengo – Sicunusa and Ngwenya – Nkoyoyo Roads Projects), and the rehabilitation of the East-West Railway Line.

10. 2004/05 – 2006/07 BUDGET ESTIMATES

10.1 Revenue

131. Mr. Speaker, medium-term projections indicate that the fiscal situation in 2004/05 will improve over that of 2003/04. This will be attainable mainly due to slight improvements in consumption patterns as a result of strict control in the release of funds to Government ministries and mainly from the improved collection from SACU and sales tax collection. It is important to mention at this point that the increase in revenue from this source is not sustainable and therefore requires even stricter control in consumption patterns.

132. Mr. Speaker, total revenue and grants are estimated at E5.112 billion (32% of GDP), an increase of 29.5% over the estimated outturn for 2003/04 of E3.947 billion (26.7% of GDP). This growth has been largely attributed to the growth in receipts from SACU, strengthening measures within the revenue collecting departments as well as the improvements on the grant assistance received from our cooperating partners to whom we are most grateful. As I have already indicated, we can expect to see a number of revenue reforms in the coming year, including the revision of personal tax rates, the commencement of an exercise to create a new Revenue Authority and to replace sales tax with VAT and moves to tidy up existing tax legislation. I would now like to highlight some other features of the revenue outlook for next year.

10.1.1 Customs & Excise

133. Mr. Speaker, the SACU receipts are expected to be at E2.8 billion in the coming year, a growth of E707 million over that of 2003/04. This development comes as a windfall to Swaziland and is not to be expected in the future years. It has been as a result of the higher than expected imports to Swaziland from outside SACU, which in turn has been attributed to an increase in imports of materials, machinery and equipment for the new factory shells under AGOA. Furthermore, the increased activity was as a result of the increased roads construction programme around the country that required increased importation of material and equipment and the stronger than expected performance of the Lilangeni.

10.1.2 Taxes on Incomes

134. Mr. Speaker, taxes on companies and individuals incomes are expected to yield a 6% growth in 2004/05. This follows the reinforcement program in collection by the Departments, adopted at the beginning of the financial year. It is also as a result of the implementation of the Practice Note regarding the tax treatment of benefits and other allowances arising from employment as well as the Tax Amnesty, to which the department received overwhelming response. Tax audits and post-import audits have also been introduced for income taxpayers and this is expected to be completed in 2004/05.

10.1.3 User Charges

135. Mr. Speaker, user charges will increase slightly following Government's efforts to review upwards the administering costs on a cost recovery basis. The user fees affected include business licences, Swaziland Building Society (SBS) advertising fees, motor registration fees and tractor hire charges. I seek utmost cooperation from the public in ensuring that Government continues providing the services in the most productive manner.

136. Mr. Speaker, the Ministry of Public Works and Transport will be advising Cabinet shortly on the introduction of road tolls on the improved road network and the possible establishment of the Roads Authority, the Civil Aviation Authority and the Roads Testing Centres. These have been identified as having high potential for raising and generating revenues and they are developments in line with the Southern Africa Transport and Communication Commission (SATCC) protocol, which is being implemented within the region.

137. In addition, Honourable Members will now be able to personalise their car number plates this year should they wish, as I intend introducing a personalised car registration number scheme to the nation. This scheme will operate on a voluntary basis and will cost more than the standard registration plate.

10.2 EXPENDITURE

10.2.1 CTA Charges

138. Mr. Speaker, I mentioned earlier that the market rates for fuel have now been effected, which will make ministries take stock of their consumption patterns as well as the servicing of their fleet. The total CTA budget for 2004/05 is estimated at E226 million, with an additional E48 million set aside to address the projected CTA trading account deficit.

10.2.2 Personnel

139. Mr. Speaker, in 2003 Government implemented the salary review for civil servants. which was mainly the categorisation of the jobs and this exercise was partially undertaken at a cost of E200 million, including pension related costs. The remaining part is expected to be completed in 2004 at an estimated cost of E226 million and is expected to entail the job evaluation exercise that will ensure that the brain drain issue is contained. This will also help in combating the high staff turnover as experienced in 2003, particularly with the migration of nurses to the developed world. The costs alluded to above are based on the retrospective payment to 2002. Currently the wage bill is estimated at E1.68 billion, which accounts for about 48% of the recurrent budget, excluding the voluntary retirement allocation and the job evaluation exercise.

