MEDIUM TERM BUDGET POLICY STATEMENT

2005/06 – 2007/08

GOVERNMENT OF THE KINGDOM OF SWAZILAND

November 2004

FOREWORD

In the 2003 Budget Speech, the Minister of Finance proposed that the Medium Term Expenditure Framework (MTEF) process would introduce a Medium Term Budget Policy Statement whose main objective would be to allow the general public to provide inputs into the budgetary process. This document is the realization of that proposal.

By issuing this Policy Statement, Government opens the budgetary process to the Nation, in whose interests Government makes decisions. The Statement seeks to inform people about the policies that the Government intends to adopt and those that are being considered for the budget over the next three years. It also seeks comments, suggestions and views from any person or organization that has a contribution to make in the development of the budget.

The Government financial year runs from April 1st to March 31st and therefore covers part of two calendar years. Thus, we write 2004/05 for the current financial year, 2005/06 for the next, and so on. As the phrase 'medium-term' suggests, we are budgeting for more than one year into the future. Indeed, under the MTEF Government is planning 3-years in advance.

This Medium Term Budget Policy Statement is the result of collaborative efforts of the three Central Agencies: the Ministry of Finance (MOF), the Ministry of Economic Planning and Development (MEPD) and the Ministry of Public Service and Information (MOPSI).

The government priority areas for resource allocation in the short and medium term are:

(a) Poverty Alleviation
(b) Employment creation
(c) Food Security
(d) Orphans and Vulnerable Groups
(e) HIV/AIDS

1 INTRODUCTION

1. For the last two years, the Government of Swaziland (GoS) has been introducing a Medium Term Expenditure Framework (MTEF), within which Government plans three years ahead, as opposed to setting short-term, one-year targets. Key principles of the MTEF approach include promoting predictability, transparency, public participation and accountability in budgeting. Government has therefore found it appropriate that a Medium Term Budget Policy Statement be issued to the Public to inform them of the policies that will guide the allocation and distribution of Government resources during the 2005/06 – 2007/08 periods.
2. The Government's budget shows how Government plans to use its resources to achieve its policy goals. Government is more likely to be successful in this if the goals are widely accepted and the difficulties in reaching them widely understood. This document therefore seeks inputs to the process of establishing agreement about these goals so that Government can move forward on developing and implementing programmes for the betterment of the livelihoods of the people of the Swazi nation.
3. It is imperative to mention first and foremost that the MTEF and its principles do not imply that the Government's available resources have increased. The cash constraints experienced in recent years remain and there is an even greater need for Government to observe strict budgetary control measures to improve its fiscal position. This is said in light of increasing demands on Government's resources

particularly by the social sectors, and the agricultural sector. Indeed, one of the central issues facing Government is bringing into line the resources needed to properly meet the responsibilities that it takes on and the resources available to it.

4. The next sections set out the critical issues facing the Nation and Government's current responses to them. These responses reflect choices made by Government – to put resources here rather than there; to focus on this rather than on something else.

