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## BUDGET SPEECH

### I. INTRODUCTION

1. Mr. Speaker, thank you for allowing me to present to the third session of the 9th Parliament of Swaziland, the national budget for 2011/2012 financial year which I have called a year of *going back to the basics by reinforcing Responsibility and Accountability, Fairness and Growth*. Mr. Speaker, I have learnt that in today's knowledge based world where change is a rule, we need leaders that are not warriors but facilitators, coaches and servants; who strive to empower the people that they serve. I have learnt that collective responsibility, team work and creative decisions drive the process of governance and add value to everything we accomplish in our various mandates.
2. Mr. Speaker, I would like to take this opportunity to convey my sincere gratitude to their Majesties for their continued support, wisdom, guidance and their insight into the emerging trends brought about by the global economic meltdown. As the socio-economic challenges continue to face the country, their Majesties concern and involvement in joining government to tackle these problems deserves acknowledgement and appreciation. In a special way I would also like to thank His Majesty for the inspirational and moving Speech from the Throne he delivered on the 4<sup>th</sup> of February this year. It will be our guide for the rest of the year.
3. Mr. Speaker, I want to take this opportunity to convey my sincere gratitude for the support and team work I have benefited from my colleagues in Cabinet under the wisdom and leadership of the Honourable Prime Minister; as well as the Parliament Finance Committee. I would not have managed to reach this far; particularly in the past one year where tough decisions needed to be taken. As one wise man said "*the impossible is possible when people align with you. When you do things with people, not against them, the amazing resources within ourselves are mobilised for the good of those you labour for.*"

### Background to the Crisis

4. Mr. Speaker, the 2010/2011 financial year has been the most challenging year since I joined the Ministry of Finance in 2001. The dependence of the country's economy on the expansion of Government and the Government's dependence on revenue from SACU have caught up with us. The gap between revenue and expenditure has widened to unsustainable levels. Our deficit is expected to rise to around 13% of GDP by the end of the fiscal year. The past gains are being eroded aftermath of recent the global economic downturn as Government has had to plug the gap in its finances by drawing

down on its reserves and borrowing domestically. To continue along this path can lead to a devastating financial crisis which will result in serious economic hardships.

5. In an effort to deal with the challenging fiscal situation we are faced with, Government has developed, with the help of the public, a Fiscal Adjustment Roadmap (the FAR). I want to take this opportunity to thank everyone involved for their valuable input into the Roadmap. The result is a statement of intent, underpinned by Government's aim to reduce the budget deficit to 3% by 2014/15. It is not just a fiscal framework, but goes further to outline an expansive reform agenda that Government has committed to implement over the short-to-medium term in order to minimise the impact of the recent global down turn.
6. While this provides a platform for change, recent developments in the Government's finances mean the Fiscal Adjustment Roadmap does not go far enough. Swaziland's wage bill stands today at around 18% of our gross domestic product, the highest in Sub-Saharan Africa. Government has to take measures to control the bloated wage bill which today makes up nearly fifty cents of every Lilangeni spent by Government, and takes up most of our revenue. The recurrent budget accounts for around 80 cents for every Lilangeni spent by Government. This leaves no room for investment in the real sector to stimulate economic growth. Mr. Speaker, unless this trend of expenditure is addressed with speed in the medium term, the Government will no longer be able to pay salaries in the near future, with devastating potential consequences for our civil servants, our banks, our businesses and social peace. I therefore call upon all stakeholders to engage on the matter urgently, objectively and effectively.

#### Government's Strategy for Reducing the Deficit: Taking Responsibility

7. Mr. Speaker, the Budget for 2011/2012 has been prepared under even tighter conditions than for this fiscal year. Reducing the deficit is the greatest challenge faced by Government today. The Government has continued to examine every area of spending to find savings so we can meet our target of reducing the budget deficit to 3% over the medium term. It means 2011/12 will be a difficult year. A year where there can be no more "*business as usual*" in the way we manage our resources. We have a national responsibility to make the tough decisions necessary to build a credible budget and restore fiscal sustainability and promote growth. It is time for the nation to take heed of the situation and go back to basics: reducing wastage, eradicating corrupt practices that have polluted government, finding efficiencies and embracing reform.
8. Mr Speaker, the Fiscal Adjustment Roadmap targeted a budget deficit of around 10% in 2011/12. I have already said that this does not go far enough. By cutting and re-targeting expenditure and raising revenue through the new Swaziland Revenue Authority, the 2011/12 Budget will reduce the deficit to 7.5% of GDP. I will elaborate on the details shortly.
9. To enable Government to continue to finance ongoing programmes, we have increased domestic borrowing and approached our development partners for budget support. This

approach will be facilitated by our request for an IMF Staff-Monitored Programme. The Programme does not provide IMF resources but assesses our performance in reducing the budget deficit and provides advice and technical assistance for a period of six months. If the Staff-Monitored Programme is implemented successfully, Mr Speaker, it will give confidence to other donors to provide further support and will establish a track record for possible financial support from the IMF in the future. That is a decision we would need to make as a nation.

### Protecting People: Fairness

7. Mr. Speaker, this Budget will be tough, but it will also be fair. The Government is determined to ensure that the limited resources will support those who are less privileged in the society. We remain committed to aligning available resources to the broader national priorities as described in the Poverty Reduction Strategy and Action Plan (the PRSAP). However, in the current fiscal climate, we need to prioritise further. To ensure that all Swazis have access to basic health and education, these sectors have been protected. I can confirm Mr. Speaker, that despite the fiscal position, Government will continue to roll out the State Funded Primary Education, pay for orphans and vulnerable children, and provide anti-retrovirals as well as other drugs and medical supplies to support those in need.
  
15. Mr Speaker, corruption has become a drain on public money and represents a serious challenge to ensuring Swazi's get what they deserve from their Government. I know I have long been an advocate against this scourge. We must unite as a country to ensure that fighting corruption is everyone's responsibility "*yindzaba yetfu sonkhe*". The investigations of the Anti Corruption Commission, have stepped up the fight and a number of cases are already being heard in the judicial system. The first National Corruption Perception Survey has identified a number of areas that need to be addressed by all sectors of society, and the Commission will continue to examine policies and procedures in Government Ministries and Departments to identify practices that are conducive to corruption.
  
16. Mr. Speaker, the Government is aware that some people in influential positions have been benefiting from this immoral practice, and are colluding to frustrate efforts to stamp out corruption by stopping ongoing forensic audits. I wish to remind them that His Majesty, in his speech from the throne, called for an "unquestionable display of the highest standards of honesty, integrity and dedication to duty that requires placing the interests of the people above your own." He was directing this to everyone, especially those in leadership positions. I wish to assure the nation that Government will not be deterred by these selfish people who unfairly enrich themselves at the expense of others. His Majesty's Government has resolved to have zero tolerance to corruption and condemns all actions that perpetrate corruption. On that note, I urge all sectors to work hand in hand with the Anti-Corruption Commission and forensic audit experts to ensure corruption is prevented and offenders are brought to book.

