

# **BUDGET SPEECH 2005**

## **MR MAJOZI SITHOLE MINISTER OF FINANCE SWAZILAND**

### **1.0 INTRODUCTION**

1. Mr. Speaker, it is indeed a great honour for me to present to this Honourable House the second budget of the eighth Parliament of the Kingdom of Swaziland. It is also a great honour that His Majesty and the Government have continued to have faith and trust in me to execute my duties as the Minister of Finance for the last five years.

2. I am extremely grateful to His Majesty for highlighting some very crucial issues in his recent speech; which has enhanced the budget presented here today. I am also grateful to the Honourable Prime Minister for his Transformation Policy Statement (SPEED), which has set the stage for my proposals for prudent fiscal management. The country's fiscal position has not improved since my last budget speech. Our projections indicate that the situation is likely to worsen in the medium term if concerted efforts are not made to address the situation. It is for this reason that I appeal to this Honourable House to appreciate the stringency of this budget.

3. Mr. Speaker, I am aware of the increasing mandate of government and numerous needs that are competing for the limited resources. However, government has to give priority to the broader objectives of the economy aimed at addressing the macroeconomic and developmental challenges. These include the eradication of poverty and hunger; employment generation through creation of a conducive and sustainable environment for investment, achieving universal primary education, combating HIV/AIDS, malaria and other diseases, and bringing services closer to the local communities. We need to re-examine and refocus spending to ensure that the budget addresses the national priority areas.

4. Mr. Speaker, translating these priorities into tangible results requires close collaboration between government, the private sector, NGOs and civil society. It calls for clear plans and national strategies. The budget pressures provide a challenge to government to improve on its revenue collection and exercise firm control on the use of the limited resources. It is for this reason that government introduced the Medium Term Expenditure Framework (MTEF) budgeting process. This allows for openness and transparency as was realised this year where Members of Parliament made an input into the budget presented today.

5. Mr. Speaker, living within our means and getting better value for money when investing in infrastructure such as roads, health facilities, schools and dams is very essential for the socio-economic development of the country. Government therefore encourages accelerated project implementation. Last year government took the initiative to clear all outstanding commitments with suppliers. Every effort will be made to ensure that suppliers are paid on time and I believe that with the cooperation of all the ministries, such an unfortunate situation will not recur.

6. Striking a balance between the social and economic development of the country remains the key challenge of this budget. Government has increased the allocation for the social sectors such as education and health, while at the same time continuing with pro-growth infrastructure development and allowing for expansion and accessibility of such services mainly in the rural areas. Government continues to be committed to the improvement of the quality of life of the Swazi people as embodied in the 2015 Millennium Development Goals (MDGs).

## **2.0 GLOBAL DEVELOPMENTS**

7. Mr. Speaker, as has been said over the years, developments in the world economy have an impact on Swaziland's economic performance. The recent developments in the market prices of sugar and textiles pose a threat to the domestic industries. This, coupled with the weakening of the US Dollar in 2004 has greatly reduced profits of exporters and eroded the investment base of a number of developing economies, including Swaziland.

8. Mr. Speaker, the global economy experienced a marked improvement in 2004 as current estimates indicate a GDP growth rate of 5 percent, the fastest growth rate in nearly 30 years. High growth occurred in the early part of 2004 and became widespread. Leading the world out of the past recession was the United States, which grew by 4.4 percent through a fiscal stimulus while financing the war against terrorism in Iraq and Afghanistan, before slipping with the twin deficits on the fiscal and current account sides. Moreover, the higher oil prices coupled with the tightened monetary policy weighed on consumption in the US. This stimulus is however expected to slow down to 3.5 percent in 2005.

9. Mr. Speaker, overall, the Japanese economy is estimated to have grown by 3.2% over the review period as the country emerged from its over a decade stagnation. Industrial production rose by 1.4 percent whilst consumer prices rose to 0.2% in 2004. There is still need though for the country to revitalise its financial sector to the same competitive forces that drive its export sector. In the Euro area, indications are that growth will be 1.8% (the lowest in the developed countries), and will continue to be overly dependent on external demand.

10. In the commodity markets, the prices of metal and certain agricultural products increased considerably in 2004 due to the strong world demand and inadequate supply, which consequently pushed inflation upwards. The dynamics of these markets have changed dramatically with the rise of emerging market powers in Asia, especially China and India. The Chinese economy grew particularly strong, recording the fastest annual GDP growth rate of 9.5 percent. Being the most populous country in the world and with no capital shortage, China has the highest rate of capital accumulation and investment accounted for 42 percent of GDP in 2003. The oblivious lending of the Chinese banks propels the trend. Exports grew by a third to approximately US\$63.8 billion in December 2004, taking up markets for other developing countries.

11. Mr. Speaker, the world was once again reminded of how vulnerable it is to natural disasters. The Tsunami tragedy that occurred during the festive season of 2004 caused severe infrastructure damage, loss of human life, and dented growth prospects for the tourism sector in various Asian countries. Some of the African countries were not spared from the direct impact. Even though current assessments indicate that with adequate resources for rehabilitation, the economies will get on a recovery path immediately. The social impact however is immeasurable.

### **3.0 REGIONAL DEVELOPMENTS**

12. Mr. Speaker, in Sub-Saharan Africa, GDP grew by 3.2 percent in 2004 much faster than the 1990's. Most of the realised growth in 2004 is attributed to the outstanding performance of the oil exporting countries such as Angola and the Democratic Republic of Congo, while it was dampened by the unresolved conflicts especially in countries like Zimbabwe. Regrettably, the region is characterised by high HIV/AIDS prevalence, high poverty rates, drought and conflict. Growth is minimal such that it could be impossible to halve the poverty rates by 2015 as advocated for in the Millennium Development Goals.

13. Individual countries achieved real growth rates ranging from -11% to positive 6%. Again, this is still far below the 7% target needed to significantly reduce poverty as recommended by the UN Millennium Declaration. Currently, it is estimated that over 50% of the world population lives in abject poverty. The situation in the region has been exacerbated by the humanitarian catastrophe that is taking place in western Sudan.

14. Mr. Speaker, given the close integration of the economy with SADC member states, it follows that their prosperity or otherwise has a considerable impact on our economy. The economy of the Republic of South Africa, which accounts for 50 percent of the regional GDP, has continued to expand with an expected growth level of about 4% in 2005. The region's economy grew in real terms by 3.5 % in 2004, primarily driven by strong exports of manufactured goods, metals and minerals, and a relatively strong demand, despite the adverse impact of the strong Rand on exports.

15. The tight monetary policy stance by the South African Reserve Bank managed to drive the consumer price index (CPI) to the target range of 3-6% in 2003 and kept within until the end of 2004. The average CPIX for the year 2004 was 4.3% compared to 6.8% for 2003, and 9.3% for 2002. There is no evidence yet to indicate the impact of the hike in oil prices on the CPI. The strengthening of the Rand has helped absorb the impact of the hike in oil prices.

16. Mr. Speaker, the economic growth situation in the region requires close cooperation among the SADC member countries. As part of the regional integration, a number of activities are ongoing to enhance trade relations among the major partners. It gives me great pleasure to realise that Swaziland is beginning to reap fruit under the NEPAD Initiative. Financiers have pledged support for bankable and viable projects. I must hastily mention though that this will require close collaboration between the government and private sector priorities and vigorously marketing the country.

### **4.0 INTERNATIONAL TRADE**

17. Mr. Speaker, the World Trade Organisation (WTO) negotiations in Geneva under the Doha Round are back on track following the General Council decision on the future of the Doha Round adopted in July 2004 referred to as the "July Package". The decision consists of a general text that lays out a framework for establishing negotiating modalities in agricultural products, non-agricultural products market access, recommendations for the services negotiations and establishes modalities for negotiations on trade facilitation. Swaziland's main interest in these negotiations is agriculture, market access and subsidies, with particular focus on sugar, standards and quality assurance and sanitary and phyto-sanitary issues. The

"package" explicitly set the agenda for the next WTO Ministerial meeting to be held in Hong Kong, in December 2005.

18. With regards to the current Uruguay Round agreement, Swaziland has two major concerns. The first is the dispute between Australia, Brazil and Thailand on the one hand and the European Union on the other regarding alleged sugar subsidies by the latter. The WTO panel on this dispute ruled in favour of the former. However, this ruling is still pending appeal. The concern here is that should the EU lose the appeal, it will be forced to increase the pace for its sugar regime reform. This will result in a sharp fall in EU sugar prices, which would significantly reduce Swaziland's sugar earnings from this market that could threaten the very existence of the sugar industry in the country not to mention other factors that are negatively affecting this sector.

19. The second concern is the coming to an end of the WTO Agreement on Textiles and Clothing on 31 December 2004. Under this Agreement import restrictions were allowed in the form of quotas. This lessens the competition from larger low cost producers. These import quotas were phased out on 1 January 2005 and the countries affected, including Swaziland, are still discussing how to reduce the impact of this development.

20. Mr Speaker, the SACU agreement came into force in July 2004 after ratification by all member states. This is an important event in the history of the SACU community that marked the beginning of a new SACU and democratic customs union organisation. The SACU agreement provides for the establishment of a number of institutions such as the Council of Ministers, the Secretariat, the tariff board, tribunal and national bodies to ensure the efficient implementation of the agreement.