2 CRITICAL ECONOMIC CHALLENGES FACING THE NATION

1. About 70% of Swazis live in poverty. Unfavourable conditions for subsistence agriculture, high unemployment in the formal economy and the social impact of the HIV/AIDS pandemic, have pushed 69% of the population to living on less than US$1 per day. At present one quarter of the population relies on food aid for survival. As a nation, Swaziland is reckoned a lower middle income country, but income is not spread evenly. One estimate reckons that 56% of the wealth of the country is held by the richest 20% of the population, while the poorest 20% own less than 4.3%.
2. About one third of the labour force is unemployed and there is extensive under-employment. While Government initiatives centred around AGOA have contributed to an export oriented clothing industry that has created around 20,000 jobs, the rate at which new jobs were created began to decline just as those born when population growth rates were around 3% p.a. entered the labour market. Increasing supply at a time of falling demand has swollen numbers unemployed. Prospects for a rapid decline in their numbers are not good.
3. Swaziland has one of the highest HIV/AIDS prevalence rates in the world. HIV/AIDS surveys based on ante-natal women showed that in 1992, about 4% of the population was HIV positive. By the end of 2002, 38.6% were infected. HIV/AIDS spread rapidly as economic growth slowed. The incidence of HIV among women is much higher than among men. Hence, even though the rate of infection has slowed recently, the costs of caring for those infected and affected directly and indirectly will continue to grow as children, lose carers and home-makers. As well as increasing claims on resources, the pandemic also reduces the possibilities of, and incentives for, people to invest in themselves, so increasing the productivity of our major resource, our people.
4. Drought was once again declared a national disaster at the beginning of 2004. The cereal balance indicates that even after planned imports are accounted for, the gap is almost 75% of current production. More than 40% of rural households purchase rather than grow the bulk of the total maize they consume. Livestock condition has been poor country-wide for several years and overall number of cattle and goats has been declining, especially in the Lowveld because of poor grazing conditions and water unavailability. Food security is unrelenting and the number of households in need of food aid is expected to increase. To salvage the food shortage problem, Swaziland is a beneficiary under the World Food Programme (WFP). Expanding the area of arable land under irrigation creates the potential for a more productive agricultural sector, growing both for local consumption and for export markets. However, the long drought, has limited immediate benefits and the land tenure issues cloud the long-term outlook for this sector.
5. It is estimated that more than 300,000 Swazi children below the age of 18 years are vulnerable in various ways. In addition to the problem of orphans and vulnerable children, there is the problem of rising numbers of the elderly and disabled who are living in abject poverty.
6. To begin to address these problems, Swaziland has to build solid foundations for economic growth. In the late 1980s, Swaziland was one of the fastest growing economies in the world as foreign investors located here to secure backdoor access to the South African and Mozambican markets. When apartheid ended and international sanctions on South Africa were lifted, and when Mozambique returned to political and economic stability, Swaziland lost its relative attractiveness as a destination for Foreign Direct Investment (FDI). However, embracing AGOA, building factory shells, investing in roads linking Swaziland and South Africa, and a number of other initiatives, have attracted some new FDI, but not at the level that will accelerate the growth of the economy.

3 MEETING THESE ECONOMIC CHALLENGES

Poverty

The incidence of poverty has been compounded by the effects of the HIV/AIDS pandemic, high unemployment rates, and the drought. The government has responded by establishing a Poverty Alleviation Unit to solely address the issue of poverty, which is cross-cutting. The government will be implementing the Poverty Reduction Strategy and Action Plan and other initiatives to meet this challenge as a matter of priority. Programmes which qualify as poverty alleviation measures will be able to access resources earmarked for this challenge, which makes it necessary to reorient spending into the social sectors.

Unemployment

The unemployment problem is linked to the sluggish economic growth; with growth comes jobs. Economic growth has been taken as a priority by government. The government established the Swaziland Investment Promotion Authority (SIPA) to aggressively campaign for mainly Foreign Direct Investment (FDI), which boosts local savings for investment purposes. Increasing markets through membership in regional and international groupings has helped Swaziland attract FDI. The textile industry so far has created about 30,000 jobs and government is working towards ensuring that the implications of these investments are taken care of. Moreover the government established the Small and Medium Enterprise Unit to facilitate the setting up and growth of small and medium enterprises. The heavy government investment in infrastructure is also a means to facilitate growth of the private sector. Government has also embarked on labour intensive feeder roads programme to alleviate the unemployment situation. The private sector is considered by Government as the engine of growth.

Food Insecurity

To address the food security situation, Government has targeted increased production in agriculture. In 2004, Cabinet approved The Disaster Management Draft Bill 2003. This legislation seeks to create a framework for dealing comprehensively with disasters, including food emergencies. Government is keen to see this piece of legislation coming to life within the medium-term. However, Government also wants to see a population that is able to feed itself and not dependant on handouts. It is for this reason that Swaziland is a party to the Maputo Declaration where SADC Heads of States committed themselves to improve the funding for agricultural development. However this will not be automatic. All programs and projects have to compete for scarce resources and have to be economically viable.