140. Mr. Speaker, for the Members of Parliament, I propose that there be no automatic salary adjustments for the coming financial year following the review of their salaries and conditions of service. This will help address the issues of equity in the allocation of packages within the public service as the civil servants will also not be enjoying any inflation-related increase on their salaries.

141. Such reviews, Mr. Speaker, have a bearing on the positions of the Pension Funds. The actuarial evaluators have indicated the funding requirements to address the issue of deficit that are characterising the schemes. The Public Service Pension Fund is currently burdened with an actuarial deficit of E2.1 billion, which requires Government action. Due to scarcity of resources, I propose that an initial measure to reduce the deficit be the migration from the defined-benefit to a defined-contribution scheme, beginning in the financial year 2004/05. This will entail the review of the enabling legislation and administration mechanisms of the fund. The effects on the employee/employer contributions are planned for 2005/06. I therefore urge all parties concerned to give this matter the priority and support it deserves.

142. Mr. Speaker, as indicated earlier on, it is proposed that Government introduces the voluntary early retirement for the public service and an allocation of E132 million has been set aside for this exercise. The initial target group comprises public servants aged 55 years and above. The number of posts targeted are estimated at 1,163 employees. The rationale behind the option is to reduce the costs of safety nets on the part of Government and on the pension funds.

143. The plan is to ensure that Government reduces the numbers in the civil service but at the same time retain the necessary skills required to maximise on performance and output. For key and strategic positions, the proposal is that such positions be re-advertised and, where possible, affected ministries need to make adjustments from within, such as redeployment of staff. As such, I invite all my colleagues and civil servants to take advantage of this opportunity and I also urge for the accelerated development of the small and medium enterprise sector so as to absorb those who will now be unemployed.

144. Mr. Speaker, this therefore tells us that the wage bill will not be scaled down overall in the medium-term. This is where the Government needs the recommendations of the Public Sector Management Programme (PSMP) on how best these affected employees can be assisted. I request my colleague in the Ministry of Public Service and Information to tirelessly explore all options available in the development of safety packages and my ministry will also be seeking funding from the donor community to finance such an exercise in the medium-term.

145. In addition to these efforts, Government has found it necessary to create new positions in strategic areas such as police services, and for the completed projects under the Ministry of Health and Social Welfare, and the Deputy Prime Minister's Office. Additional posts have also been awarded for the revenue raising departments to enhance their collection capacity, although these have not been included in the existing establishment pending the creation of the proposed Revenue Authority, which will be semi-autonomous and self-financing.

10.2.3 Other Goods and Services & Expenditure Management

146. Mr. Speaker, the total estimated expenditure on goods and services is E624 million. This reflects a reduction of about 16% based on the revised budget estimate for 2003/04 at E723 million. This is due to the reduced once-off allocations for the major events that took place in the past year and also because, as part of the reform process, there has been no inflation increase awarded. Ministries are urged to exercise some belt tightening measures on the use of Government funds and more so on the utilisation of utilities, transport and telecommunications.

147. However, Mr. Speaker, this improvement hides the underlying weaknesses in Government's public expenditure management. This has adverse effects on control of expenditure and can also have adverse effects on businesses, especially small businesses. I therefore urge that ministries concentrate on their high priority items and that commitments are only made where resources have been made available. Experience has shown that commitments are often made without the necessary resources and this has made Government a bad debtor to suppliers. Controlling Officers have to adhere to their budgetary ceilings and Government procurement procedures, keeping up-to-date records of spending, commitments and available funds. For those who fail to do so, I caution once again that the surcharge policy will catch up with them as from July 2004. My ministry will be introducing a new computerised commitment system to make sure that all purchases are based on available resources. The Fiscal Restructuring Project will be helping to set up this new system, which will entail the purchase of both software and hardware.

148. Mr. Speaker, as a further means of controlling expenditure, Government will not be purchasing any household furniture for the civil servants in 2004/05. I urge ministries to accommodate such expenditure only for technical assistance received from cooperating partners from abroad. However, even in this regard, caution needs to be observed in line with the settling in allowances provided in the contracts of employment.