21. At the Kampala meeting in June 2004 COMESA Heads of State and Government approved the extension of the derogation of Swaziland exports in the OCMESA markets by one year to the next summit meeting in June 2005. Meanwhile, Swaziland is engaged with the SACU member states for their concurrence to join the COMESA Free Trade Area that will allow Swaziland to reciprocate trade preferences to the COMESA countries as required by the Treaty. Together with my colleague in the Ministry of Foreign Affairs and Trade, we have communicated with the SACU member states on the importance of resolving this issue as a matter of priority before the next COMESA summit in June 2005.

22. Mr. Speaker, negotiations are continuing for an European Partnership Agreement (EPA) with the EU to be concluded by 31 December 2007 the date the ACP/EU Cotonou Agreement comes to an end. Though one cannot pre-empt the outcome of these negotiations, it is important they result in improved market access. The major challenge is whether Swaziland will be able to compete with other lower cost sugar producers worldwide, when the tariff phase down under the WTO Doha Round approaches zero.

23. Mr. Speaker negotiations on the SACU/USA and the SACU/EFTA (European Free Trade Area) are in progress although the deadline of completing the negotiations initially set for 31 December 2004 have not been met. Whilst the SACU/EFTA looks set for completion the SACU/USA may take longer. Despite the delay Swaziland continues to view these agreements as effective means of integrating the economies of Southern Africa with the global community. In particular the SACU/USA free trade agreement will provide an important opportunity to seal the benefits of AGOA in a long-term contractual agreement. With this market guarantee

we shall be able to attract investment into the country, create job opportunities and address other social economic challenges.

24. Mr Speaker, the SACU and MERCOSUR negotiations were concluded in December 2004. The benefits to be derived from this agreement still being finalised by officials, will yield the same benefits as articulated above

25. Mr Speaker, let me caution at this stage that as much as we are involved in so many trade negotiations as a country, our negotiation capacity is limited and there is a need to improve in this regard. We welcome the assistance that has been received for capacity building in this area to allow us to assess the country's requirements and expectations. The outcome of such negotiations should directly benefit Swaziland. In the area of bilateral trade, there is still a lot of work to be done. Not only does the country need to strengthen trade offices in the various embassies, we have to diversify our trade markets to include for instance the Middle East.

## **5.0 DOMESTIC DEVELOPMENTS**

26. Mr. Speaker, provisional estimates for GDP growth indicate that the economy slowed to 2.1 percent in 2004 from 2.6 percent recorded the previous year. Growth was held back by the persisting drought especially in non-irrigated Swazi Nation Land resulting in a lower agricultural yield compared to 2003. The appreciation of the exchange rate that significantly cut profit margins of our export-oriented manufacturing and mining sectors. Worth mentioning is the fact that favourable developments in sugar cane production, sugar refining, and a pick-up growth in the services sector prevented a more pronounced slowdown of the economy as well as wholesale and retail, transport, banks, financial and insurance.

27. Mr. Speaker, the performance of the manufacturing sector, especially the textile sector is a cause for concern. In the apparel industry some firms were operating below capacity and failed to supply timely, resulting in the withdrawal of orders by the US clientele. This coupled with the unfavourable exchange rate reduced total output from the industry and led to the closure of some companies.

28. Mr. Speaker, future prospects indicate a further slowdown in economic activity. The forecasted sluggish economic activity is expected to average 1.75 percent for 2005 and 2006. Growth is expected to come from the services and construction sectors. The outlook is clouded by changes in the global trade regime, and the HIV/AIDS epidemic, while the public finances are also threatened by a prospective reduction in SACU revenues. Moreover, the uncertainty in sugar production and the slow recovery of the agricultural sector in general will also negatively impact on any prospects for growth.

29. With overseas markets secured under AGOA, a positive contribution to growth has been anticipated in 2005 as most textile companies were expected to produce quality products and operate at full capacity. However, recent developments in markets and production, flawed by company closures and the country's inability to meet our quotas, appears inadequate.

30. Mr. Speaker, government's major challenge other than HIV/AIDS and poverty is creating an enabling environment for the expansion of private sector investment and the development of SMEs. Amongst others, the financing of the fiscal deficit should be sustainable, and all forms of corruption be eliminated.

31. Mr. Speaker, I would like to reflect on the importance attached to the role of political development as an integral part of the economic development of a nation. The Constitution drafting exercise that was started in 1996/97 is about to conclude with the re-opening of this August House and we can all attest that this exercise has been a rewarding and learning process for the nation at large.

32. Mr Speaker, I applaud the efforts by His Excellency the Right Honourable Prime Minister and my colleagues in Cabinet, for effectively addressing the issue of rule of law that will in turn contribute immensely to the social and economic development of the country. Economic development requires improvement in judiciary systems, rules and practices that govern property rights and security for the broad cross section of society. In this regard, government has taken the necessary action to restore investor confidence in the country by the withdrawal of the November 28, 2003 statement and reinstatement of the Court of Appeal.

### **5.1 Poverty Alleviation**

33. Mr. Speaker, government remains committed to the upliftment of the standard of living for the people to be addressed through the confines of the proposed Poverty Reduction Strategy and Action Plan (PRSAP) to be operationalized before the end of the financial year. This includes initiatives such as acceleration of economic growth based on broad participation, empowering the power to generate income. It saddens me Mr Speaker to report that despite these efforts, poverty seems to be on the increase to 69% from that reported in my last speech of 66%. This therefore tells us that there is so much that needs to be done to address the situation.

34. Mr Speaker, about two thirds of the Swazi population live below the poverty line of E128.60 per month implying that they cannot afford decent food, health care or education for their children. This part of the population cannot actively participate in the economy, as the poor cannot live a dignified life and their children are most likely to be poor. Actually, the prevailing economic environment continues to aggravate the situation. Rural poverty is consistently high at over 70% in all administrative regions.

35. Mr Speaker, Government introduced short-term measures in an effort to mitigate the impact of HIV/AIDS and poverty. These include bursaries for orphans and vulnerable children, provision of free textbooks at primary level and other necessities. The situation seems to have worsened based on the increasing number of children and families that require financial and food assistance. Such increases pose a serious challenge on government in terms of sustainability of any relief measures aimed at addressing the root cause of the poverty situation. Access to education for these children will determine whether they will be in a position to actively contribute to the Swazi economy and society at large in the future. On behalf of the Swazi nation, may I commend the work of NGOs, churches, donors, the private sector, independent organisations, communities and individuals for their support. At the same time, I would like to extend my appreciation to the work of the Disaster Task Force and other government related departments in their work.

36. Mr Speaker there is an urgent need for social schemes to be put in place to support these vulnerable groups, including improvements in the institutional and administrative structures of government, for this endeavour to become a success. It is in recognition of this fact that government established the children's unit under the Ministry of Health and Social Welfare, which I believe will address the social needs of children.

37. Mr Speaker coupled with this effort is the consideration of the elderly in the support schemes by Government. The Ministry of Health and Social Welfare will be working with the University of Swaziland in determining the database of the affected populace and possibly proposing to government the various strategies possible for supporting the elderly. This exercise is to be completed before the end of 2005/06 such that the affected groups can enjoy the allocation announced by His Majesty the King, when opening the eighth session of Parliament.

38. Mr Speaker, it is my sincere hope that with these schemes properly administered, there is great potential for improving the livelihoods of the marginalised population, which will in turn, in future, generate liquidity to stimulate food production at subsistence levels as well as other income generating opportunities at grassroot level.

39. The Poverty Reduction Strategy Paper formulation is at its final stages. As government's strategic planning blueprint, the document is designed to guide policy formulation and action for poverty reduction in all key areas of development. It will also be a guiding framework for government's development partners, both local and international. All government projects should be subjected to appraisal on their poverty reduction role. The Goals and strategies in this document will, with everyone's full participation, ensure that the livelihoods of the poor and disadvantaged citizens of Swaziland improve drastically.

40. The government will undertake the first Swaziland Demographic and Health Survey beginning 2005/06. This exercise will generate accurate fertility, morbidity and mortality data. It will also provide a more accurate picture of the country's HIV prevalence rate and the effectiveness of past and ongoing anti HIV/AIDS campaigns. In the near future the government is also planning to undertake a Poverty Mapping Exercise. This will assist in targeting interventions and in designing strategies.

## **5.2 Food Security**

41. Mr Speaker Swaziland is endowed with an immensely productive agrarian base but achieving the desired status of food security has always remained a distant dream. The vulnerabilities, to which agriculture is exposed, have in the past years been brought to sharper focus in the wake of the currently prevailing drought situation. Almost 60% of the food consumed in the country is imported. In the last 15 years, Swaziland has not been able to meet its requirements in terms of maize production and an estimated 129, 000 people will be in need of food assistance throughout the consumption season (July 2004 – March 2005). Current statistics show that the total domestic maize availability for the 2004/05 marketing year is estimated at 85,400 tonnes compared to the 147, 000 tonnes consumed locally. The National Maize Corporation (NMC) will therefore import at least 26,400 tonnes to meet the shortfall.

42. Mr Speaker despite the improved rains in the last quarter of 2004 and early 2005 the prospects of meeting food sufficiency in terms of maize appear bleak, unless drastic measures are taken to reverse the trend. The food insecurity is exacerbated by the high unemployment rate (40% among the youth) and the closing down of manufacturing industries, as well as retrenchments, especially for families depending on remittances. The lack of crop diversification has compounded the problem of food security.

