

**BUDGET SPEECH**

**2019**

PRESENTED BY

**NEAL RIJKENBERG**

**THE MINISTER FOR FINANCE**

TO THE

**PARLIAMENT**

OF

**THE KINGDOM OF ESWATINI**

27<sup>TH</sup> FEBRUARY 2019

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## **I. INTRODUCTION**

1. Mr. Speaker, it is my honour to present my maiden Budget Speech, the National Budget for the 2019/2020 fiscal year, at this the first session of the 11<sup>th</sup> Parliament.
2. I would like to thank God our creator for the peace and stability in our wonderful country, for His Majesty the King and for the Lord's grace and mercy as we navigate our way through these challenging times.
3. Mr. Speaker, I take this opportunity to convey my sincere gratitude to Their Majesties for the confidence and trust that they have shown in me as the custodian of this key portfolio in Government. I strongly believe that under their mandate and the astute leadership of His Excellency the Right Honourable Prime Minister that we have the leadership and team in place to confront our current challenges, maximize our many strengths and craft a better tomorrow.
4. Mr. Speaker I would like to thank His Majesty the King for the mandate and direction that he gave the Nation and his Government in his speech from the Throne at the opening of this 11<sup>th</sup> Parliament. His Majesty reminded us that our economic situation remains daunting, that our revenues remain under pressure and that, as Government's expenditure has ballooned, our public finances remain unsustainable: Arrears have been accumulating and reserves have been depleted. We take heed of His Majesty's caution and we are fully committed to working together to address this, as we continue to strive for his 2022 vision.

5. Mr. Speaker, I would also like to thank His Excellency the Right Honourable Prime Minister for his wisdom, leadership and commitment to address the current financial situation in these trying times, as well as my colleagues in Cabinet for their support and collaboration.
6. Mr. Speaker, Eswatini is facing an unprecedented economic crisis. Preliminary estimates suggest a contraction of 0.4 percent in our GDP for 2018 and the economic outlook remains subdued. Foreign Direct Investment has been on average negative for a number of years. Arrears have accumulated and we continue to draw down on our reserves. The economy has stagnated and we are failing to attract investment as the gap between the rich and poor continues to grow. For too long now, this economic reality has not been addressed - and now is the time to do so. Regional economic weakness, international trade tensions and the lingering impact of the global financial crisis have all contributed to our present crisis, but so too have the structural inefficiencies and deficiencies in our own economic policy and governance. A key component of our crisis is Government's growing wage bill – in the last ten years our wage bill has grown by 125 percent. In contrast, volatile SACU receipts have made Government's fiscal position untenable, in the medium term SACU receipts are expected to decline due to South Africa's worsening economic position.
7. We are in trouble because our Private Sector is too small and its growth is too slow. We are in trouble because we have not been balancing our books. We are in trouble because we have not developed a strong policy framework to address the needs of our people. We are in trouble because we have failed to leverage our natural resources, human capital and our strengths. We are in trouble because we have failed to adequately address corruption. We need a holistic, integrated approach that immediately and radically addresses these structural imbalances and failures - one that requires sacrifice, but that ultimately benefits every

Liswati, especially the poorest and most vulnerable. We have to grow our economy, create jobs, and attract investment. We have to educate our children, care for our sick and provide a social safety net for our most vulnerable citizens. We do not have the luxuries of time and infinite resources. We must act now and do so with what we have in our hands.

8. Mr. Speaker, I have been mandated by His Majesty, directed by His Excellency the Prime Minister and the entire Cabinet to prepare and introduce a fully-financed Budget, built on the five themes His Majesty announced in his Opening to this Parliament. This will be the critical first step for a country-wide economic turnaround, one that was mandated by the Nation at Sibaya, endorsed by His Majesty and is being refined by this administration and critical stakeholders. If it is to be successful, it will need to be implemented at every level of society for the benefit of all Emaswati. This was set into motion by His Majesty during the 50/50 celebrations with the renaming of our great nation to Eswatini. By reinstating the Kingdom's actual name, we shed our colonial past and honour our rich Emaswati roots - an uniquely Liswati response to our challenges.
9. The budget paves the way for wealth creation and distribution, the promotion of a free market economy and ensuring that we have the appropriate balance between Government and the private sector to deliver on our mandate. By achieving these critical objectives, we will create the necessary environment to grow and thrive. Recent history has shown that spending our way out of an economic crisis is not the solution. It is clear that tough measures are required to achieve lasting prosperity. Meaningful growth will be achieved by enabling the private sector to lead and do what it does best, which includes growing our economy and creating employment. Government can no longer be the employer of choice in the Kingdom as it is

today. Today, I call on everyone to unify your support for our economic recovery and truly collaborate to build the proud Nation that we all envision and deserve.