### Promoting Growth

17. Mr. Speaker, the budget cuts that Government plans to implement in the coming fiscal year not an end in themselves. Fiscal sustainability is important, but mostly because it provides a platform to promote sustainable growth. The Ministry of Economic Planning and Development has stated that our economy must grow at least by 5% each year to ensure Government is able to alleviate poverty.
18. Mr. Speaker, my sincere gratitude also goes to my colleague Minister of Economic Planning and Development for organizing the recent Economic Recovery *Indaba* which brought together some of the great minds of our country to discuss how to turn the economic situation around. Furthermore, Mr Speaker, Government will also be undertaking an economic diversification study, supported by the African Development Bank. It is my hope that these reports will provide us with the practical measures necessary to stimulate growth over the coming years so that we are able to fulfil our obligations to the people of Swaziland, meet the Millennium Development Goals and achieve First World Status by 2022.
19. Mr. Speaker, the implementation of the Fiscal Adjustment Roadmap and the recommendations from the Economic Recovery Indaba will require boldness in its execution. We must make responsible decisions to reduce the deficit and implement the reforms necessary to build a vibrant, growing economy. We have the responsibility to ensure that the tough decisions we make are also fair, protecting those most in need, maintaining essential services and promoting a better quality of life in Swaziland. To do this we will need to harness our enthusiasm, respect our intuition, inspire insight and imagination, and mobilise the wealth of talent in the country that is at our fingertips. In his Speech from the Throne, His Majesty urged the nation to “appreciate that we are ushered into the new year as a nation, united in common purpose and bound by the spirit of nationhood to craft a better future for our country.” Let us take-up this resolve and unite in tackling the challenges before us. Working as a collective we shall prevail.
20. Mr. Speaker, I have deliberately dwelt on the current fiscal situation in order to lay the foundation for the rest of the speech. Before I go into the details of the budget for 2011/2012, allow me Mr. Speaker to brief the Honourable House on some of the developments internationally and regionally that have an impact on the national economy and the budget.

## **II. INTERNATIONAL AND REGIONAL DEVELOPMENTS**

21. Mr. Speaker, the recovery of the world economy is proceeding broadly as expected, although downside risks remain elevated. The recovery started to lose momentum in the middle of 2010, as some indicators performed below expectation. According to the IMF World Economic Outlook (WEO, 2010), external rebalancing remains limited as net exports in advanced economies are not contributing to growth. Most advanced and a few emerging economies still face major adjustments, including stabilizing and subsequently reducing high public debt. The countries that managed to implement

fiscal stimulus packages are currently grappling with the need to reverse the stimulus and maintain debt sustainability. Emerging and developing economies' prudent policies, implemented partly in response to earlier crises, have contributed to a significantly improved medium-term growth outlook relative to the aftermath of previous global recessions.

22. The extent of the world economic recovery differs across regions. According to IMF experts, sustained healthy recovery rests on two rebalancing acts: internal rebalancing, with a strengthening of private demand in advanced economies, allowing for fiscal consolidation; and external rebalancing, with an increase in net exports in deficit countries, such as the United States, and a decrease in net exports in surplus countries, notably emerging Asia. The two interact in strong ways. Increased net exports in advanced economies imply higher demand and higher growth, allowing more room for fiscal consolidation. Strengthened domestic demand helps emerging market economies maintain growth in the face of lower exports.
23. Mr. Speaker, the strong economic growth experienced by oil exporting African countries is supported by the increase in oil prices and a rapid fiscal policy response, which has supported the non-oil sector in these economies. Average growth rates among oil exporters are projected to be higher over the next two years, compared with 2009. The price has been in upward trend since the middle of November 2010 and it is now about \$100 per barrel. In sub-Saharan Africa, it is anticipated that the strong macroeconomic fundamentals that have been adopted by most of these countries, will ensure that the region is well positioned to benefit from the global economic recovery. Estimates for the region's output growth had indicated a 5 % increase in 2010 and 5.5 % in 2011. This projected acceleration is attributed to the recovery of exports and commodity prices.
24. Mr. Speaker, the region's middle income countries, whose output had declined due to strong global trade links, are now firmly on the path to recovery. South Africa, the region's largest economy has benefitted from continued strong demand for commodities especially from Asia and a recovery in demand for manufactured goods from the euro area. The recovery is also supported by the accommodative monetary policy stance adopted by the country which after contracting by almost 2 % in 2009, was estimated to grow by 3 % in 2010 and by 3.5 % in 2011.

### **III. DOMESTIC DEVELOPMENTS**

25. Mr. Speaker, Swaziland, like other developing countries, was greatly impacted by the second-round effects of the global economic meltdown in 2009, due to the strong trade links with the global economy. The country experienced declines in the volumes of exports and earnings given the slowing global demand and declining commodity prices in world markets. This situation has been worsened by the slow economic recovery of the country's major trading partner, the Republic of South Africa. The reduction in capital and investment flows coupled with scaled down production levels lead to

retrenchments and some company closures; adding to the existing high unemployment levels. The slow economic activity in the developed economies resulted in the reduction in the flow of remittances into the country.

26. Mr. Speaker, the recession resulted in the worsening of the fiscal outlook as trade revenues were directly impacted at the same time the tax base was shrinking, thus widening the fiscal deficit. The low global interest rates, the rising commodity prices, the growth in international output and the strong Chinese demand for Africa's exports provided a positive economic boost in 2010. In the domestic economy, private sector spending started to reflect significant improvement, responding to the declining interest rates and with lower inflation. Consequently, the domestic economy started to show signs of emerging from the recession, although this was at a slow pace given the severity of the crisis.
27. Mr. Speaker, preliminary estimates reflect that overall gross domestic product will grow by 2.0 % in 2010 after a sluggish growth of 1.2 % in 2009. It is further expected to pickup in 2011, expanding by 3.3 % as economic activity continues to recover. However with the global growth likely to remain weak, a bleak outlook is anticipated especially on the high unemployment levels which are expected to persist for several years, thus the need for decisive action and crucial policy adjustments to cater for jobs creation.
28. The growth drivers of the economic recovery include, amongst others, the improved performance of the manufacturing sector, the leading contributor to the country's gross domestic product, combined with better performance of the agriculture sector and services sector. As the global economy gradually gathers momentum, positive spill-overs are expected to assist in the recovery of the manufacturing sector. On the other hand, the arguably good rains and the increased irrigation capacity will boost the performance of the agriculture sector as it is forecasted to expand by 3.2 % in 2010 from a decline of 2.0 % in 2009. The improved performance of the tourism sector, which has gained importance over the years, will lead to better performance of the services sector.

### **Monetary Developments, Inflation and Interest rates**

29. Mr. Speaker, Swaziland's inflation in 2010 continued its downward trend that started during the third quarter of 2008. Inflation decelerated from an annual average of 7.5 % in 2009 to 4.5 % in 2010. Interest rates also fell to their lowest levels in years as the discount rate reached 5.5 % whilst the prime-lending rate went down to 9 % in November 2010. The lower interest rate environment was reflected in a recovery in credit extended to the private sector from 4.2 % in April 2009 to 10.3 % in November 2010. The outlook for inflation indicates that overall inflation will remain at single digit in the short to medium term mainly supported by moderate food prices coupled with a stronger domestic currency. However, increases in international oil prices and administered prices like electricity are expected to exert upward pressure on inflation.