43. Mr Speaker Swaziland has one of the highest numbers of livestock *per capita*. Estimates show that there is enough kraal manure to meet the fertilizer of

over 20% of our maize crop production, yet little attempt is made to harness it in order to increase crop yield and reduce the cost of imported fertilizers. I would therefore urge the Honourable Members of the House to consider implementing this simple strategy in their various constituencies.

### **5.3 HIV/AIDS**

44. Allow me Mr Speaker to spend a minute on this topic because of its importance. Due to HIV/AIDS the life expectancy has declined to 37.5 years. This is significantly lower than the 65 years in 1991. As a matter of fact if there was no HIV/AIDS life expectancy would be 73 years. UNAIDS estimates that even though women account for 49 percent of the population of the 14-49 age group, 55 percent of people in this group living with HIV are women. The share of women in the group is declining due to increased mortality such that the share of women over the last 10 years has declined by about 3 percent. Total life expectancy for women is three (3) years lower than for men. In the absence of HIV/AIDS it would have been 5 years longer than for men. Another way of looking at the cumulative impact of HIV/AIDS is the survival probability at current mortality rates. The probability that a young Swazi of 15 years will reach 50 years is 28 percent for males and 22 percent for females when it could have been 94 percent for male and 97 percent for female respectively had there been no HIV/AIDS.

45. Mr Speaker the incidence of HIV/AIDS has escalated from less than 4% in 1992 to over 38.6% in 2002 amongst pregnant women, has virtually erased the development gains that were made in the earlier years. Agriculture, the main source of economic and social development, has been one of the hardest hit sectors of the nation. In a country with a high labour-intensive farming system and low level of mechanization, extra hands are very crucial in agriculture. However, AIDS has devastated most of the productive age group as it affects mostly people of the age group 15 – 49 years.

46. Mr Speaker HIV/AIDS has been with us for the last 20 years and we can expect it to be with us for sometime. From existing statistics more women than men are infected. While we are still waiting the release of the latest antenatal survey figures, currently, among pregnant aged women (15 to 45 years) just under 40% are infected. We have seen total deaths from AIDS increase from 13 000 in 2001 to 17 000 in 2003. Who will care for the estimated 80,000-orphaned children we currently have? Who will care, educate and create economic opportunities for the 10,000 children expected to be orphaned in this year alone?

47. Mr Speaker, even within government we have seen the catastrophic impact of the epidemic as indicated by increased deaths, absenteeism and demand for sick and compassionate leaves. Currently the Ministry of Health and Social Welfare is undertaking an impact assessment of the Health Sector and we hope the results will inform government of the impact of the epidemic on that sector. On the other hand NERCHA has set up new administrative structures, undertaken strategic planning, developed new systems for tracking progress and seeing how effective programmes are. In the coming financial year high priority will be on promoting prevention especially among the youth, undertake care and support activities, which includes increasing the number of people on ARV's and mitigating the social and economic impact. NERCHA has and will continue to be creative in trying new approaches that will be sensitive to the cultural norms and standards.

48. Mr Speaker, I request for greater support from the nation and all institutions involved in the fight against the HIV/AIDS to work together and ensure



that we maximise on the use of resources from our cooperating partners in particular the assistance from the Global Fund. I am confident that my colleague in the Ministry of Health will be tirelessly working on developing support programmes for the affected and infected; as well as improve on administering the ARVs.

#### **5.4 Employment Creation**

49. Mr Speaker official statistics show that unemployment is estimated at 29% (SHIES 2001/02) of the economic active population, a rate, which can rise to approximately 40% of the population if a broader definition of unemployment, which includes discouraged job seekers, is used. As a consequence of the high unemployment, about 69% of the population, predominantly made up of rural households, fall below the poverty line of E128.60 per month.

50. Mr. Speaker, so far, the main growth in employment has been visible in the manufacturing sector that has been able to employ an estimated 17,000 people through the factory shells programme. It is envisioned that there will be more growth in this sector since more firms are still to operate in some of the factory shells that are yet to be completed and take advantage of Swaziland's inclusion in the African Growth Opportunity Act (AGOA).

51. Employment in the agricultural sector is projected to be almost stagnant with an average annual growth rate of about 0.001%. However, significant growth is anticipated in the sector in the near future owing to the completion of projects, such as the Maguga dam project, which is expected to boost agricultural production and the implementation of the Agriculture policy by the Ministry of Agriculture and Cooperatives.

52. Mr Speaker, a high negative average annual growth rate is expected in the mining industry owing to the finite nature of the mineral resources. A decline in employment in the sector is expected as the mineral resources in the country are dwindling. Overall, private sector employment is projected to decline at -0.2% per annum while public sector employment growth rate is 0.1% per annum.

#### **5.5 Agriculture Sector**

53. Agriculture remains the most important sector with a great potential for leading the process of economic growth. The most visible symptoms are of a 'poor' and 'depressed' rural economy, which is characterised by food insecurity and poverty at the local level. Since early 2001, the Swaziland Vulnerability Assessment Committee (VAC) has repeatedly highlighted the Lowveld Cattle-Cotton & Maize Livelihood Zone as a particular area of concern.

54. Mr Speaker, the major challenges that the agricultural sector is faced with include:

- i) Water shortages emanating from reduced rainfall quantities & distribution, and poor use of available water
- ii) Escalating agricultural input prices and poor marketing methods for smallholder farmers
- iii) Poor diversification
- iv) Existing monopolies in the importation of agricultural inputs in both crops and livestock sub-sectors
- v) Non controllable invasion by alien species within the country's natural resources
- vi) Extinction of the human resource within the agriculture sector due to the HIV/AIDS pandemic.

55. Mr. Speaker, our survival therefore depends on our ability to create a dynamic and vibrant agriculture sector, which is the main source of export-led economic growth. To aid the situation the Ministry of Agriculture and Cooperatives in conjunction with our cooperating partners is developing a comprehensive agricultural sector policy aimed at ensuring that agriculture contributes fully to economic growth, food security, poverty alleviation, and sustainable natural resources management. This will lead to the promotion and development of specific agricultural practices that recognize the realities of internal and external markets and the development of value-added food processing.

56. Mr Speaker over and above this may I implore my colleague in the Ministry of Agriculture and Cooperatives to consider having a policy on irrigation that will act as a guide in improving production, enhance food security and allow for crop diversification even in areas that are prone to drought conditions.

57. Mr Speaker following the Dar-es-Salaam Declaration on Agriculture and Food Security signed by Heads of State in May 2004, Swaziland has successfully completed the process of developing a national programme to address the problems of food insecurity in the country between 2004 - 2006. Swaziland has designed the implementation of the programme in a context that will make a significant transformation of the lives of the beneficiaries through increased agricultural production in 5 pilot sites spread amongst the 4 administrative regions.

58. In 2004/05 the agricultural sector made a landmark achievement, particularly in the maize industry, when the World Food Programme (WFP), for the first time, agreed to buy locally produced white maize in the region of 1 767 tonnes. Government can only hope that this will continue as it will encourage our farmers to produce even more in future years. The alleged disincentive effects that were now attached to the availability of humanitarian food aid in the country could be erased if such a trend is encouraged and maintained.

59. Mr Speaker an important national activity of livestock identification commenced in August 2004. The current focus is on having a national brand based on origin. The more complex individual owner identification of livestock will follow at a later stage once the required logistical arrangements for the purpose are in place. Livestock identification is of national, regional and international importance, particularly as regards the control and monitoring of trans-boundary diseases, the curbing of local and cross-border stock theft as well as the traceability of stray animals back to their rightful owners. Mr Speaker may I therefore urge the Honourable House to support the initiative and ensure active participation of all community members.

60. The poultry industry was severely threatened in mid 2004 following the notification of a ban on poultry exports effected in terms of international conventions by the Veterinary Authority of South Africa as a result of the Avian Influenza. Swaziland had no choice but to completely suspend importation into the country of all birds and products thereof originating from any part of the territory of South Africa. This ban has since been lifted and I would only implore the Ministry of Agriculture to work with the private sector, to increase its capacity in terms of producing breeders locally.

61. Mr Speaker the natural and exotic forest resources form an integral part of the land resources that sustain livelihoods of communities. Great potential and opportunities exist for the commercial utilization of indigenous natural plants and animal resources, which the country is endowed with. Two initiatives are being

pursued to explore the opportunities to maximize benefits to the Swazi Nation through production of value added natural products. These are the commercialisation of marula products and other indigenous natural products and establishment of a biotechnology park. These initiatives are in the initial planning and development stage. This includes the undertaking of feasibility studies to determine viability, resource assessment, and mobilisation of communities to foster participation in and ownership of these initiatives.

## **6.0 FOUNDATIONS FOR ECONOMIC GROWTH**

### **6.1 Investment**

### **Environment**

62. Mr. Speaker, may I emphasise that there is a very close and direct relationship between growth, investment, trade, employment and other policy issues, and the overall governance of a country. The overall governance of a country creates confidence on other government policies and such provides an environment where business thrives. Foreign direct investment performs a direct beneficial role through the production of exportable goods and services, and the provision of inputs for production. Globalisation is the driving force behind foreign direct investment movements and direction. Since the global economy has become highly dynamic, volatile and sensitive to uncertainties associated with particular regions and countries, Swaziland needs to brace herself for tough times in this area since each country's trading regime has significant impact on another's investment and trading environment.