149. Mr. Speaker, on another note, I urge my colleagues in the Ministry of Public Service and Information and the Ministry of Public Works and Transport to discuss and finalise the review of rentals of Government quarters, including the flat rate charge on utilities by civil servants occupying institutional housing. The current arrangement has proved unsustainable in view of the expansion of the civil service and increased maintenance costs. The proposal is that the review towards commercialisation of rentals be staggered over a period of time starting April 2004, such that it does not distort issues of equity on the civil servants.

150. Consultancy work is still in progress in identifying other available options in addressing the sale of Government pool housing and future mechanisms of providing this facility. Meanwhile, the Ministry of Public Works and Transport has stopped allocating leased quarters. My expectations are that this exercise will be completed and ready for implementation in 2005/06. May I take this opportunity therefore to encourage civil servants to make good use of the Civil Service Housing Loan Scheme with SwaziBank and also the new scheme with the Swaziland Building Society that has been recently announced.

151. Mr. Speaker, also ongoing is the review of Government tendering and procurement procedures. This is expected to improve our efforts public expenditure management. We will also be giving the Internal Audit function a higher profile and will use it to improve transparency and accountability.

10.2.4 Transfers

152. Mr. Speaker, transfers for 2004/05 are estimated at E991 million, compared to the 2003/2004 estimate of E828 million. The increase is as a result of the reform measures that Government wants to embark upon, including the voluntary retirement exercise, unification of revenue authorities, payment of property rates, and subventions to other organisations. On the other hand, transfers to parastatals under the PEU Act show a decline. This follows the non-subvention to institutions like the Swaziland Development and Savings Bank and MVA. Transfers to subvented organisations have been kept constant, and the external transfers have been revisited to ensure that Government only retains existing memberships. Government has also benefited from the appreciation of the Lilangeni against major currencies.

153. To facilitate the control in the release and usage of funds my ministry will no longer be releasing transfers to the line ministries but we urge controlling officers to keep track of the activities of their parastatals and only request for releases as and when necessary. This will also facilitate the establishment of a strong relationship and coordination of activities between line ministries and parastatals.

154. The privatisation policy is yet to be approved by Cabinet and is expected to be implemented during the course of the coming financial year. This will enhance the ongoing restructuring processes of some of these parastatals and reduce their dependence on Government for financial resources.

10.3 SOCIAL SECTOR

155. Mr. Speaker, a key priority for this budget is investment in the social sector. Strong education and health sectors have far reaching benefits for both the growth of economies and the welfare of peoples. The added pressures of the humanitarian crisis make increased investment in this sector a must for Swaziland.

10.3.1 Education Sector

156. Mr. Speaker, Government continues to recognise the need to improve the education system so that it is in line with both the international and regional requirements. For the financial year 2004/05, an allocation of E759 million has been provided to enable the Ministry of Education to undertake its task and this reflects an increase of E119 million or 19% on the estimates of 2003/04 of E640. Primary, secondary and tertiary education are all considered crucial and equally important to realise this objective. Over the years, Government has been providing substantial resources to cater for these essential stages of education.

157. Regarding the issue of basic education, Mr. Speaker, Government is working tirelessly towards meeting the long-term goal of providing free education at primary level. This policy is aimed at ameliorating the impact of the HIV/AIDS pandemic resulting from the growing number of orphans and vulnerable children in society. It is also focused on improving the literacy rate of Swaziland in order to return us to the high ranking we used to enjoy in SADC during the nineties. An allocation of E20 million has been set aside to enable schools to admit the disadvantaged groups in society, beginning this financial year. Of course, Mr. Speaker, this scheme started last year with a budget of E16 million and has experienced several teething problems, which my colleague in the Ministry of Education is actively addressing. I would urge the Ministry to continue working closely with the teachers' associations, regional education offices, school committees, and traditional leadership structures, in devising the best mechanisms of disbursing the fund and ensuring that indeed it reaches the target groups. In parallel to this exercise Mr. Speaker, would be the possible review of the feeding schemes currently in schools such that they complement the learning environment for the school-goers. It is on the same note that I invite all the various Government Ministries and Departments concerned about the welfare of the child, to increase cooperation and coordination in the design of such programmes.

158. One other area of priority for Government in the coming financial year is to address the plight of the nation's boarding schools. This programme is planned to continue over time and is meant to complement the review of boarding fees that started this calendar year.