## **Developments in External Reserves and Balance of Payments**

30. Mr. Speaker, gross official reserves for the country as at the end of December 2010 were at E4.5 billion, reflecting a substantial decline of 30.6 % from the previous year. At this level, the reserves were enough to cover 2.9 months of estimated imports compared to 4.1 months cover recorded the previous year. The fall in reserves was as a result of an excess of government expenditure over government revenue coupled with the sustained strength of the rand/lilangeni exchange rate over the review period. There is need to improve the external reserves position of the country to maintain the one-to-one peg with the South African rand and the level of confidence by markets on the country's ability to meet external obligations. The Fiscal Adjustment Roadmap (FAR) which emphasises on expenditure cuts and revenue enhancement will assist a great deal in this regard.
31. Mr. Speaker, preliminary data show that Swaziland's overall balance of payments recorded an overall deficit of E94.8 million in the second quarter of 2010. The deficit in the overall balance was caused the by the persistent deficits in the current account. As a result of the mild recovery in economic activity, export earnings increased by 1.6 % in the second quarter of 2010 from the first quarter whilst imports recorded a much higher increase of 11 %. Our exports were affected by the closure of SAPPI Usutu in the first quarter of 2010 and this severely affected one of our traditional exports, namely wood pulp. The strong rand/lilangeni exchange rate also had an adverse effect on our exports. Future prospects are not bright as the fiscal position continues to be in deficit, and thus exacerbates the demand for imports.

## **Financial Sector Developments**

32. Mr. Speaker, the banking sector remained profitable throughout the year under review. However, profitability levels were negatively impacted, mainly by an increase in credit losses and operating expenses. During 2010, liquid assets held by the banking sector increased by 34.3 %, reflecting the mandated 30 % asset requirement for pension funds and insurance companies. The statutory liquid assets holdings of the banking sector exceeded the minimum prescribed requirement by 6 %.
33. The Central Bank of Swaziland is the regulator of all entities carrying on banking and deposit-taking business and is responsible for administering the Financial Institutions Act, 2005 and the Money Laundering (Prevention) Act, 2001. In executing its mandate for ensuring a stable financial sector exercised its powers to close down three entities engaged in deposit taking activities in contravention of the Financial Institutions Act. To facilitate this process, the Bank appointed liquidators in terms of the Act and this process is still ongoing. I wish to alert the public to obtain information from the Central Bank before joining 'get-rich-quick' schemes which end up reaping them off.
34. The insurance and retirement funds industries continued on the recovery slope during 2010 on the aftermath of the financial crisis. The legislative requirement to invest a portion of insurance and retirement funds assets in the domestic economy resulted in high liquidity experienced by local financial institutions. The holding of too much cash



by insurance and retirement funds entities does not serve the long term interests for insurers and members of retirement funds. . Holding the money in cash defeats the fundamental purpose for local investment regulation in that money held in cash easily finds its way back to South Africa thus denying the country the necessary investment resources. I would once again like to urge the investment committees of these retirement funds and insurance companies to be creative in identifying investment vehicles in the country, including government bonds.

### **Employment opportunities**

35. Mr. Speaker, the employment problem in Swaziland is structural in nature and tends to be aggravated by low growth of the economy. Growth in the economy over the years has not created enough sustainable employment opportunities. The level of unemployment is still high, especially among the youth. The majority of the population is engaged in low productivity economic activities in subsistence agriculture, and the urban and rural informal sectors. I wish to encourage all Swazis to make use of the available financing from the existing development financial institutions to venture into business instead of waiting to be employed, which has proved difficult to find. The youth should make use of the Youth Enterprise Fund which started operating at the beginning of 2010.
36. Mr. Speaker, the crisis reduced employment opportunities as a result of limited demand for exports of goods and services, where around 3 000 people lost jobs in the textile industry, while around 900 jobs were lost in other industries. Exerting further pressure on unemployment was the occurrence of forest fires which destroyed the country's forests, resulting in retrenchments and the eventual closure of two paper-milling companies.
37. Mr. Speaker, I wish to commend the Cabinet Sub-committee on Investment and the Swaziland Investment Promotion Authority (SIPA) for the effort in continuing to attract investment to the country. SIPA was able to create 2,655 jobs between January and December 2010 through foreign direct investment (FDI). For the coming years, SIPA is targeting 2,500 jobs per annum totalling to at least E300 million in FDI. To further increase employment, through its SME unit, SIPA seeks to foster linkages between FDI and domestic SMEs with a target of 1,000 jobs created by local SMEs.
38. The Government of Swaziland regards the development of the SME Enterprises sector as crucial for the achievement of broader development objectives including employment creation. In 2010, the Swaziland Investment Promotion Authority (SIPA) and SEDCO hosted Investment and Small and Medium Enterprise (SME) *Indabas* with the broad aim of establishing challenges and possible solutions to boosting foreign direct investment, the SME sector and facilitating their growth towards employment creation and export generation. The SME Indaba identified products where Swaziland has a comparative advantage and need to be further developed for employment creation.

## **Economic Recovery Strategy**

39. Mr. Speaker, following the continued poor performance of the domestic economy, government is developing an Economic Recovery Strategy, which is driven by the Ministry of Economic Planning and Development. The strategy aims at addressing challenges including the serious socio-economic challenges including the impact of the global financial and economic crisis, the worsening fiscal outlook, rising unemployment, high poverty levels and the high HIV/AIDS. The Economic Recovery Strategy seeks to achieve the following:
- Accelerated, shared and sustainable economic growth which is required to re-dress the macroeconomic imbalances and other structural deficiencies in the economy
  - Growing the economy so that reforms proposed in Fiscal Adjustment Roadmap could be achievable. These include diversifying the economy so as to increase the taxable base of both individuals and companies.
  - Empowerment and integrating SMEs into the mainstream economy to provide more job opportunities which can absorb retrenched civil servants under voluntary retirement scheme.
  - Provide relief to the national resources as more people graduate from social relief as they become empowered and self reliant
  - Long-term solutions to structural problems that the country faces.
40. The objective is to create an overall macroeconomic environment conducive to broaden economic growth. The strategy includes structural reforms that will address structural long term problems in order to achieve sustainable development

## **IV. THE FISCAL ADJUSTMENT ROADMAP**

41. Mr. Speaker, let me elaborate more on the Fiscal Adjustment Roadmap as this budget mainly supports its implementation. The Fiscal Adjustment Roadmap outlines strategies that have been adopted for implementation in the short to medium term in order to address the challenges of the current fiscal situation and mitigate the impact of the economic crisis in the economy. The strategies are meant to improve the fiscal balances while pursuing complementary structural reforms to foster a more robust economy. The goal of the Fiscal Adjustment Roadmap is to reduce the fiscal deficit of the government to less than 3 % of GDP by 2014/15, while increasing the growth potential of the Swaziland economy through structural reforms. The targeted medium-term fiscal consolidation and structural reforms are meant to improve the business climate and promote private sector growth and employment creation. The major activities for the short to medium term include revenue enhancement, expenditure rationalisation, improved public finance management, enhancing the country's competitiveness, trade promotion, economic diversification and financial sector reforms.
42. In order to address the fiscal situation, immediate measures have already been taken to reduce the budget deficit to sustainable levels. These include prioritisation and limiting of expenditure to available cash. As a result the procurement of goods and services has

been slowed down to enable government to honour commitments already made. I know that this may have caused frustration to government ministries and suppliers but it was necessary to avoid further accumulation of arrears, which has a detrimental effect, especially to small and medium enterprises. The rationalisation of expenditure has been done with caution to ensure that service delivery in the social sector is not affected.

43. For the medium term, government will:

- introduce fiscal reforms to broaden the tax base and tax collection whilst reducing the tax burden on the poor and impediments to economic activity;
- Restructure, right-size, and improve the efficiency of the public services;
- Improve governance so as to build investor confidence and allow for greater transparency and accountability;
- Improve the export base and facilitate increased participation of the Small and Medium Enterprises (SME) sector in international trade; and
- Attract foreign direct investment (FDI) and provide support for the development and the involvement of domestic investors in the manufacturing and other businesses.