63. Mr. Speaker, during the period between 2001 and 2003, total foreign direct investment into the country has averaged 37 percent of GDP, whilst that targeting the manufacturing sector averaged 26 percent of GDP. Worth noting is that re-invested earnings accounted to an average of 18.6 percent of GDP. For the year 2003 alone, total FDI declined by 8.6 percentage points to an overall 31.2 percent of GDP from 39.8 percent of GDP in 2002.

64. Mr. Speaker, I would like to take this opportunity to acknowledge that the domestic investment environment is facing serious challenges concerning retaining existing firms as well as attracting new ones. A number of firms have closed down leaving a lot of Swazis jobless. This will have an adverse effect on our safety as a nation as some people may embark on criminal activities to make a living. There is therefore a need to take serious steps in addressing the issues that have been echoed by the private sector as pertinent for a good investment environment. It is high time we stop thinking that the mandate to create jobs lies only with the Ministry of Enterprise and Employment. Every cent that government spends must create jobs. It is critical that as a nation we ask ourselves on the number of jobs that we have exported by failing to award contracts to local and indigenous suppliers. It is only this government with the help of this Honourable House that can change the situation and assist increase the Lilangeni mileage locally.

65. Mr. Speaker, since inception the Swaziland Investment Promotion Authority (SIPA), Swaziland has attracted 30 companies with a total of 30 000 jobs created. This results from the strategic focus on labour intensive industries. During the year 2004/5 a total of 11 companies have opened shop, against the target of 10 companies per year. These companies are mainly involved in garment manufacturing and a majority of them are from the Far East. Within the same year three companies were liquidated due to unfavourable business conditions such as the depreciation of the US Dollar and changes in the international textile market. As a result SIPA projects that 2005/06 will be a difficult year on investment and job creation.

66. Mr. Speaker, due to the uncertainty in the textile industry, I urge SIPA and the Ministry of Enterprise and Employment, to pay particular attention to potential investors with special emphasis on resource based industries that add value to locally available raw materials. This calls for intensive research on these industries, including export markets for local products. Government will continue to assist local manufacturers to access international markets through participation in international trade fairs and promotional missions in target markets.

67. In his speech from the Throne, His Majesty has challenged government and the private sector to inject E1 billion into the economy this financial year towards job creation. In accepting this challenge government implores all ministries to assist in this regard based on the appropriation. Over and above government will source financing to assist in facilitating the job summit as well as preparing for the expected public private partnerships and I invite contributions from the private sector towards this summit. Cabinet has formulated a ministerial committee comprising of Minister of Finance as a convener, Minister of Economic Planning and Development and Minister of Enterprise and Employment. Discussions have already commenced in preparation for the Job Summit to be announced in due course. It is expected that every Swazi should actively participate and make meaningful contribution to this important exercise.

## **6.2 Security**

68. Mr. Speaker, issues of security are paramount as far as the country's economic, social, cultural and environmental development. Maintaining maximum security and fighting crime remains a high priority to government. As such, consideration has been made to enhance the capacity of the police force by providing new posts in 2005/06 and the vehicles purchased in 2004/05. I would like to encourage the communities to continue to work closely with the police and the army in the fight against the increasing crime in the country particularly in curbing the cross border smuggling of vehicles and cattle rustling to our neighbouring states. Can I also urge the security forces to make effective use of these vehicles and control any possible misuse to the benefit of the Swazi populace at large.

## **6.3 Industrial Relations**

69. Mr. Speaker, one cannot overemphasise the importance of having harmonious labour relations in attracting and sustaining investment. Government remains committed to improving labour relations and enhancing the country's competitiveness in the region; and as such has amended the Industrial Relations Act to give Conciliation, Mediation and Arbitration Commission (CMAC) more authority in investigating and resolving labour disputes. This has helped in reducing the backlog of cases in the industrial court and we have observed a decrease in the number of industrial disputes.

70. Mr. Speaker, I commend the Ministry of Enterprise and Employment for ensuring that both employers and employees comply with the labour laws of the country through increased labour inspections. Plans are underway to open CMAC regional offices and undertake massive educational programmes on labour laws and practices to help avoid conflict between employers and employees.

## **6.4 Small Medium Enterprise (SME) Development**

71. Mr. Speaker, the SME policy has been completed and awaits adoption by Cabinet. The policy will provide the institutional framework and guidelines for the development of small and medium enterprises. It also provides guidelines on how SMEs will access funds from the financial sector including non-bank financial

institutions. A number of training schemes have been developed to build capacity in business management. This includes the pre-vocational education pilot programme established in 16 schools. The Entrepreneur of the Year competition has been held for two successive years and has helped in improving the capacity and performance within the SME sector.

72. Mr. Speaker, with the help of our cooperating partners, an SME survey was conducted to ascertain the characteristics of the SME sector and map out the location of the existing and potential SMEs, including development of a website. One of the highlights of developments in the sector is the proposal by the Ministry of Enterprise and Employment to set aside a factory shell in Matsapha for exclusive use of SME manufacturers on an incubational basis to enhance their capacity for full industrial scale.

## **6.5 Tourism**

## **Development**

73. Mr. Speaker, the tourism sector has a potential to boost the long-term economic developments in Swaziland, including improvement of the quality of life for the general populace. This entails taking full advantage of regional and international trends and developments in the tourism sector as this can help create employment and earn foreign exchange.

74. Mr. Speaker, the sector's performance grew by 23.1% in 2003/2004 due to improved marketing as well as the diversification of the hospitality industry to cater for all types of travellers. Total receipts from tourism increased by 22.2% to E268.7 million as compared to E219.8 million received in 2002/2003. An international visitor survey is being initiated to collect information from tourists to improve on the statistics and its contribution to the Balance of Payments.

75. In an effort to implement the strategies set out in the NDS and make tourism available to all sectors of the population, Swaziland Tourism Authority (STA) with the assistance of the EU, has established a community grant scheme. The programme essentially involves helping communities, which are lacking resources, knowledge and skills to participate in tourism initiatives. A total of five pilot projects have been identified under this programme for 2004/05-2006/7 and include Ngwempisi Hiking Trail, Mahamba Gorge, Shewula Mountain Camp Conference Centre and Khelekhele Horse Trails. Groundwork is currently ongoing for the Luphohlo Water Sport project.

76. Mr. Speaker the beginning of this year saw the opening of the Interpretation Centre at Ngwenya Mines and the Natural History wing. Ngwenya mines has one of the oldest known mining sites in the world dated to 43 000 years. Other tourism sites of great interest are the Sibebe rock, Mahamba gorge and the new tourist resort in Mlawula nature reserve, which will be completing in the coming financial year. I would like to invite this Honourable House and members of the public to visit these places.

77. The government is committed to sustainable development including environmental management, which is aimed at reducing conflict involving population growth, land usage and environmental degradation. The economic and social activities of the nation heavily rely on maintaining an ecological balance so that the natural resources that provide inputs for our production process, and a base for our culture and livelihood, are in constant supply. To ensure that sustainability is achieved, government has integrated environmental concerns into the planning process, which include policy development, strategies and programme implementation.

78. Mr. Speaker, during the current period, the Swaziland Environment Authority (SEA) has finalised an integrated national environmental policy, promulgated a comprehensive environmental management Act and finalised the Solid Waste Management Strategy. SEA has also increased pollution control and industrial monitoring to ensure that Swaziland development is environmentally, economically and socially sustainable by meeting the appropriate national and international standards as well as achieve the goals of the National Development strategy. This initiated the preparation of the Biodiversity Conservation and Participatory Tourism Development (BCPD) project. With a large emphasis on tourism, Government and the World Bank jointly fund this project.

## **7.0 INFRASTRUCTURE DEVELOPMENT**

79. Mr. Speaker, one cannot overemphasise the importance of the availability of adequate, integrated and efficient communications infrastructure and services that are ubiquitous, affordable and of quality. There has been impressive growth on communication due to increased coverage of geographic areas particularly rural. Both mobile and fixed communication services will have to increase their revenues by improving service delivery and in particular offer more broadband services. The postal sector has continued to provide services in rural areas which otherwise would have been only available in the urban centres for example the school fees payment. Government is currently in the process of separating the regulation and operation functions in the communications sector. This involves the setting up of an autonomous regulatory authority, finalising the ICT Policy and Plan as well as accelerating postal services reforms.

80. Road networking has been improving over the years and with the ongoing construction under the Ministry of Public Works and Transport it will be easier to move from one point of the country to the next. Means are underway to continue improving the situation. To help improve on the conditions of the roads the Swaziland Railway is working on strategies such as the purchase of locomotives to allow for traffic diversion from road to rail. This will also have the impact of reducing the cost of moving goods to the nearest port and across borders.

81. The rural electrification programme by government will continue even in the coming financial year and it is my sincere hope that the nation will benefit from the provision of this infrastructure. My colleague in the Ministry of Natural Resources and Energy has advised me that the wiring of infrastructure, particularly that covered at the initial stages of the programme, will now be accommodated particularly for the government facilities. I can only request that we preserve the infrastructure and make effective and efficient use of the resource with the hope that the fee structures for connection will be reviewed in the coming years.