159. Mr. Speaker, Government has also identified the need to establish the area of special education as a priority for education investment. Thus, in the coming year, construction of a High School for the disadvantaged, with all the required boarding facilities, will commence at Siteki. Industrial training is also a key means by which the issues of skills development and unemployment can be addressed. I therefore urge my colleague in the Ministry of Education to continue to support this vital sector as it provides one of the crucial inputs into our SME development programme.

160. As regards the budget for Tertiary Education, an allocation of E193 million has been provided towards UNISWA and for the provision of scholarship awards. To redress the existing problem of insufficient funding, the Ministry of Public Service and Information, in close collaboration with the Ministry of Education, has produced a Manpower Plan that will identify the training needs for positions within Government and the enrolment levels in our tertiary institutions. This plan is due to be adopted in the coming financial year. Mr. Speaker, over and above these efforts, may I urge every citizen that has benefited from these awards to consider repaying what is due to Government. May I also at this point request a review of the schools curriculum towards teaching health education to our children, which at this point is particularly vital given the spread of HIV/AIDS amongst our youth. It is on this note, Mr. Speaker, that I now turn to the Health Sector provision for 2004/05.

10.3.2 Health Sector Issues

161. Mr. Speaker, for the health sector a provision of E334 million has been set aside for 2004/05, representing a 5% growth on the revised sector allocation of E320 million in 2003/04. The allocation has been made to address a number of activities, though new sectoral funding focuses primarily upon amelioration of the HIV/AIDS pandemic.

162. As mentioned, we presently have a three-pronged National Strategic Plan in place to deal with the HIV/AIDS crisis. The mitigation part of the Plan allows for decentralisation of activities such as food distribution and information centres to regional centres. The central objective of the prevention programme is to reduce the risk of HIV infection through behavioural change. This is motivated by the observation that there is a high level of awareness of HIV and AIDS in Swaziland yet this has not yet been translated into positive behavioural change. In line with the care and support aspect of the Plan, we have seen the establishment of additional VCT centres that assist in the distribution of antiretrovirals (ARVs), which have reached around 1,300 people to date, with a further 10,000 to have access to the drugs by 2005.

163. On the other hand, Mr. Speaker, Government will be developing a public service HIV/AIDS policy under the Ministry of Public Service and Information with multi-ministerial participation in line with the National Strategic Plan. This initiative will contribute towards mobilising all areas of Government in the fight against HIV/AIDS. In particular, it will address the increased infection and death rates in the civil service, and will establish the mechanisms necessary to salvage the situation in Government so that productivity is not compromised.

164. Mr. Speaker, this overview has so far omitted one of the most at-risk groups created by the pandemic: that of Orphans and Vulnerable Children, known as OVCs. Often termed the 'third wave' of the pandemic, there are an estimated 60,000 orphans in the Kingdom, rising to an estimated 120,000 by 2010.

165. The Indlunkhulu project aims to ensure food security for orphans and vulnerable children within communities. This project, implemented by the Ministry of Agriculture and Cooperatives, provides support for farm inputs to all Chiefdoms in the country to enable communities to plough the Indlunkhulu fields. In the case of education for OVCs, the Ministry of Education, together with other stakeholders, has been working to develop a system which will enable OVCs to access basic education. The implementation of His Majesty's bursary scheme is being reviewed to ensure that it targets the most needy children. In recognition of this strategic priority, His Majesty the King Mswati III announced that the allocation for this scheme will be E20 million for the coming year.

166. May I also welcome at this point the effort by the Ministry of Health and Social Welfare to establish a Children's Unit, with an initial budget allocation of E1.9 million. The Unit will address the concerns of a child, from providing bursaries to attending to health needs, paying special attention to those

that have OVC status. However, I would like to request a close working relationship with the Ministry of Education, particularly on the awarding of bursaries in order to avoid duplication and conflicts of interest.

167. Over and above the aforementioned initiative, Government has increased its counterpart financing to that received from the Global Fund and other donors to about E19.4 million for the purchase of the ARV's in the coming financial year. This is over and above the subvention to NERCHA, which stands at E20 million and the improvements that have been made on the general drugs budget in the various health facilities around the country. Coupled to this, Government is making increased contribution under the capital programme towards ensuring the necessary support structures in treating the HIV/AIDS-related illnesses such as Tuberculosis (TB), and malaria.