44. As part of the improvements in public finance management, the government has already taken important measures to face the current difficult fiscal situation. The Ministry of Finance and the Central Bank have established a cash-flow monitoring committee with the responsibility of projecting and monitoring all cash in and outflows, and calculating the cash balance available for expenditures to be authorized centrally by the Ministry of Finance. The cash-flow monitoring committee meets on a weekly basis. A commitment register has been set up in all ministries and agencies, and commitments will be reported to the Ministry of Finance on a monthly basis to help ensure compliance with budget allocations. Thus, all priority expenditures will be authorized centrally by the Ministry of Finance. The Ministry of Finance will shortly be further restructured by establishing units to develop tax policy, to coordinate and improve debt management, and to mobilize technical assistance.

45. Mr. Speaker, government will implement the recommendations of the World Bank following the Fiduciary Assessment undertaken by the bank in 2010. The purpose of the assessment was to assist government to identify and mitigate key risks in public finance management to ensure fiscal sustainability. Government will work on addressing the weaknesses identified in the medium term.

46. Mr. Speaker, government will also shortly present the Public Finance Management Bill to this Honourable House. The Bill lays out the functions, duties, and responsibilities of all budgetary institutions in the implementation of the budget. Proposed measures in the Bill include: (i) adopting the International Public Sector Accounting Standards (IPSAS) across ministries; (ii) developing a chart of accounts; and (iii) consolidating expenditure reporting using IPSAS with the compilation and publication of quarterly budget execution reports with commentary on changes in revenue and expenditure against the

approved budget, and timely production of final accounts (within three months of the end of the fiscal year).

47. Mr. Speaker, in recognition of the important role of the private sector in economic growth, government is working with donors to further develop specific reforms to promote the private sector. The African Development Bank (AfDB) will undertake a diversification study to explore sectors in which the country has a comparative advantage and develop an action plan. The World Bank will assist with a growth diagnostics study to identify economic growth drivers. The outcome of these studies will greatly enhance Swaziland's policy formulation and the Swaziland Investment Promotion Authority (SIPA)'s drive to promote FDI, leading to greater diversification of the economy, which is critical for growth.
48. Mr. Speaker, one of the reforms the FAR is advocating for is the review of legislation to improve the investment climate in Swaziland. I am pleased that progress to date shows that the review of the mining legislation will be concluded soon. This sets the legal framework which will guide future investment in the mining sector. Government recognises the positive contribution that mining can make in the economic development of Swaziland by diversifying the export base, widening the tax base, generating employment, creating demand for local goods and services, contributing to infrastructure development, producing raw materials for local usage and acting as a catalyst for wider investment in the economy. The year 2010 saw the successful implementation of the new Companies Act of 2009. The Ministry of Commerce, Industry and Trade will increase sensitization of the nation on the new Act to ensure compliance.
49. In an effort to improve the export base and promote trade with other countries, Swaziland continues to participate in regional and international markets. The country also benefits from preferential markets including the African Growth and Opportunity Act (AGOA), and we are happy that the country has been found eligible to export under this Act in 2011. In this regards, Swaziland is looking forward to participating in the next AGOA Forum, which will be held this year. Government will continue to engage with the European Union (EU) with the view to conclude an inclusive Economic Partnership Agreement (EPA), which would address the concerns raised by some members in our region, so that the integrity of our agenda and the access of our products to the EU are not jeopardized.

### **Public Enterprises**

50. Mr. Speaker, the Fiscal Adjustment Roadmap calls for reforms on some of our public enterprises. The country today has 39 public enterprises, of which 22 rely on Government subvention for their operational budgets. These enterprises play a significant role in the development of the economy and Government has entrusted a number of responsibilities on them. As of today assets worth over E5 billion are under the management of public enterprises. These assets are used in a number of sectors which include agriculture, transport, finance, utilities, commerce, tourism, information,

communications, labour, health, education, housing and sports. I wish to commend this honourable house for the oversight role in ensuring that public enterprises comply with the Public Enterprise Act.

51. Mr. Speaker, with the current financial situation public enterprises are expected to increase their efforts in their respective portfolios to ensure efficient use of resources so that costs of reckless spending are not passed on to the consumers. Public enterprises should generate their own revenue within their mandates so that they could rely less on Government who is already heavily burdened with financial responsibilities. Public enterprises have an important role to play in the implementation of the Fiscal Adjustment Roadmap in terms of creating a conducive environment for investment and economic diversification.
52. Mr. Speaker, among our public enterprises there are some that are profit oriented and others that are not. The time has come for those that are making profit to start declaring dividends to Government instead of them reinvesting all the profits or even giving themselves hefty salary packages and lucrative benefits. It has come to our attention that even as government faces fiscal a crisis and calls for belt tightening, public enterprises exhibit extravagant habits. Chief Executive Officers are having a field day with resources at their disposal, completely forgetting that these are national assets. I call upon Boards of these enterprises to effectively perform their functions.
53. Mr. Speaker, following Cabinet approval, CTA is being transformed into a fully fledged parastatal. This decision was taken as a measure to address inefficiencies in the operations of CTA. Consultants have been engaged to assist with this process, including design of operation packages that will be implemented at CTA. These packages include amongst others, fuel management systems, procurement systems and other information technology systems aimed at managing CTA in a cost effective manner.

### **Privatization**

54. Mr. Speaker, government is committed to restart its 2004 privatisation programme in order to give new impetus to the growth of the private sector in the economy, attract new public investment, and increase growth. As a starting point, the government is considering launching shortly an international tender for a second third-generation GSM license. This will bring competition to the mobile phone market, reduce the cost of mobile calls closer to those of our neighbouring countries, and create new jobs.
55. Mr. Speaker, in addition, the government intends to dilute its shares at Swazi Bank before the end of 2011/2012. In order to do so, the government will shortly engage development partners to evaluate the assets and liabilities of Swazi Bank and to prepare a privatisation prospectus for interested investors. The launch of an international call for interest in the privatisation of Swazi Bank is expected to follow thereafter. The government will also start the process of reviewing the privatisation of other parastatals with the assistance of development partners for their privatisation in 2012.

## **V. BUDGET PERFORMANCE**

### **Actual outturn for 2009/2010**

56. Mr. Speaker, let me briefly report on the performance of the budget that was approved by this Honourable House for the past financial year. The actual outturn for 2009/10 shows a deficit of E1.816 billion, which is 7.1% of GDP, against an appropriated deficit of 8% of GDP. Total revenue received, including grants amounted to E9.102 billion. SACU receipts went down by 13.6% from E6.0 billion in the previous year to E5.2 billion. SACU receipts continued to be the largest share of total revenue and grants, accounting for 57%.
57. The overall revenue collection in 2009/10 including grants was E9.22 billion compared to the E9.6 billion in 2008/2009. This reflects a decrease of about 4% from the previous year. The overall decline is attributable to the decline in our major revenue item, SACU receipts, and the decline in economic activities coupled with certain inefficiencies in collection. Domestic revenue increased to E3.9 billion from E3.4 billion in 2008/09 reflecting a 13.1% increase.
58. Mr Speaker, major contributors to domestic revenue collections were Income Taxes, Sales Tax and Property Tax. Overall Income Tax revenue collection was E2.3 billion from the budget of E2.1 billion 2008/2009, this shows an over collection of E200 million. The Company Tax collected E708 million compared to E532 million in 2008/2009. This shows that Income Taxes grew by 17%, driven largely by an 18.9% growth in Individual Taxes and a 12.1% growth in Company Taxes than the previous year. Sales tax, which is another important source of revenue for government showed a 1.4% growth from E984 million collected in 2008/09 to E998 million in 2009/10.
59. Total expenditure in 2009/2010 was E11.038 billion, of which E8.699 billion was recurrent expenditure and E2.6 billion capital expenditure. Total recurrent expenditure increased by 13% compared to the outturn of the previous year. Expenditure on wages and salaries was E4.4 billion against a budget of E3.4 billion. This hike was brought by the 12.5% cost living adjustment.