82. On another note the Ministry of Housing and Urban Development together with the Ministry of Natural Resources and Energy will continue with the identification of possible means of bringing clean water to the nation including the rural areas. It is unfortunate that there has been minimal progress achieved in the completion of Lomahasha – Siteki Water Supply as well as the Mankayane and Ezulwini Water Supply projects as this has tended to delay other projects. I therefore urge for speedy implementation from the implementing agency Swaziland Water Services Corporation (SWSC), and for the development of a Master Plan to guide future provision of water. May I also express my appreciation of the support received under the Rural Water Supply Scheme, which is now coming to an end. Again I trust this has benefited a lot of communities and can only request my

colleague to take full advantage of the SADC Water Initiative proposed under the auspice of the African Development Bank (ADB).

83. Mr. Speaker, the Komati Downstream Development Project is now at an advanced stage of implementation with 30 farmer associations (FAs) already being assisted. The FAs are engaged in sugarcane, and other enterprises including, maize, horticulture, dairy, beef production and bee keeping. Private institutions namely, Swaziland Development Finance Corporation (FINCORP), Swazi Bank, Nedbank, and Swaziland Industrial Development Company (SIDC) have provided financial support for these operations. At full operation, the project is expected to generate over E100 million benefit for over 25 000 people in the Komati valley.

84. Mr. Speaker, after many years of preparations, the year 2005 will see the beginning of the transformation of the project area under the Lower Usuthu Smallholder Irrigation Project (LUSIP). Construction work is scheduled to commence during the second half of 2005. Meanwhile mobilization of downstream activities commenced in January 2005. Consultation with the project communities will be intensified, culminating in the resettlement of the first few homesteads to give way to the construction of the dams. The main direct beneficiaries of LUSIP will be 2,600 farm families whose income is expected to increase, with better access to health facilities, clean water and sanitation.

## **8.0 MONETARY DEVELOPMENTS, INFLATION AND INTEREST RATES**

85. Mr. Speaker, monetary policy continued to be accommodative during the calendar year 2004. This was mainly a result of subdued inflationary pressures during the period under review. The annual average rate of inflation fell from 7.4 percent in 2003 to a low of 3.4 percent in 2004. The decline in oil prices since November 2004 from a peak of US\$ 52 per barrel in October 2004 has increased the prospect of inflation remaining within the 3-6 percent band during 2005. Due to the favourable inflation developments, the Central Bank of Swaziland (CBS) allowed a 50 basis points decline in the policy indication (discount) rate in August 2004 to reach 7.5 percent and has remained unchanged to date. Consequently, commercial banks revised their interest rates downwards with the prime-lending rate reduced by 50 basis points to 11 percent.

86. Mr. Speaker, year-on-year growth in broadly defined money supply (M2), stood at 8.9 percent at the end of November 2004, up from 7.8 percent recorded the previous year, indicating a likely increase in inflationary pressures in the economy over time. Narrowly defined money supply (M1), however, increased by 10.8 percent over the year, a rate exceeding that of M2 thus reflecting the reduced opportunity cost of holding deposits and the growth in domestic expenditure.

87. Credit extended to the private sector picked up strongly by 36.6 percent over the year ended November 2004. However, the data are affected by a redefinition of loans and advances to include items previously netted out. The increase was notably depicted in credit to the corporate and household sectors, mainly due to the lower interest rate environment and rising disposable income.

88. Mr. Speaker, there was a turnaround in the country's net foreign assets over the review period from an annual decline of 36.3 percent in November 2003 to an increase of 15.2 percent in November 2004. In terms of imports, the assets were enough to cover an estimated 2.3 months compared to only 2 months reflected the previous year. The rise in the reserves has been attributed to the increase in customs revenue during the 2004/2005 fiscal year which was at 47.6

percent from 16 percent the previous year, Government's strategy to finance a part of its budget through domestic debt rather than running down the reserves and CBS's decision to hedge the reserves against revaluation losses (emanating from the strengthening of the Rand/Lilangeni unit) by shifting a sizeable portion from hard currencies to the Rand.

89. Mr. Speaker, net official reserves showed an annual increase of 26.9 percent whilst those of commercial banks fell by 19.2 percent over the same period. The outlook for the country's net foreign reserves remains optimistic, as authorities are committed to support a build-up of the reserves to at least internationally acceptable levels. However, such efforts may be down played by the continuous appreciation of the Rand/Lilangeni against major reserve currencies, as well as escalating government expenditures.

90. Mr. Speaker, during 2004, the Swaziland banking system remained stable and appeared to be sound and profitable. The banks have in place reasonable risk management systems and corporate governance with appropriate management oversight. The banks are well capitalized and the average risk-weighted capital adequacy ratio for the system stood at 16.4 percent at the end of December 2004, compared to the required minimum ratio of 8.0 percent. Swaziland banks maintained adequate levels of liquidity. In December 2004, banks liquidity held to total liability for which liquidity is required, at average, stood at 16.2 percent against statutory requirement of 13.0 percent.

91. Mr. Speaker, a small portion of non-performing loans of the total banking sector was prevalent during the year and provisioning by banks against those non-performing loans appeared adequate in terms of regulatory guidelines that prescribe specific allocations for classified loans.

## **8.2 Regulation of the Non Bank Financial Institutions**

92. Mr. Speaker, the Ministry of Finance is in the process of finalizing the legislation which aims at providing a legal framework for regulating and supervising the activities of non-bank financial institutions in Swaziland including capital markets, insurance companies, pension funds and SACCOS. The regulation of these institutions is necessitated by the urgent need to safeguard against financial collapse and to reduce systemic risks that may threaten the depositor's funds. It is also necessitated by the need to provide an enabling environment for a stable and balanced growth in the financial sector.

93. Mr. Speaker, the promulgation of this piece of legislation will culminate in the setting up of a regulatory agency that would be given the responsibility of regulating and supervising the NBFIs. Initial plans were to have the Agency set up and in place during 2004; however due to certain delays in the consultative process it has not been possible to set it up within the agreed timeframe. However, the consultative process has advanced and plans are now to have it established before the end of 2005.

## **9.0 DEFICIT FINANCING**

### **9.1 Public debt**

94. Mr. Speaker, as at 31st December 2004 total debt stock stood at E4.1 billion, compared to E4.4 billion, as at 31st December 2003. The decline is as a result of the appreciation of the local currency against major currencies by 20% in 2004. The total debt stock represents 26.1% of GDP, which is still within internationally



acceptable standards. This includes the newly contracted debt for LUSIP at E1 billion and E505 million for the Mbabane bypass road project, where construction has already commenced. Other loan-financed projects currently ongoing are the Komati Downstream Development project and the Northern Main roads (Mliba – Msahweni) project.

95. Mr. Speaker, to safeguard government against exposure to foreign exchange risk, the Ministry of Finance has pursued international financial institutions to provide Rand denominated loans. The increase in public debt in recent years is a clear indication of the need for effective debt management practices to ensure future sustainability of debt. The Ministry of Finance has finalised the Public Debt Policy and it is now awaiting approval by Cabinet. The main objective of the policy is to guide future borrowing by government, provision of guarantees to public enterprises and establishment of the necessary institutional framework for the recently management of public debt.

96. Mr. Speaker, government in collaboration with the Central Bank of Swaziland continued to hold weekly auctions of 91 days Treasury Bills and the amount on offer in each auction has been E50 million. This tool is effective in smoothing revenue flows from quarter to quarter. However, government will be reviewing the sustainability of this programme.

97. Mr. Speaker, total revenue including maturities which has been raised so far from the floating of treasury bills stands at E1.91 billion and the accompanying interest cost is E36.3 million as at 1st March 2005. From the total amount that has been raised, E412.82 million is outstanding. The Treasury Bills Auctions Committee has managed to bring down the local discount rate to at most 50 basis points lower when compared to that of South Africa. This has had the effect of reducing the cost to government of the whole programme. It is worth mentioning though that the problem of under subscription of treasury bills still persists. This points to the need for government to step up her efforts of sensitising the public about the availability of this investment opportunity.

98. Mr Speaker on the E230 million stock, E100 million has matured at end of February 2005 with an interest charge of E10 million. What remains will be a stock of E50 million maturing in 2007/2008. This therefore, means that the scope for government to raise domestic instruments is now at about E500 million in the coming financial year.

## **10.0 BUDGET PERFORMANCE IN 2003/04 AND 2004/05**

### **10.1 Outturn for 2003/2004**

99. Mr. Speaker, the actual outturn for the 2003/2004 financial year indicates a budget deficit of E434 million which is 2.9% of GDP, against an appropriated deficit of E860 million or 4.1% to GDP. Although there was an increase in recurrent expenditure, it was offset by the low implementation rate of the capital programme.

100. Mr. Speaker, revenue and grants for the 2003/2004 financial year totalled E4.1 billion compared to the E3.4 billion in 2002/03, reflecting growth of about 20 percent. Growth in revenue receipts was as a result from a number of factors some of which include improvements in the collection of direct and indirect taxes. Income taxes for instance exceeded our target because of administrative improvements in the collection of income taxes introduced by the Income Tax Department in that year. In particular the implementation of the Income Tax Practice

Note No 157 on the taxation of benefits and other employment allowances resulted in personal income taxes yielding 27% higher than was anticipated. Further improvements were realised on company taxes following intensive efforts by the Department of Taxes to carry out on-site audits of companies around the country.

101. Compliance with indirect taxes also improved significantly during this year. Although sales tax collection under performed by 3.3% from the budgeted E565 million Customs Union receipts were on target in that year. Taxes on property, which include transfer duties, also recorded a more than 100% performance because of increased property values in the country.