Government has also allocated significant resources towards water resources development. Funding in the medium-term will be channelled towards the ongoing water resources development programmes such as the Komati Downstream Development Project, the Lower Usuthu Smallholder Irrigation Development Project and the Earth Dam construction. In pursing the food security challenge, Government will be guided by the Comprehensive Agriculture Sector Policy (CASP) which the Ministry of Agriculture and Co-operatives is presently working on.

Orphans and Vulnerable Groups

The problem of orphans and vulnerable groups is being addressed under the Poverty Reduction Strategy and Action Plan (PRSAP). Orphans and vulnerable groups are by definition poor because they have no benefactors. Implementation of the PRSAP requires increased coordination within ministries and government agencies in particular the design of the poverty reducing schemes such as Poverty Community Fund, Regional Development Fund and bursaries. Currently the input by government is not seen, as the allocation is haphazard. To address this Poverty Alleviation Unit was established under Ministry of Economic Planning and Development.

HIV/AIDS

The government established the National Emergency Response Council on HIV/AIDS (NERCHA) as a body overseeing every effort directed at combating the HIV/AIDS. NERCHA is funded by government as a matter of priority and as a precondition for obtaining funding from the Global Fund. As pointed out in the Millennium Development Goals (MDG's) the effects of HIV/AIDS are far-reaching and government is steadfast in its commitment to fight the pandemic financially. Government will continue drawing resources towards HIV/AIDS activities from the Global Fund and from the assistance extended in developing the data base structures as well as technical assistance.

Economic Growth

Government believes that its primary role is to nurture conditions conducive to sustainable and stable growth in the economy. Within the current climate, there are four broad measures which are necessary preconditions for reinvigorating long–term economic growth Fiscal discipline in order to promote macroeconomic stability; Developing a conducive investment environment. As well as promoting fiscal discipline and macroeconomic stability, key pre-condition for this include good governance, the elimination of corruption and sound infrastructure.
Addressing the unemployment issue. This will require promotion of measures for encouraging employment, particularly in the informal and SME sectors.
Improved productivity. This will require greater private sector participation in the economy, through privatisation and a reduction in the size of central Government.
It is only when these four preconditions are in place that we will be able to truly get to grips with the nation's socio-economic challenges.

4 FISCAL CHALLENGES

Partly as a result of its efforts to respond to these enormous challenges, Government has encountered severe financial pressures in recent years. Over the past 5 years, recurrent expenditure grew 50% faster than revenue. This discrepancy has given rise to budget deficits, beginning in 1999/00 and growing larger in every subsequent year – culminating with the outturn for 2003/04 at 2.7%.

Government is aware that deficits of this magnitude are unsustainable. In his recent SPEED Policy Statement, the Prime Minister pointed out that it is economically dangerous to continue in this fashion. The IMF has advocated that the maximum sustainable level of our deficit is in the range of 1 – 2% of GDP. The reality of having to curtail expenditures to fit projected revenue collections – in other words living within the available resources – must therefore be our first priority and a central aim of policy for the next few years.

5 MEASURES FOR ADDRESSING THE HIGH DEFICIT PROBLEM

Revenue

The deficit can be reduced by increasing revenues. To this end Government is strengthening its capacity to collect all taxes due by bringing together the major revenue raising Departments under one Revenue Authority. While we expect significant increases in collections as a result of these efforts, the move to free trade, and lower tariff barriers, means that collections from duties on imports and from excise duties are expected to decline substantially, beginning in the next few years. Hence, the greatest efforts to reduce the deficit must be on controlling expenditure.

A number of administrative measures have been considered for improving performance and efficiency in revenue collection. Some of these measures are already yielding fruit. They include improvements in tax collections by deploying additional manpower from the head office to assist in the collection of Sales Tax and customs duties at the main borders and door-to-door visits to companies by tax officers. The introduction of Value Added Tax (VAT) planned for 2006/07 will ensure maximum collection.

Expenditure

Government will continue to strengthen the budgeting process through the Medium Term Expenditure Framework, which encourages task-based (i.e. activity-based) and output-oriented bottom-up budgeting and migration from manual budgeting methodologies to a computerized-system.