### **Budget performance for 2010/2011**

60. Mr. Speaker, you will recall that I presented to this Honourable House a budget deficit of E3.8 billion, which is 13% of GDP for the year 2010/11. This was as a result of the worsening fiscal position following a sharp decline in Southern African Customs Union (SACU) receipts. Preliminary figures indicate that the outturn will be a deficit of about 11% of GDP or E 2.882 billion after the E600 million increase in SACU receipts and the supplementary budget of E406 million. This is mainly as a result of a lower than anticipated implementation rate of our capital projects. The estimated outturn for the capital programme is E 1.38 billion against a budgeted amount of E2.90 billion. The

rationalisation of expenditure which started in the middle of the year will ensure that expenditure is limited to the available financing

## **VI. 2011/2012 BUDGET ESTIMATES**

61. Mr. Speaker, the 2011/2012 budget estimates I present today are a reflection of the effort in reducing the budget deficit by reducing expenditure and improving revenue collection, in line with the Fiscal Adjustment Roadmap. It is also a serious, albeit difficult, effort to bring back credibility of the budget by ensuring that the budget has the cash to back it. The estimates for the 2011/12 fiscal year show an overall budget deficit of 7.5% of GDP. The current fiscal position we are in calls for hard decisions which Government committed to when it adopted the Fiscal Adjustment Roadmap. Government has already started implementing the Roadmap by implementing budget cuts of about 20% on goods and services in addition to the 14% that was implemented last financial year. Further cuts still need to be made on personnel costs to bring the wage bill to sustainable levels. The implementation of the Enhanced Voluntary Retirement Scheme will commence in the coming financial year and we appeal to everyone to support this initiative.
62. Mr Speaker, in reducing expenditure, caution has been taken to avoid compromising service delivery, especially in health and education. It is for this reason that the budget allocation to these sectors has not been reduced. We are appealing to both tax payers and recipients of Government services to change their attitudes and do business differently so as to bring this situation under control. I call for concerted efforts to join government in the implementation of the Fiscal Adjustment Roadmap to bring back the fiscal balance to sustainable levels.
63. Mr. Speaker, total revenue including grants for 2011/12 is estimated at E8.463 billion compared to E7.185 billion in 2010/11. The increase is a result of the anticipated improvement in collection of the domestic revenue by the Swaziland Revenue Authority which has started operating this year as well as higher SACU revenue.
64. Mr. Speaker, in line with the requirements of the SACU Agreement that member states should apply similar customs and excise duties in the region, government will implement increases on specific excise duties on tobacco and alcoholic beverages corresponding to the rest of the Customs Union. This will be announced as soon as these increases have been decided by the union.
65. Mr. Speaker recent history has shown that the country cannot continue to rely on trade taxes due to their high volatility. Apart from the continuing trade liberalization process taking place globally, recent global developments have underlined the dangers of this reliance, where trade related revenues in the region have been adversely affected by the declining levels of imports into the region.

66. Although there are positive signs of an imminent recovery in the medium term evidenced by a 4% IMF forecast of the world economic growth rate in 2011/12 we cannot afford to sit back and rely entirely on the prospects of this recovery. In line with the commitments we have taken in the Fiscal Adjustment Roadmap we shall be implementing a number of revenue diversification measures ranging from a review of existing legislation to strengthening the capacity of our major revenue collection agencies.
67. Mr. Speaker last year I announced a number of tax measures aimed at enhancing the government's revenue base. However due to the need to engage all stakeholders before the implementation of these reforms we have not been able to implement all of them in time. I must hasten to mention that the preparations to implement those reforms continue apace, particularly Value Added Tax, which we will introduce on 1<sup>st</sup> April 2012.
68. Mr. Speaker we have identified a number of additional tax reforms for implementation. These include the introduction of a levy on products which have a potential of being harmful to mankind and society namely alcohol and cigarettes. The main aim for this levy is to reduce consumption of these products thus reducing the effects the products have on families and the society at large.
69. Mr. Speaker, other reforms in the coming year, 2011/12 include the following;
- (i) an increase in the sales tax rates on alcohol and cigarettes from 25% to 30%;
  - (ii) an increase in the fuel levy by 25 cents per litre of gasoline and 25 cents per litre of diesel to bring both fuels broadly in line with neighbouring countries. The price of kerosene will not be increased, so as to avoid a negative impact on the poor;
  - (iii) the extension of the sales tax to a wider range of services, including to mobile telephone services, IT services, including web-design; production and development of videos and DVDs; construction services; motor vehicle services including repairs and maintenance, panel beating and spray painting; installation and maintenance of air conditioning; security services; cleaning services; and gardening and landscaping services;
  - (iv) a review of some user charges in order to recover the cost of supplying these to the public;
  - (v) A review of the graded tax rate with certain exemptions applying to senior citizens.
70. Mr. Speaker, increases in taxes alone are not enough to reduce the fiscal deficit below 10 % of GDP in 2011/12. Government also has to continue to maintain a strict control of the wage bill in the coming years in order to avoid further fiscal problems. For this reason, government recommends to implement a hiring and wage freeze for starting April 1, 2011. This will ensure that the size of the wage bill as a share of our total expenditures continues to fall, which will enable government to dedicate a higher component to the investments that will make our country grow faster, healthier, and



more educated. Government will continue to implement the Enhanced Voluntary Early Retirement Scheme (EVERS).

71. Mr. Speaker, government is doing her best to avoid the accumulation of arrears as they tend to be an obstacle to the regular financial operations, a drag on economic activity and could escalate into a crisis of confidence in the government. For these reasons, the government commits itself to repay all domestic payment arrears by the end of the 2011/12 budget or earlier. In the past we announced the introduction of a commitment system which is used for purchases. In the course of implementing the FAR, we have found that some controlling officers collude with suppliers to defy the system. Cabinet has taken a decision that all those who claim to have supplied government on the basis of purchase orders generated outside the system or over the phone will not be paid.
72. Mr. Speaker, on the institutional front, I am happy to report that the long awaited Swaziland Revenue Authority (SRA) came into full operation on 1st January, 2011. It is our hope and expectation that the establishment of the SRA will significantly improve the administration and collection of revenue in the country going forward. The SRA is in the process of drawing up a strategic plan that will focus its modernisation efforts over the next 5 years. This plan will include seeking to increase effectiveness through properly documenting its policies and procedures; modernising computer systems; and instilling professional values and new ways of working in its staff.
73. The SRA will seek to change the taxpaying culture in Swaziland and thereby expand the revenue base especially by greatly increased taxpayer education and engagement and by the encouragement of voluntary tax and customs compliance. The converse is that the SRA will have a much greater capability than previously to pursue those who choose to break or bend the rules. This will include instituting life style tax audits on individuals suspected of either under declaring or not declaring their income for tax purposes at all. The SRA will also seek to put in place strategic alliances with neighbouring revenue administrations. Discussions are well advanced with the South African Revenue Service to adopt a VAT refund scheme which will eliminate the incentive not to declare goods on the Swaziland side, a practice which will dramatically reduce cross border evasion and revenue loss but also significantly reduce the time spent at the border, particularly by traders.
74. The SRA does, of course, have many challenges ahead. Over a third of its staff are new to the world of tax and customs administration and many of the staff who were in the previous government departments are now in new work areas or at managerial levels for the first time. Mr Speaker, the new Revenue Authority needs our support as they seek to increase professionalism and build the capacity we need so as to mobilise the revenues the Kingdom needs. This means that all honourable members here must not only set an example and follow the tax and customs laws we have passed but, in addition, when they receive representations they should not press the SRA for special treatment but instead seek to persuade all to comply fully with our revenue laws.