## **10.2 Estimated outturn for 2004/2005**

102. Mr. Speaker, the appropriated deficit for the current year is E338 million, which is 1.4 percent of GDP. However, projections indicate a deficit of E580 million, accounting for about 3.6 percent of GDP. The increased deficit is mainly as a result of increased expenditure, particularly on the recurrent budget, mainly due to the completion of the salary review exercise, which caused a substantial increase in personnel expenditure. Other contributing factors include a general increase in spending on goods and services, bursaries for orphans and vulnerable children and scholarships for students in tertiary institutions and clearing of outstanding commitments to suppliers.

103. Mr. Speaker, it is of major concern that the increase in government expenditure was not directed towards growth per se, but was biased towards consumption, which was not injected into growth stimulating activities. Growth in capital expenditure was constrained in 2004. An increase in government expenditure spurs the wholesale, retail and construction sectors. Conversely, the biasness of public spending towards recurrent, steered public consumption by approximately 40% in nominal terms at the expense of capital formation.

104. Mr. Speaker, total revenue and grants for 2004/2005 are estimated to be E5.1 billion, a 30% increase from the 2003/2004 outturn of E4.1 billion. Customs Union receipts continue to be the main driver of the revenue performance even in this year at E2.772 billion. Total taxes on income are budgeted to be E1.198 billion. We revised our original budget of E1.096 billion on income taxes following a positive response on pay as you earn collections.

105. Mr. Speaker, although growth in income tax revenue had been projected to decline in the 2004/5 financial year due to the revision of income tax rates structure, new developments point to an increase of 2% from the 2003/04 level. This is as a result of significant improvements realized in the taxation of benefits in kind and other employment related allowances. Although in the 2004/05 financial year tax rates structure will be adjusted to cater for the effects of fiscal drag, the adverse impact of this will be mitigated by the salary adjustments for civil servants.

## **11.0 2005/2006 - 2007/2008 BUDGET ESTIMATES**

### **11.1 REVENUE**

106. Owing to various developments in the region particularly as regards trade and pursuant to a number of domestic fiscal reforms a number of revenue sources are likely to perform differently in the medium term. The following are highlights of how these developments will affect our revenue sources.

#### **11.1.1 SACU Revenue**

107. Mr. Speaker, the new SACU revenue sharing formula will come into force in 2005/06. The new formula is meant to facilitate equitable and transparent sharing of SACU revenues amongst the member states, and to facilitate efficient fiscal planning. However the coming into force of the new formula coincided with certain developments within and outside SACU, which have adverse effects on the total amount of revenues from which the shares are distributed. These developments include the ongoing trade negotiations, which emphasise on the reduction of trade related taxes. Preliminary calculations on the shares of each SACU member state indicate that Swaziland's share for 2005/2006 will only grow by 0.01% from the share of E2.772 billion in 2004/5, to 2.779 billion. We expect some improvements in the medium term although these will be limited by the developments highlighted above.

#### **11.1.2 Tax Policy Reforms**

108. Government continues to improve and to explore revenue enhancement measures aimed at widening the revenue base in order to augment revenue losses likely to arise from the shrinkage of SACU revenue. Emphasis continues to be on strengthening tax administration with the aim of maximising efficiency of collecting taxes, through promoting voluntary compliance from all taxpayers, increased tax audits of companies and the continuous review of the tax legislation with a view to closing loopholes that encourage tax avoidance.

#### **11.1.3 Establishment of Revenue Authority and the Introduction of VAT**

109. Mr. Speaker, my Ministry is still committed to the establishment of the Revenue Authority and the introduction of VAT. Preparations for the establishment of a Revenue Authority are already underway while VAT is programmed to be introduced in 2007/08. I will soon be tabling before this Honourable House a draft Legislation for the establishment of a Revenue Authority. It is expected that the Board of Directors and the Commissioner General of the Authority would have been appointed by the end of 2005.

#### **11.1.4 Review of User-fees**

110. Mr. Speaker, as part of the effort to raise government revenue, collecting Ministries and Departments are urged to continue to gradually raise user-fees to at least cover the cost of providing such services to the public. As part of this ongoing process the Ministry of Public Works and Transport will be reviewing road levy from E5 to E50 beginning April 2005. The revised levy for trucks will be announced in due course as it will vary based on weight. The Ministry of Public Works and Transport will also continue pursuing the establishment of the Road Authority, Civil Aviation Authority and Road Testing Centres, as well as personalised vehicle registration. As I reported in my last speech, these have been identified as having a high potential for generating revenue.

111. Mr Speaker the plight of the old aged in our society is a concern for all of us. In addition to the daily challenges they face in terms of finding resources to look after themselves most elderly have to divert their meagre pension resources to cater for the basic needs of their orphaned grandchildren and in the process worsen the poverty situation in the country. As a way of relieving this group, we will consider providing an additional tax rebate to reduce tax liability of pensioner's income.

112. Mr Speaker, government appreciates the contributions made by the members of the public including companies in providing financial and material assistance to the OVCs. Such acts of kindness and humanity are encouraged to continue as we all have a collective role to play in assisting those in need with the ultimate objective of alleviating hardship arising from the HIV/AIDS pandemic in

Swaziland. The Ministry of Finance will be looking into a mechanism for providing a tax relief for those who participate in this noble course.

113. Mr Speaker, my ministry shall be presenting before the Honourable House a Bill, which seeks to formalize the Tax Advisory Committee, which provides technical advice to the ministry on issues pertaining to tax policy. The Tax Advisory Committee plays a very important role in guiding the process of tax policy formulation and review as it takes on board concerns from the private sector and other stakeholders while ensuring that Government's objectives are met. Through the Tax Advisory Committee the public is encouraged to communicate its view on how the tax system can be further strengthened. The formalisation of the Committee through legislation will increase its effectiveness.

## **11.2 EXPENDITURE**

### **11.2.1 CTA Charges**

114. Mr. Speaker, the services provided by CTA have now been fully commercialised. These include fuel, maintenance and repairs and vehicle hire charges. This will enable CTA to reduce their operating deficit and compel CTA to improve on efficiency. For the 2005/06 financial year, the total budget for running the government fleet is E255 million.

115. Mr. Speaker, expenditure on CTA in general continues to increase and this is of concern to government. I therefore urge ministries and departments to prudently manage their fleet by exercising control on the use of vehicles. Government will continue not to purchase new vehicles but only focus itself on imperative replacements. I am fully aware of the numerous concerns raised by this Honourable House on CTA and I can only request that the proposed restructuring of CTA be pursued further by all parties concerned as it is indeed of great concern to all of us.

### **11.2.2 Personnel**

116. During the current financial year, government completed the salary review exercise for public servants. The main objective of the exercise was to help reduce the high staff turnover that has been experienced over the years coupled with the recent exodus of professional staff to the developed countries. It was aimed at enabling government to attract competent and professional staff. This exercise, however, has resulted in a substantial increase in the wage bill. Currently the government wage bill is estimated at E2.6 billion, which accounts for about 62.95% of the recurrent budget. May I request the negotiating teams to be sensitive to the budgetary constraints and must learn to respect what government has provided. At this rate we might reach a point where government cannot afford to pay salaries at all.

117. On another note, May I once again thank the Honourable House for sacrificing their cost of living adjustment for 2004/2005. The budget has provision for their increase in 2005/06. Over and above this, the Ministry of Finance together with Cabinet is currently working on the review of terms and conditions for Members of Parliament. The budget makes provision of about E1.3 million for the overall package based on affordability.

118. Mr. Speaker, may I emphasise that the right sizing of the civil service is even more urgent now than ever before. With the current staffing levels, the wage bill has reached an unsustainable level. However, government takes cognisance of the efforts that the Ministry of Public Service and Information has taken to address the

issue of the increasing wage bill. I am pleased to inform the Honourable House that the procedures and guidelines to implement the voluntary retirement will soon be finalised to effect the exit of the first group of volunteers.

119. Mr. Speaker, in line with the improved restructured salaries, government is reviewing the remuneration system such that salary increments will no longer be automatic but based on performance. The Ministry of Public Service and Information has developed the Performance Management System, which will assist government in rewarding those public servants who perform diligently, thus providing incentives for others to emulate them. The system has already been pilot-tested in selected departments and is now being considered for full-scale implementation.

### **11.2.3 Other goods and services and expenditure management**

120. Mr. Speaker, the total estimated expenditure on goods and services for 2005/06 is E648 million. This reflects an increase of about 3.8% compared to estimates for 2004/2005. The increase results from increased expenditure in the social sector, including provision for the introduction of universal primary education award of scholarships for tertiary education and payment of school fees for OVCs.

121. Mr. Speaker, I would like to emphasise the need to control expenditure on goods and services in general. This entails avoiding unnecessary replacement of office furniture and equipment as well as procurement from expensive suppliers simply because they are in the government sources of supply. I therefore urge ministries and departments to direct expenditure to priority areas and ensure efficiency in the use of government resources. For 2005/06 there will be no provision for durable items in all government ministries except for completing programmes in certain ministries. Ministries are therefore urged to make effective use of available furniture and equipment.

122. I know that in my previous speech and even in some public addresses I have said a lot on corruption. I am not ashamed even this time to condemn it. The twin evils of bribery and corruption have become the order of the day in the country. Some highly placed individuals connive with government officials to inflate contracts or even making government pay for services that were never rendered. The economy is dying gradually and the citizens are placed under a heavy yoke. The playground for corruption is in goods and services as well as construction projects. An expert from the private sector recently estimated that government loses more than E40 million per month due to corruption. I certainly look forward to the Ministry of Justice and Constitutional Affairs presenting a Bill and giving teeth to the Anti-corruption Unit this year.