168. Mr. Speaker, while the national response is primarily coordinated by NERCHA, there are many initiatives being implemented, at all levels of society and in all corners of the Kingdom, that are too numerous to mention here. I wish, therefore, to stress that to beat the pandemic will require the participation of every sector and every individual in society – HIV/AIDS is our collective concern.

169. The increase in the number of OVCs threatens the traditional coping mechanisms and strategies. Consequently, this situation strengthens the case for increasing public intervention. Such efforts should enhance rather than supplement existing structures. Let us recognise that education is only one aspect of the composite spectrum of children's needs. When we say children are the future (bantwana bangumliba loya embili) we need to ensure that indeed they have a bright future and that indeed their needs are well nurtured. We need to ensure that they are provided with the basic needs: food, shelter, health and protection from abuse and neglect. Government must consider wider interventions under the poverty reduction initiative.

170. I wish to thank the Prime Minister and the Deputy Prime Minister for their recent tour to the Lubombo and Shiselweni regions where they obtained first-hand experience of the plight of the orphans, although I can safely say that they only saw the 'tip of the iceberg'. I encourage senior civil servants at the decision-making level to also take it upon themselves to visit some of these neighbourhood care centres during their spare time. They need not go far as I can also take them to one of our many centres within my constituency – eNgculwini – where there are over 1000 OVCs aged between four and nineteen years of age. The Good Book says when you give to the poor, it is like lending to the Lord, and the Lord will pay you back.

10.3.3 Health Funds

171. The Phalala Fund Scheme was established by His Majesty the King, Mswati III, in 2001 to enable the nation to have access to specialist health care. It has subsequently grown four-fold since its inception due to increased public demand. In line with the speech from the throne when he officially opened Parliament, an allocation of E20 million is set aside for 2004/05, 100% up on the previous year's allocation. This indicates Government's commitment to ensuring a healthy nation. Mr. Speaker, I request that this fund be properly structured and managed such that it focuses on the intended beneficiaries and purposes. Mr. Speaker, a further E10 million has been provided for the civil servants' medical referral scheme. I also encourage proper administration of this scheme and invite all stakeholders to review and consider all possible options to better provide the service in the future, though any suggestions must take account of Government's severe financial constraints.

10.3.4 Social Sector Issues

172. Mr. Speaker, last year I mentioned that a database was being compiled on the elderly in Swaziland, to ascertain their numbers and the type of assistance required from Government. It saddens me to report that this exercise is still not complete and as such no provision is being made in this budget towards addressing the plight of the disadvantaged elderly, except that for the widows of the umsizi. I can however state that elderly citizens above 60 years of age will continue enjoying free treatment in Government health centres and as such an additional E3 million has been provided for under the Ministry of Health and Social Welfare.

10.3.5 Food Security

173. Mr. Speaker, the drought situation has now reached critical levels. As such Government has found it necessary to declare the drought a national disaster, and is doing all the necessary work to address the situation such as: scaling-up the identification exercise of those communities and families affected;

establishing regional cells to assist in the data collection and distribution of food aid; and. strengthening of the Unit managing such disasters under the Deputy Prime Minister's office. A policy on drought is under preparation and should be in place shortly to help coordinate and direct the activities of Government as well as mobilise intensive donor support for the hunger-stricken. Mr. Speaker, it is on this note that we still expect to be receiving much appreciated support from our development partners to embark on a Protracted Relief and Recovery Operation (PRRO). In addition, more emphasis will now be placed on OVCs in providing them with targeted interventions, inter alia providing meals in neighbourhood care points strategically located for these children.

174. Mr. Speaker, in support of these activities His Majesty King Mswati III announced an allocation of E50 million as counterpart financing towards the Disaster Relief Programme, an increase of E40 million on this year's allocation. In tandem with regional efforts, Government is already working on legislation on disaster management that would facilitate Government's response to disaster-related calamities.

10.3.6 Community Development Funds

175. Mr. Speaker, Government is continuing with the Regional Development Fund – an allocation of E20 million is budgeted for 2004/05. We have realised a remarkable improvement in the disbursement of this Fund in 2003/04 and it is my sincere hope that the Honourable Members will make sure that the funds are effectively utilised and that they reach the targeted groups in society.