75. In January 2011 the SRA has benefited from technical assistance from the IMF. The main recommendation of this technical assistance is to reorient the organisational structure of the SRA in line with its goal of helping Swaziland taxpayers comply with their tax obligations, from large to medium- and small taxpayers. The SRA will work in the next few months to implement this recommendation, so as to become even more effective in exercising its role of collecting revenue for the Kingdom. The SRA will also formulate a comprehensive taxpayer compliance strategy by June 2011. To facilitate tax compliance, a comprehensive taxpayer registry will be developed covering all SRA operations with a single taxpayer identification number for each business unit by the end of 2011. I wish to reiterate His Majesty's call for the whole nation to support the Revenue Authority in order for it to fulfil its mandate.
76. Mr. Speaker, Government plans to strengthen the transparency of its fiscal accounts. We will post the budget outlook, the annual treasury report, the annual report on public enterprises, budget documentation for parliament and the quarterly budget execution report on the Ministry of Finance website starting from 1<sup>st</sup> of April 2011. We will table in the House an amendment to the Audit Act, which will cover the following areas: (i) expand the Auditor General's auditing activities to include local governments and public enterprises; (ii) apply the auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI) to its audits; and (iii) speed up the auditing of accounts to within 6 months from end of fiscal year. We will also adopt an action plan to implement strategic public finance management reforms.

## **VII. SECTORAL EXPENDITURE**

77. Mr. Speaker, despite the limited resources, effort has been made to provide resources for the priority sectors. While the budget for all ministries has been reduced, the budget allocation for health and education has been protected to ensure that service delivery is not disrupted. This does not mean other sectors have been overlooked and I will highlight a few of them. It is therefore essential to ensure that the available resources are used efficiently to maximise benefit.

### **Education and training**

78. Mr. Speaker, Education takes the largest share of the budget and this budget presents E2.115 billion, which is 19% of total expenditure. Government is committed to providing fair access to education. Universal primary education is a necessary condition for sustained economic growth. Primary education also exhibits some of the greatest private and social returns to investment, and can help improve health, lower fertility rates and lower child mortality. It is for this reason that the Government is targeting spending on rolling out state funded primary Education.
79. Mr. Speaker, the rollout of state funded primary education continues and the opening of schools in January 2011 saw the coming on board of pupils in the third grade, following the start of the programme in January 2010 with the first two grades. Since the fourth

grade will be taken on board during the 2011/2012 financial year, this budget makes a provision of an additional E29 million to cater for school fees. This increases the total budget for fees to E94.7 million. The allocation for textbooks and stationery which caters for all grades in primary school amounts to E44.4 million. The construction of classrooms has been accelerated under the Micro-projects programme and mobile classrooms are used where there is a shortage. New posts for primary and secondary teachers have been created at a cost of E24.8 million.

80. In order to ensure access to education for all, government continues to provide education grants for orphans and vulnerable children. This budget provides E148.5 million for bursaries for orphans and vulnerable children. I wish to appeal to all concerned to ensure that this benefits deserving children. We have observed in the past that some deceitful people have taken advantage of the assistance provided by government to include children who have parents or guardians that can afford to pay the expenses. In some cases children who have other sponsors have also been included. People should note that the loss of one or both parents does not necessarily mean that children will have no means to continue with education. Some children benefit from their parents' estate. The Deputy Prime Minister's office is working closely with stakeholders to ensure that government and other financiers are not defrauded in false claims made by schools.
81. Mr. Speaker, I would like to extend my sincere appreciation to the donor community, non-government institutions and individuals for providing assistance towards education for orphans and vulnerable children. I wish to appreciate the 12.5 million Euros budget support commitment for orphans and vulnerable children and primary education by the EU, which was communicated to the Prime Minister this week. I wish to encourage the beneficiaries to take full advantage of this opportunity to make their future bright.
82. Mr. Speaker, government continues to ensure that children with special needs are assisted to attain their dreams for a bright future. This is done by addressing their financial needs through grants and physical needs through modification of buildings to enable access by the disabled. This budget makes a provision of E2 million for the purchase of learning and teaching materials for special education needs and E3 million for the construction of ramps and pathways; and modification of buildings to enable access to the disabled. The completion of the school for the deaf will provide an opportunity for children to continue with education beyond primary level. I am impressed with the performance of the primary school for the deaf as it counts among the schools with a 100% pass rate in Grade 7 in 2010. I wish to encourage both teachers and pupils to maintain the high performance standard at high school.
83. Expansion at secondary level is ongoing to cater for the increased enrolment in primary schools. This is aimed at addressing the shortage of space which results in students travelling long distances to the nearest school. With effect from January 2012, government will no longer pay operational expenses including food supplies for government boarding schools. This expense will be fully borne by the parents. Fortunately, it is not the poor who send their children to such facilities and as such it is

in order for government not to give a direct subsidy. The resources saved will be used to finance the rollout of state funded primary education.

84. Mr. Speaker, the cost of tertiary education has reached an unsustainable level and this is in the form of scholarships and subventions to tertiary institutions. I wish to encourage such institutions to identify other sources of revenue to sustain their operations as government subvention will be diminishing and completely withdrawn in the future. I am pleased with the launch of the Southern African Nazarene University in October 2010 as it will help in providing an opportunity to students who could not be absorbed by the limited tertiary institutions. I have been assured that preparations for the opening of Limkokwing University are at an advanced stage. I also understand that construction of the Swaziland Medical University will commence this year. The need for tertiary institutions in the country is still far from being met and I would like to encourage the private sector to consider investing in this area. I wish to urge tertiary institutions to review their programmes to ensure that they meet the skills requirements of this country.
85. Mr. Speaker, Government is also committed to supporting students in tertiary education. However, spending on scholarships has become unsustainable. Without changes, Government will be unable to provide scholarships to any students starting university in 2011/12. In 2010, Government approved a new Scholarships Policy, which will guide government support to tertiary education in future. The policy specifies that government support to students will decrease, while parents bear part of the expenses for the student. The fiscal situation will compel government to accelerate implementation of the policy, with a view to assist more students with the limited resources.

## **Health**

86. Mr. Speaker, His Majesty's government is committed to improving health service delivery to the population. It is for this reason that effort has been made to address procurement and distribution problems that resulted in the shortage of drugs and medical supplies in health facilities. Following technical assistance provided to the Ministry of Health, a procurement unit will be established within the ministry to manage the procurement and distribution mechanism.
87. Over the past few years, the budget allocation towards the health sector has increased substantially to cater for drugs, medical equipment, emergency response vehicles and personnel. Resources have also been provided to cater for the outreach programme to ensure access to medical services for people in remote areas. The budget for health for the coming year is E1.4 billion and this includes transfers to subvented organisations. The total budget allocation for drugs including ARVs is E220.9 million
88. The invaluable contribution of the international community and non-governmental organisations to health service delivery is appreciated. Government will continue to provide support to subvented institutions to meet their operation expenses. However,

due to resources constraints, it has not been possible to increase the allocations nor to take new ones on board. Mr. Speaker, I wish to express my sincere appreciation to the government of the Republic of China on Taiwan for the support in providing equipment for the Intensive Care and Renal Unit at the RFM hospital. The hospital will now be able to provide this essential service to patients in the Manzini region, instead of referring them to Mbabane government hospital. This budget provides E10 million to cater for operational expenses for this facility.