123. Mr. Speaker, I appeal to my colleagues and controlling officers to ensure that payments are made as soon as services are delivered; and to desist from committing government when they do not have the necessary resources. The private sector, on the other hand, is also to lend a hand and only deliver on assurance of payment. Failure to comply with this may lead to either delayed payments or no payments at all by government.

124. Mr. Speaker, with the assistance of the Fiscal Restructuring Project, government is enhancing its capacity to ensure that money is only spent in line with approved budgets. This entails the introduction of a computerised commitment system and I am pleased to report to this Honourable House that procedures for doing this have been devised and tested and will soon be deployed across Government. The Internal Audit unit will also be strengthened to effectively monitor and ensure that ministries adhere to government procurement procedures.

125. Mr. Speaker, in my last speech, I promised to deal with this perennial problem by amending the legislation that will empower the Ministry of Finance to surcharge officers for mismanagement of government resources. I am grateful to this Honourable house for passing the amendment of the Finance Management and Audit Act to allow enforcement of the surcharge policy. May I also report to the Honourable House that the Internal Audit Department will from April be a stand-alone department to enhance the efficiency and service delivery of government.

#### **11.2.4 Transfers**

126. Mr. Speaker, transfers for the coming financial year are estimated at E659 million, compared to the 2004/2005 estimate of E991 million. This is a decrease in spite of the increased allocations towards the social sector programmes. Government is seeing a reduction in subventions, particularly to the public enterprises. A bulk of the allocation is towards scholarships, bursaries for orphans and vulnerable children (OVC,s), grants to the elderly and on international subscriptions which are affected by exchange rate movements.

#### **11.2.5 Reform of Public Enterprises**

127. Mr. Speaker, Government has approved the privatisation policy that will guide us when the private sector has to have a stake in the ownership and running of a public enterprise. By approving the policy government is stipulating all the considerations that should be made before the private sector is given a stake in a public enterprises. It should be understood also that by approving the policy government is not saying that all the public enterprises should now be given to the private sector or privatised. Government will allow for consultation with all stakeholders on any public enterprise before it is privatised, including workers and unions. Government is also allowing for Swazi empowerment in the public enterprises.

128. Mr. Speaker, the time has come for Public Enterprises to be directed by Board members that have more than the basic skills required. As the management and running of public enterprises becomes more and more challenging and complex Boards of Directors should be individuals who will clearly understand the task at hand and be able to analyse the information accordingly and take appropriate decisions. It has come to my Ministry's attention that remuneration for Chief Executive Officers (CEOs) in parastatals continue to increase. As public enterprises, government cannot allow this practice to go on. For this reason, I have submitted a paper to Cabinet that proposes controls to salaries of CEOs of parastatals.

129. Mr. Speaker, the drafting of legislation for the regulation of telecommunications and energy has been completed and now awaits Parliamentary approval. Once these are in place, consumers should have some level of comfort, as the regulatory bodies will address all their concerns, which in most cases revolve around high tariff charges and poor service provision. With water, Government has started reviewing the performance contract with Swaziland Water Services Corporation with a view to ensure that efficient service is afforded to consumers.

130. Mr. Speaker, experience has shown that Government may not be the correct vehicle to directly deliver services thus the need to create autonomous enterprises to deliver certain services. Experience however, has shown that the creation of new enterprises comes with a greater need for government funding. The over all benefit against the cost of establishing a new state-owned enterprise should therefore be considered each time the need for the establishment of a new enterprise arises.

131. Swazi Bank continued to make strides in the banking sector. The bank's financial results have shown an after tax profit of about E11 million as at December 2004. Total assets were stated at E895.2 million, from that of E683.2 million as at December 2003. Work is continuing to make recoveries on the non-performing loans. The capital position of the bank increased to E287 million. As part of improving efficiency, the Swazi Bank will introduce ATM services and networking in the not so distant future. In its 40<sup>th</sup> Anniversary, it is befitting for us to congratulate it *like never before* and wish it many more profitable years.

132. The Swaziland Development Finance Corporation (FINCORP) formerly the Enterprise Trust Fund has continued to perform satisfactorily. They have been instrumental in providing finances to the rural communities and SMEs. In this regard, FINCORP has opened its lending program to individuals. The group lending program is also still operational. It is encouraging to see an increase in the number of International Financial Institutions that are prepared to extend lines of credit to FINCORP, making it important for the FINCORP's Board and Management to rise to the challenge.

133. Finally, FINCORP has a challenge to encourage SMEs to diversify their activities from agriculture to other activities like manufacturing, in particular. The unpredicted decline in sugar revenues in the face of huge investments made by Swazis in this industry, is a wake-up call for all of us to rethink about our next strategy. However, our farmers have been encouraged and advised to seriously undertake cost-cutting measures if they are to remain competitive in this market.

### **11.3 SOCIAL SECTOR**

134. Mr. Speaker, the social sector remains a key priority for this budget. Experience has shown that a healthy and educated society is the foundation for economic growth and improved social welfare. We all know that the humanitarian crises experienced in our time has put tremendous pressure for increased investment in the social sector.

#### **11.3.1 Education sector**

135. Mr. Speaker, in line with the vision of the National Development Strategy (NDS) and the Millennium Development Goals (MDGs) of achieving universal primary education, government remains committed to providing equal opportunities for education and investing in human resource development with emphasis on education and training. The biggest challenge facing government is increasing access to basic primary and secondary school education, and the devastating effects of the HIV/AIDS pandemic, which has worsened this situation.

136. Mr. Speaker, for the 2005/2006 financial year, an allocation of E1.2 billion has been provided to Ministry of Education to carry out its mandate of providing education at all levels. This reflects an increase of E441 million from the allocation of E759 million for 2004/2005. In recognition of the increase in the number of orphans and vulnerable children due to poverty and HIV/AIDS pandemic, an amount of E47 million has been set aside to ensure that such children have equal opportunities in accessing basic education, particularly those vulnerable and orphaned. This injection, together with the provision of free textbooks to primary schools, will pave way for the smooth transition to the free education policy under the Universal Primary Education initiative launched recently by the Honourable Prime Minister. In addition, a provision has been made for the review of the curriculum so that it is relevant to the prevailing social and economic environment.

137. Once again let me appeal to all concerned that the E47 million be targeted only to those who qualify only. May I also request teachers, school committees and communities to work hand in hand with the Ministry of Education. Let me also commend the Ministry of education for the ongoing exercise of following up the schools on the use of the OVCs funds.

138. Mr. Speaker, I would like to take this opportunity to congratulate the School for the Deaf in Siteki for the excellent performance in the 2004 Standard Five examination. As I pointed out in my last speech, government continues to give priority to special education. An allocation has been provided for the completion of the school for the High School for the Deaf and I would like to urge the Ministry of Public Works and Transport to facilitate completion of this project to ensure that the students who have finished primary school can continue with their education. Government will also continue to support special education centres including the vocational training centres for the handicapped, throughout the country. I have also been made to understand that the Ministry of Education is having preliminary discussions with a local association, which proposes to print all primary textbooks in Braille language.

139. Mr. Speaker, we shall also continue to expand opportunities for learning at tertiary level to further the objective of an educated and informed society. A total allocation of E218 million has been provided for the University and scholarships to students for the coming financial year. This reflects an increase of 13% from 2004/2005 budget provision. However, the main challenge is the increasing number of students qualifying for tertiary education, against the limited government resources. I therefore urge the Ministry of Education to assist in ensuring that scholarships are awarded within the available resources and improve on the recovery of the funds from those who benefited to give similar opportunities to others. The Ministry of Education should explore other innovative methods of financing tertiary education.

140. Mr. Speaker, it is essential that government expenditure in tertiary education is in line with manpower requirements in the labour market. As such, I would like to urge the Ministry of Public Service and Information and the Ministry of Education to finalise the Manpower Development plan which will address issues of relevance, equity and quality of tertiary education.

### **11.3.2 Health Sector**

141. Mr. Speaker, may I now turn to Health sector issues. This sector is faced with many challenges including shortage of staff due to the exodus of nurses and failure to recruit and retain doctors, who always opt for greener pastures. This budget makes provision of E470 million for the health sector for 2005/2006 compared to E334 million in 2004/2005. This reflects an increase in resource allocation for the health sector of about 41% as a result of increased allocations for the continuing fight against the unabated HIV/AIDS pandemic and its implications on social welfare. The goal of the health sector is to spearhead the reduction of HIV and mitigation of the impact of HIV/AIDS to individuals, families and communities through the provision of health and social welfare services for the prevention of HIV transmission and care of the infected and affected individuals. The health sector therefore puts very high importance in fully implementing the Health Sector Response to HIV/AIDS plan developed in 2003. The plan basically operationalises the sector's obligations outlined in the HIV/AIDS strategic plan.

142. Mr. Speaker, it saddens me to observe that the HIV/AIDS prevalence rate is not declining in spite of the effort in mobilising resources for creating awareness



and other mitigation measures. I wish to commend all stakeholders including government agencies, NGOs and Community Based Organisations (CBOs) for their tireless commitment in the battle against the pandemic. These have continued to step up their efforts to counter the rapid escalation of the pandemic in the country and caring for the infected and affected.