Proposals are underway to review the operations of CTA and discussions are ongoing with line ministries to realise the projected surplus. There is also need to further control the usage of Government vehicles. In line with this, there will be no purchase of vehicles in the coming year.

The issue of on-call and stand-by allowances remains a challenge. It is intended that government standardizes the allowances such that they are pegged to the salaries.

Government-owned pooled houses are to be sold to reduce maintenance costs. This will entail extensive negotiations with the employees and private financial institutions. Resources will be allocated for the maintenance of the rest of government infrastructure.

Adoption of the revised procurement procedures of Government, in particular for procurement of consultancy services, supply of goods and services and other programmes, are being reviewed. This is aimed at eliminating possible areas of duplication, wastage and corruption, in particular in the procurement of consultancies and the supply of goods and services.

An alternative service delivery study, currently being undertaken by the Ministry of Public Service and Information, will be implemented if it shows that alternatives can improve efficiency levels of Government. Expenditure on utilities will be contained, and payments effected timeously.

6 MEDIUM TERM RESOURCE FRAMEWORK

The projected fiscus position of the country as depicted below is a rising deficit as a percentage of GDP to an estimate of 6.37% in 2005/06 from an appropriated deficit of 1.4%. The estimated outturn for 2004/05 is 2.13%, resulting mainly from the reduced SACU receipts, clearing of outstanding commitments and other unforeseen government activities that have been financed through supplementary. The deficit as a percentage of GDP falls to 4.87% in 2006/07 and increases marginally to 5.01% in 2007/08. Even though the deficit is generally on the decrease it does not achieve the targeted range of 1-2% in the medium-term. The scenario below incorporates the policy reforms for addressing the deficit elaborated this statement. This reflects the gravity of the problem government is in. Revenues are rising but are not rising rapidly enough to match the expenditure pressures.

Table 1: Fiscal Framework 2005/06 – 2007/08

	Actual Outturn 2003/04	Estimated Outturn 2004/05	Forecasts 2005/06	2006/07	2007/08
Total Revenue & Grants	3,914,005	5,159,295	5,054,597	5,141,802	5,795,060
Expenditures					
Total Recurrent	3,437,230	4,365,561	4,669,919	4,787,192	5,174,398
Of Which Personnel and personnel related costs	1,466,070	2,204,600	2,462,617	2,464,235	2,733,998
Total Capital	817,783	1,073,114	1,415,222	1,471,831	1,560,141
Net Lending	59,004	59,004	59,004	59,004	59,004
Estimated Deficit Outturn	-400,012	-338,384	-1,089,549	-903,225	-998,483
Estimated Deficit/GDP	-2.71%	-2.13%	-6.37%	-4.87%	-5.01%

The deficits are projected to be financed largely by domestic borrowing in the medium term at a declining rate, considering the cost of raising the instruments in the market and its implications on debt service strategies.

7 SECTORAL PRIORITIES

In line with the priorities elaborated in the Prime Minister's Policy Statement, some sectors may have their shares increase. These sectors may include:

- Sectors with Proposed Increase in Shares in no order of priority
- Agriculture and Rural Development
- Health, especially HIV/AIDS
- Education
- Enterprise and Employment
- Tourism

Proposed increases in shares can only be realised when ministries and departments submit acceptable comprehensive programs and projects on time. As much as possible these should be in line with the Prime Minister's SPEED Policy Statement and should be socio-economically viable.

Other Sectors

The increase in shares of sectors listed above implies generally that some of the remaining sectors will have decreasing shares if we are to remain within the projected budget deficit. To avoid losing too much of shares, ministries and departments are encouraged to restructure their operations to give priority to the Prime Minister's SPEED Policy Statement.

8 HAVE YOUR SAY

You are requested to submit your views on the issues facing Government, and your suggestions and comments on proposals for containing expenditure, to your Members of Parliament, who will have an opportunity to discuss with the central agencies on how best they can be reflected into the budget process.