176. An additional E3.85 million has been budgeted under the DPM's Office for the Tinkhundla Empowerment Fund. These funds are to be distributed amongst the nation's Tinkhundla centres, for uplifting the living standards of all the communities. I lament though, the non-utilisation of the E20 million Community Poverty Fund established by His Majesty in 2003 under the DPM's Office, which if not spent by 31st March 2004 will be lost to the Consolidated Fund. The sole aim of this fund was to address the related problems of poverty and food shortages in the communities.

10.4 Appropriation for 2004/05

177. Mr. Speaker, I therefore move for the adoption of an appropriation of E5.333 billion for 2004/05, comprising E1.415 billion for capital expenditures and E3.483 billion for recurrent expenditures, and excluding redemption of public debt. May I also seek the Honourable Members' consent for a total revenue and grants appropriation of E5.112 billion, yielding an appropriated deficit of E221 million or 1.4% of GDP, which represents quite a phenomenal turn-around.

178. The extraordinary fiscal outlook for 2004/05 reflects a number of once-off factors boosting our revenue estimates. These include an increase in SACU and income tax revenues. We also project a strong grants performance as a result of support from our development partners coupled with an improved GDP outlook.

179. I therefore strongly urge this House to recognise that this fiscal position is not sustainable in the medium-term if not complemented by adherence to strict expenditure control measures as well as pursuing a further diversification and expansion of revenue.

11. CONCLUDING REMARKS

180. Mr. Speaker, my overview of the state of the nation has highlighted the severe developmental challenges presently facing the country. Poverty and unemployment, already widespread before the onset of the severe drought and the HIV/AIDS pandemic, are now being compounded by these additional problems.

181. Our response to these immediate challenges must be both swift and sustainable, Mr. Speaker. This budget therefore seeks to engineer a sound fiscal base through the ongoing and vigorous structural reform of revenue and expenditure patterns to reduce the deficit and increase the efficiency of Government spending. Secondly, this begins the reorientation of public expenditures towards social sectors, in particular the health sector, where the worst impacts of the HIV/AIDS crisis are yet to be felt.

182. Though as a small open economy we are very much at the mercy of global and regional economic developments, we must do everything within our power to address the underlying tragedies of poverty and unemployment within the economy. This budget is therefore also intended to help to foster economic

growth for all by managing our international trade position and fostering an investment friendly environment.

183. Mr. Speaker, today's speech represents the culmination of months of hard work. I would therefore like to offer a vote of thanks to all those whose endeavours have made this budget possible. They included:

- His Excellency the Prime Minister and my Cabinet colleagues for their scrutiny, input and cooperation in producing this year's budget.
- The entrepreneurs and workers who make up the nation's private sector, without whose efforts there would be no economic growth or development.
- Officials within the Central Ministries who have worked to produce this budget, not least those who patiently worked through the Planning and Budget Committee to review, discuss and finalise the budget.
- The Government Computer Services Department, whose staff provided support in the production of the budget figures.
- The Department of Taxes, Customs and Excise Department and other revenue collecting departments, whose efforts have culminated in the revenue we are seeking permission to use in the coming financial year.
- All the Ministries and Departments of Central Government for their work in embracing the newly adopted Medium Term Expenditure Framework (MTEF) budgetary process and for heeding our calls for fiscal restraint. The Principal Secretaries in particular showed a great sense of collective responsibility in their two 'Budget Forum' meetings.
- Governor of the Central Bank of Swaziland and his team, who not only provided inputs into this speech but who have consistently provided wise counsel to Government as well as sound monetary and financial management.
- The donor community and NGOs who continue to support and to work with Government to attain our shared objectives of poverty alleviation, employment generation, growth and prosperity for the nation.

184. Finally, Mr. Speaker, Honourable Members, I would like to reflect on the core message of today's speech. Swaziland and her people are facing difficult times – nothing short of a national emergency in fact. In response, urgent and painful reforms are needed. Ultimately, we seek to reduce poverty, unemployment and hunger and to promote macroeconomic stability, growth and prosperity. May this Honourable House be guided by these aims in the coming year.

185. More than ever before, the people of Swaziland need our leadership and support. Let us not be too proud or too self-serving to shirk from that responsibility. Where there is despair let us bring hope. Where there is untapped potential, let us provide the key to unlock it.

186. Mr. Speaker, without further ado, I now beg to move that this Honourable House do resolve 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 2004/05 financial year.