143. To this end, some of the interventions that have been scaled up include the establishment of Voluntary and Counselling and Testing (VCT); Prevention of Mother to Child Transmission (PMTCT) sites and provision of Antiretroviral therapy. These are available in government facilities, missions, NGOs and CBOs in all the four regions of the country. With the continued support from our cooperating partners and government, the sector shall continue improving access to quality VCT services with special focus on the rural communities. Focus will also be on strengthening the VCT Counsellor support network and linkages between prevention and care services.

144. Mr. Speaker, in response to the Honourable Prime Minister's SPEED, efforts are being made by the Ministry of Health and Social Welfare to make the Antiretroviral Combination Therapy more accessible and affordable in Swaziland. It is currently estimated that at least 7,000 patients are under ARVs treatment. In order to benefit more patients, efforts to rollout the ARVs programme to all health facilities by government and under the Global Fund for AIDS, TB and Malaria are under way.

145. Mr. Speaker, as we are all aware that *iHIV/AIDS yindzaba yetfu sonkhe*, civil servants have also joined hands in fighting against the disease, which severely affects productivity. The year 2004 saw the establishment of HIV/AIDS committees, appointment of focal persons in all ministries and departments and training of peer educators and councillors. I hope this will go a long way in mitigating the massive impact of the pandemic on the entire civil service. I urge the Ministry of Public Service and Information to finalise the public service HIV/AIDS policy which will assist in synchronizing the multi-ministerial activities in line with the National Strategic Plan

### **11.3.3 Health funds**

146. Mr. Speaker, the demand for specialised medical services continues to increase, putting more pressure on the allocation provided under the Phalala Fund. Since government still lacks national referral institutions to provide specialised services locally, it has been found necessary to continue with the allocation to the Phalala Fund in the sum of E20 million. In the meantime as indicated by His Majesty the King during opening of Parliament, it is in government's plans to convert one of the government hospitals into a referral facility to serve the whole country. This involves capacity building, provision of medical equipment and specialist personnel.

147. Mr. Speaker, government continues to provide for specialist medical requirements of civil service and E10 million has been set aside for the Civil Servants Medical Referral scheme. However, it is worth mentioning that with the impact of the HIV/AIDS, there is increasing pressure to explore other measures of intervention.

### **11.3.4 Social Welfare Issues**

148. Mr. Speaker, as Swazis we are all aware that *umuntfu lomdzala akahlwa* and with the change in social values and the burden the elderly are currently facing, this expression has become more meaningful. It is in this spirit that government has provided an allocation E30 million in this budget for social welfare grants to the elderly. However, it saddens me to report to this Honourable House that the compilation of the long overdue database on the elderly is still not complete. The objective of this exercise was to ascertain the numbers, location and the type of

assistance required. However, the ministry of Health and Social Welfare has indicated that the exercise will be completed by the end of July 2005.

149. Completion of collection of such data is a prerequisite for the full use of the E30 million. Speaking on behalf of all the elderly, my 90 year old grandmother laNkonyane, has asked me to request the Social Welfare department to improve on its treatment of the elderly, to arrange for them not only to get the cheques but also ensure they can cash them at Tinkhundla centres.

150. Mr. Speaker, as mentioned earlier on, the most vulnerable to the impact of HIV/AIDS are the elderly and children. The government notes that the plight of OVC's is worsening. In 2003 it was estimated that there were over 60 000 orphans and 15 000 of these are thought to be living in child-headed households. It is estimated that by 2010, 120 000 children (15% of the population) will be orphans. Access to education for these children will determine whether in future they will be able to break the poverty cycle and positively contribute to the Swazi economy and society at large.

#### **11.3.5 Food security**

151. Mr. Speaker, the Vulnerability Assessment Report of 2004 estimates that about 60 percent of the population will face a food deficit up until next harvest. According to the World Food Programme a total of 262,000 people will face food/income deficit in the year ahead.

152. Mr. Speaker, let me caution at this juncture against a few unbecoming tendencies. We know of situations where undeserving citizens receive food aid. We know of areas that need food but are not given and there are cases where food aid is either sold or fed to animals. To this end I implore Ministry of Agriculture and Cooperatives, the National Maize Corporation and Disaster Task Team to discuss and devise ways to ensure that food reaches the intended beneficiaries.

153. Let us remember that food security is not food self-sufficiency. Ability to purchase is critical in food security definition. We encourage increased commercial farming. Noted this year is the promotion of cotton production and E1 million has been included in the budget for the creation of a Cotton revolving fund. We hope this will lead to increased cotton production and income generation.

154. Currently, farmers in the marginal rainfall areas receive vouchers to purchase inputs and this is a collaborative effort between the Ministry of Agriculture and Cooperatives, the Food and Agriculture Organisation (FAO) and non-governmental organisations. On the other hand, the World Food Programme is continuing with efforts to supply the hungry populace with food packs and is strengthening capacity to ensure that it is targeted to the needy.

155. Mr Speaker, the drought situation is finally improving. However, the planting season started late due to delayed rains that tend to be also erratic. A lot of the maize crop was destroyed by a dry spell in December. We estimate that 66 666 hectares have been planted in 2004. Ninety percent of production occurs on Swazi Nation Land (SNL) and the remaining 10% on Title Deed Land. SNL productivity has declined owing to the persistent drought and the ravaging effects of HIV/AIDS. This represents a decline from the early 1990s where arable land was 120,000 ha and maize covered 99,000 ha.

156. That said, Mr Speaker, let us spare a thought to those who have lost lives and property in the rains that occurred in January 2005. Government released E5

million for reconstruction and assistance to the victims of the violent storm that wreaked havoc at Manzini city, carving a swathe of destruction all the way through to the outskirts of Nhlanguano.

### **11.3.6 Regional Development Fund**

157. Mr. Speaker, in spite the negative reports that have emerged recently concerning the Regional Development Fund, Government is even more determined to continue with the Fund due to noble intentions. An allocation of E20 million is budgeted for 2005/06, and it is my sincere hope that the on going Commission of Enquiry will come up with adoptive lessons that will assist in turning around the operations of the Fund into a vehicle for rural development, as initially envisaged. To complement this initiative, government has maintained the E3.85 million Tinkhundla Empowerment Fund under the Deputy Prime Minister's Office. I appeal to this Honourable House to ensure that these funds are used appropriately for the benefit of all communities equitably.

## **12.0 APPROPRIATION FOR 2005/2006**

158. Mr. Speaker, I now present to this honourable House, the budget Estimates for 2005/06. Total revenue and grants are estimated at E5.2 billion, whilst total expenditure excluding redemption of loans amounts to E5.6 billion. The estimated deficit is E746 million, which translates to 4.54% of GDP.

159. Mr, Speaker, the preparation of this budget has been an extremely difficult process due to the limited resources against the competing needs of government. We have set ourselves targets of reducing the budget deficit to 2% in the medium term as stated in SPEED. However, against the very tight spending limits, government has given priority to the completion of ongoing projects and maintaining existing infrastructure. The budget allocation for the capital programme is estimated at E1.49 billion.

160. Mr. Speaker, one of the challenges Government has been experiencing with its spending patterns has been with Capital expenditure. Expenditure on capital projects has often increased beyond what was originally budgeted due to two reasons. These are cost escalations and changes in scope of the project. The prime cause of cost escalations is the poor costing of projects by Ministries. The main culprits are the roads and construction projects where costs have increased for some projects by as much as 50%. May I appeal to all ministries to improve on the implementation rate of projects for the country to reap the intended benefits and allow for inclusion of new projects. Due to cost escalations of ongoing projects, very little room was left to introduce new projects.

161. Mr. Speaker, in view of the budgetary constraints it is imperative that projects are completed on time and within the budget. In this respect, government cannot continue entertaining requests for additional funds resulting from change of scopes, specifications and delays during implementation.

162. The estimated recurrent budget is E4.18 billion, with personnel accounting for 62.95 %. The social sector has been allocated the highest proportion of the recurrent budget. The estimated allocation for the Ministry of Education is E1.18 billion, which is 28.4% of the total recurrent budget. The Ministry of Health has an allocation of E348 million, translating to 8.4% of the recurrent budget.

163. Mr. Speaker, may I caution this Honourable House that the deficit I present here today is unsustainable, more so with the current projections of future

revenue prospects. It has become even more essential to prudently manage government resources. Ministries are urged to prioritise expenditure within the available resources since government does not have the resources to provide supplementary funding during the course of the year.

### **13.0 CONCLUDING REMARKS**

164. Mr. Speaker, may I conclude by reiterating that it is incumbent upon all of us to ensure that government maintains a sustainable rate of expenditure, which implies that we should live within our means. We should not always increase our spending with every improvement in government revenue; instead we should strive to reduce the deficit and build up our reserves

165. Mr. Speaker this budget recognises that the time for this government to act is now if it is to return this economy to a sustainable path. It is for this reason that I take this opportunity to appeal for the support of all of us here in ensuring that the strategies articulated here are translated into action. May I emphasise the need for us as policy makers and legislators not to lose sight of the broader economic issues, as these lead to solutions that are sustainable in the long-term.

166. Mr. Speaker, recognising that this budget is a product of a collective process, I wish to thank all the government departments and ministries; donor community and institutions that have continued to contribute meaningfully to the development of the country and those who have contributed to the development of this year's budget.

167. Mr Speaker, 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 2005/2006 financial year.