89. We are all aware that some of our health facilities are so dilapidated that they are not suitable for the purpose. This budget provides for the rehabilitation of such facilities and this will be phased over a period because of resources constraints. For the Mbabane government hospital a provision of E30 million has been made to start the process. You will agree that this is long overdue considering the condition of this hospital. A further provision of E10 million is to cater for rehabilitation of primary health care facilities. Once again the Prime Minister has received a commitment of 16 million Euros from the EU to finance primary health care, rehabilitation of clinics, among other activities. For the ongoing construction of the Lubombo regional hospital, a provision of E50 million has been made for the coming financial year.

## **Agriculture**

90. Mr. Speaker, agriculture has remained the anchor of the national economy and a major source of livelihood for a greater %age of the country's population. The Ministry of Agriculture has continued pursuing its responsibility to ensure sustainable development of Swaziland's agricultural sector in an effort to eliminate hunger and poverty, as well as to stimulate local and national economic growth. This entails administering a policy framework that allows and facilitates increased investment in all segments of the sector. This is despite the numerous challenges faced by the agricultural sector in the country and the region at large. These include climate change and the effects of the global economic meltdown.
91. Government remains committed to the development of the sector by supporting initiatives that are aimed at addressing poverty and facilitating improved agricultural trade for increased foreign exchange earnings in line with the Fiscal Adjustment Roadmap. Water and irrigation development has been identified as one of the key programmes for the commercialization of agriculture in the country. This budget pays more attention to the capital programme and provides for purchase of equipment for earth dam construction as well as equipment for water conveyance and reticulation system at E17.3 million. The Ministry of Agriculture has managed to construct five (5) small earth dams with downstream development and installed 50 hectares with irrigation infrastructure in 2010/2011. Irrigation infrastructure has been developed in three sites (Nceka, Mpuluzi, and Ngcoseni) and a new site in Mayiwane is currently being developed. This is aimed at transforming rain-fed subsistence agriculture to irrigated-commercial production. A feasibility study for Mkhondvo dam will be conducted in the coming financial year.

92. Mr. Speaker, the Ministry of Agriculture has currently developed 7000 ha of irrigable land since 2001 for crops such as sugar cane, maize and vegetables for commercial purposes. This development has offered job opportunities to the Swazi Nation and also contributed to the country's economy through trade both in local and international markets. In the current economic situation faced by the country, the Ministry is aiming at strengthening the irrigation infrastructure since overdependence on rain-fed agriculture poses one of the biggest risks to national food security. Following the completion of Maguga and Lower Usuthu Irrigation Project, the Ministry of Agriculture continues with downstream development activities, which include provision of bulk infrastructure, support to farmers and credit to small-holder farmers managed by FINCORP and SIDC. A provision of E142 million has been made to cater for Maguga and Lower Usuthu downstream activities.
93. There are plans to expand irrigated arable land by 3320 hectares in the financial year 2011/12 based on projections and the feasibility study conducted at Lavumisa and the pending one at Mkhondvo area. Increasing land under irrigation will help on the diversification of crops to strengthen food security and also increase the contribution of agriculture to the GDP. The Ministry also aims at reclaiming degraded lands through applying conservation measures in order to avail more land for fruits and vegetables. Some of the reclaimed land may be used to grow pastures to feed livestock and thus boost the meat markets locally and abroad.
94. Mr. Speaker, the country now looks beyond sugar cane and subsistence farming as a means for boosting economic growth through agriculture. Crop diversification is being promoted to take advantage of recently secured local and external markets. As a priority, the Government seeks to collaborate with development partners to address the major constraints of low productivity and *low yields* mainly caused by the high cost of farm inputs. The Ministry of Agriculture is strengthening its extension service to ensure that the advisory services to farmers become more robust and commercially oriented to ensure consistency of supply to these markets. This is intended to help local farmers to produce crops more efficiently and increase productivity per unit of land area and I challenge the financial sector to recognize farming as a business. This move would help to improve availability and access to credit facilities for increased investment in crop and livestock production as the main priorities for the sector. This will also boost the efforts put by the Ministry to enhance value addition for agricultural products to access markets.
95. Mr. Speaker, during 2010, the Ministry of Agriculture with the support of Swaziland Standards Authority (SWASA) developed and adopted seven agriculture-related quality standards. This in turn shall boost local and international buyers' confidence in the country's agricultural products. We are relying on such moves to continually increase our market share. There is now a need to strengthen the continuous farmer training to ensure quality products and compliance to domestic and international standards so that local agricultural products are able to compete successfully in the market.

## **Water**

96. Mr. Speaker, as a result of industrialisation and subsequent migration to urban areas, there has been an increased demand for water and sewer services. In order to address the situation, government funded water supply projects which benefit both industrial and residential areas. E35 million is provided for the ongoing Nhlanguano Water Supply and Sewerage project, E8 million for the completion of the Siteki-Lomahasha water supply project and E75 million for the sewer treatment plant for Matsapha Industrial Town.
97. The rural water supply programme is continuing with the assistance of our international development partners, who have made invaluable contribution over the past years. An amount of E18.7 million has been set aside for the purchase of tools and equipment for portable water supply schemes to continue providing water and sanitation facilities in the rural areas. This is in addition to E30 million allocated for the installation of boreholes and provision of safe water to rural communities. There is need to accelerate this programme especially in the dry parts of the country where people still travel long distances for water. In some cases the water is not clean because it is shared with livestock. I have been assured by the Ministry of Natural Resources and Energy that they will be signing a Memorandum of Understanding with the Republic of South Africa which will enhance and strengthen the sharing of water resources between the two countries. With this document Swaziland hopes to avail water to the drought prone areas of Lavumisa and surrounding areas.

## **Energy**

98. Mr. Speaker, I am pleased with the developments taking place in the rural areas as a result of the Rural Electrification programme. I wish to express our appreciation to the development partners for their support in this important programme which has changed the lives of many people. The Regional Development Fund has also made a substantial contribution to access to electricity in rural areas. This budget provides for E38.5 million, of which E35million is grant funding from the Republic of China on Taiwan for the fifth phase. It is government's long-term objective to increase the generation of power locally and reduce the high dependence in South Africa which has led to high energy costs. I wish to encourage communities to not only limit the use of electricity to domestic purposes but to facilitate small income generating activities.

## **VIII. INFRASTRUCTURE DEVELOPMENT**

99. Mr. Speaker, government continues to invest in infrastructure, including roads and buildings. Maintenance of the existing infrastructure is important in order to maximise the benefits from the investment government has made in the past. It is unfortunate that the good rains we had this year have caused serious damage to our road infrastructure, which requires government to spend more resources on rehabilitation instead of upgrading roads in other areas. In the 2010/2011 financial year, E50m was allocated to purchase heavy plant and equipment. A total of 55 units of heavy plant have been

purchased and deployed to the road camps. The equipment includes dozers, trucks and graders. This budget provides E30million for the purchase of heavy plant and equipment and this will go a long way in meeting service demand in terms of road construction and maintenance.

100. Mr. Speaker, of late we have seen more cases of reckless driving which is a major cause of road accidents. Lives have been lost; people have been maimed as a result of these accidents. I take this opportunity to commend the police for the job well done in arresting drunken drivers, regardless of social status. To ensure that our roads are safe, government continues with improvements on the roads, especially in accident prone areas. A project is currently being implemented to address accident prone spots on the national road network. A study conducted in 2003 identified a total of twenty three (23) such spots. Due to funding constraints ten (10) were selected for improvement in the previous and current financial year. To date construction in road junctions has been completed on the MR3/MR24 Mbuluzi and Maphiveni, MR27 Malkerns, MR 9 New Village roads and construction of concrete cattle grids along MR3 Nkoyoyo – Ngwenya road. The construction of concrete barriers on the Mbabane-Manzini highway is ongoing. I wish to urge all motorists to drive with caution to save lives. We don't need government to put concrete barriers everywhere to stop people from killing themselves and others.
101. Mr. Speaker, on the feeder roads programme which has a budget provision of E20 million, 30km is under construction using labour intensive methods. This ensures cost effectiveness and brings direct benefit in terms of employment to the local community. Feeder roads currently under construction include Mgululu – Nkamanzi, eKukhanyeni – Sigombeni and Somntongo. Construction is expected to be completed by end of April 2011.
102. Mr. Speaker, the construction of the 40 km Nhlanguano-Sicunusa road will commence in the coming financial year for a period of two and a half years. A budget of E44 million has been set aside for supervision and construction. The project is funded by BADEA, OPEC Fund and the Government of Swaziland. Progress achieved currently includes pegging of the planned road alignment.
103. Mr. Speaker, as the construction of the Sikhuphe Airport nears completion, the construction of the Mbadlane-Sikhuphe road is even more urgent. A provision of E299 million has been made for the completion of Sikhuphe International Airport in the coming financial year. The Mbalane-Sikhuphe road encompasses the upgrade to bituminous standard of the dual carriageway access road, which is approximately 17km long with service roads totalling 18.5 km. The project follows very closely the existing road alignment. The financiers are Kuwait Fund, BADEA and the Government of Swaziland. The contract was awarded in December 2010 and the contractor is expected to be on site in February 2011. The budget allocation for this road is E139 million for the coming financial year.



104. Mr. Speaker, preparations for the operation of the Sikhuphe Airport are at an advanced stage. The coming into effect of the Civil Aviation Act No. 10 of 2009 on the 7<sup>th</sup> December 2009 led to the establishment of the Swaziland Civil Aviation Authority (SWACAA), which is responsible for performing regulatory and operation function in terms of the Act. SWACAA is mandated to operate the two local airports, namely Matsapha and Sikhuphe International Airports as well as the Air Strip at Nhlengano. The establishment of this autonomous authority satisfies one of the key recommendations of the 2007 Country Audit Report on the Swaziland's aviation industry developed by the International Civil Aviation Organization (ICAO). The biggest challenge is to address the EU ban on airlines registered in Swaziland, as this poses a serious impediment for the country in the international aviation community.
105. Recruitment of staff to operate Sikhuphe and Matsapha Airports is ongoing. In tandem, training of the existing staff is ongoing to ensure compliance with ICAO requirements. To date 9 Air traffic Controllers have been trained, 33 Aviation security personnel were recruited and given basic training on aviation security, 40 fire rescue service personnel have been trained on aviation fire rescue.
106. Mr. Speaker government is continuing with the programme of rehabilitating major Government buildings. Currently the following are being rehabilitated; SBIS Buildings, Hlatikhulu Hospital, Health, Justice, Home Affairs, Income Tax Buildings and Piggs Peak Magistrate Court.

## **IX PUBLIC DEBT**

107. Mr. Speaker, at the end of December 2010, total public debt stood at E3.78 billion. This accounts for both external and domestic debt. Public external debt stock (which includes public and publicly guaranteed debt) stood at E2.54 billion. The external debt for central government, which constitutes the largest share of the total loan portfolio was E2.44 billion at the end of December 2010. At this level, the external debt for central government was 22 % lower than the E2.97 billion recorded in December 2009. The improvement was largely due to principal repayments that were made during the year. Further contributing to the decline in the country's external debt stock was the appreciation of the local currency against the US Dollar and other major currencies in which most of the country's liabilities are denominated.
108. Mr Speaker, during the course of the year two loans (AfDB Road rehabilitation studies and AfDB Line of Credit to SDSB) were fully repaid. These loans were contracted from the African Development Bank (AfDB) in 1989. Three loans will mature during the coming financial year and these were obtained from the Danish government, International Development Agency and European Investment Bank.
109. Mr. Speaker, as at the end of December 2010, total domestic debt outstanding stood at 1.24 billion, an equivalent of 5.5 % of GDP. This reflects a more than 200 % increase from E396.3 million at the end of December 2009. The huge increase is largely

attributed to the issuance of a 5-year bond in November 2010 and the introduction of 182- Days Treasury Bills. Of the outstanding amount, E772.32 million represented outstanding 91-Days and 182-Days Government Treasury Bills whilst E469.38 million accounted for a 3-year and 5-year Government Bonds maturing on 30 August 2013 and November 2015, respectively. The increased borrowing by the government from the domestic market is helping in further developing the domestic money and capital markets whilst also meeting government's needs for financing.

110. Mr. Speaker, based on the benchmarks established by the IMF and World Bank Swaziland's debt ratios have been relatively low compared to other African countries. However, this is changing as government needs to increase borrowing to finance the budget deficit. Currently our total debt stock stands at 13% of GDP, which is still below the benchmark of 50%. This does not include new loans that have recently been negotiated with the financiers. We need to ensure that our debt is kept at sustainable levels especially since fiscal projections confirm that Swaziland will be contracting more debt. Going forward there is a need for government to critically look at its policy commitments in the medium term and prepare a comprehensive debt strategy for Swaziland. This would outline what is affordable and realistic in terms of external and domestic debt whilst observing the international debt ratios.

## **IX. APPROPRIATION**

111. Mr. Speaker, I now present to this Honourable House, the budget estimates for the 2011/2012 financial year as follows;
- Revenue plus Grants at E8.463 billion.
  - Recurrent Expenditure at E7.877 billion.
  - Capital Expenditure at E2.285 billion.
  - Total Expenditure at E10.705 billion.
  - A Deficit of E2.243 billion, which is 7.5% of GDP.

## **X. CONCLUSION**

112. Mr. Speaker, the situation presented in this budget reflects belt-tightening to ensure that the budget is backed by physical cash. This calls for major adjustments from the usual expenditure patterns. Painful as it may be, we have reached a point where budget cuts are inevitable. Let us all commit ourselves to achieving more with the limited resources we have.
113. Mr. Speaker, in conclusion I wish to express my appreciation for the support and guidance I received in compiling the budget estimate, especially from my cabinet colleagues and members of the Finance Committee of Parliament; members of staff in the central agencies for their hard work in putting the documents together under trying conditions; line ministries who have embraced the reduced budgets; our cooperating

partners who continue to contribute to the economic development of this country; the public and civic society for their continuous indication of their wishes and aspirations on the national budget, which challenges us to keep improving the quality of our budget; those who support and pray for the success of this country; and my family for their unconditional love and understanding.

114. Mr. Speaker, I 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 2011/2012 financial year.