10. To succeed, we must stimulate GDP growth, boost local employment and generate higher, sustainable export revenues for the foreseeable future. As such, we need to address the following five high priority areas:

1. Develop a Fiscal Consolidation Plan and Arrears Funding Strategy,
2. Improve the Ease of Doing Business,
3. Deliver Improved Socioeconomic Impact,
4. Implement an Infrastructure Investment Plan,
5. Build a Culture of Excellence

11. To reiterate His Majesty's pronouncement in the Speech from the Throne, the priority growth sectors in the economy are:

- ICT and Education
- Energy and Mining
- Tourism
- Manufacturing and Agro processing

12. Government will do its part to enact new policies and pass the required legislation to de-regulate and open the economy for business. This new, enabling environment will allow the private sector to take the lead, unlocking results like food security, accessible and affordable

internet infrastructure, a renewable energy industry, increased tourism and full utilisation of our Special Economic Zones.

13. This budget seeks to ensure that your hard-earned taxes and our international partner's financial support is spent in a sustainable, transparent manner for the betterment of our economy and future generations. I stand before you with great anticipation for a stronger, more prosperous Eswatini.

14. To our international development partners, multilateral organizations and the NGO community, we appreciate your support and commitment to a new era of active engagement and implementation to achieve our common objectives. All levels of Government will be held accountable for transparent, responsive communication and delivery on our responsibilities. Your technical and financial assistance is invaluable in supporting the economic recovery we speak of today. We acknowledge that in order to receive impactful international assistance, change is required internally. This budget ensures that the necessary social, financial and structural reforms will be achieved, without compromising our values as a Nation. In the next three years we will focus on qualifying for the Millennium Challenge Corporation (MCC) funding. We will continue collaborating with development partners including, the International Monetary Fund, the African Development Bank, United Nations agencies, the European Union, the World Bank, the International Fund for Agricultural Development, the Development Bank of South Africa, USAID, Export Import Bank of India, South African Development Community, Japan International Cooperation Agency and the Government of the Republic of China on Taiwan, the Kuwait Fund, BADEA, the Saudi Fund for Development, OPEC Fund for International Development and all NGOs, just to name a few. I



also take this opportunity to acknowledge the support we have received from all our development partners.

15. With Government's commitment to fully enable and support a private sector led recovery, we invite business leaders, both local and international, to engage with a fresh, free market-focused Eswatini. The Public Service Associations and its members are integral to this recovery. I appeal to all our stakeholders to appreciate the current financial strain and join us in actively engaging to address these challenges. In this new era, the enabling environment will bolster existing businesses and create new local industries to increase exports, which will improve the balance of payments and grow our Nation's revenues. The basis of this budget will ensure that the new wealth created, will be distributed throughout all levels of society, truly impacting each Liswati positively.

## **II. RECENT ECONOMIC PERFORMANCE AND OUTLOOK**

16. Mr. Speaker, I now present to this House the global and domestic economic developments.

### **i. International Developments**

17. Mr. Speaker, the IMF's January 2019 World Economic Outlook estimated that global growth reached 3.7 percent in 2018. The combined negative impact of trade tensions between the United States and China, as well as lower demand expectations in Europe, put downward pressure on global growth. Global growth forecasts for 2019 and 2020 have been revised downwards to 3.5 percent in 2019 and 3.6 percent in 2020. The IMF has warned that an intensification of trade tensions and low demand, along with a rise in political uncertainty

across the world, could dent business and financial market sentiments. This could trigger financial market volatility and slowed investment worldwide.

## **ii. Regional Developments**

18. Growth in Sub-Saharan Africa is estimated to reach 2.9 percent in 2018 according to the IMF World Economic Outlook January 2019 update, a downward revision from the 3.1 percent estimated in October 2018. Forecasts for the outer years were downgraded by 0.3 percentage points, to reach 3.5 percent and 3.6 percent in 2019 and 2020 respectively. This downward revision is mainly attributed to the large, oil-rich economies of Angola and Nigeria who are experiencing weaker growth following lower oil prices.

19. Mr. Speaker, Growth in South Africa is expected to be just 0.7 percent in 2018 after the country experienced a technical recession in the first half of the year. The South African Government has responded with a stimulus package and other reforms to boost growth and support the recovery of the economy. South Africa's growth is projected at 1 percent and 1.7 percent in 2019 and 2020, respectively. However, the cost and sustainable supply of electricity remains a critical concern.

## **iii. Domestic Developments**

### **1. Economic Growth**

20. Mr. Speaker, Eswatini's economic activity remains weak. Recent estimates indicate that the economy has contracted by 0.4 percent in 2018, indicating a possible recession. This was a large fall compared to 2017 where we recorded growth of 1.9 percent.

21. The primary sector displayed marginal growth, as observed in sugarcane production, which continues to benefit from the Lower Usuthu Smallholder Irrigation Projects (LUSIP) and better rainfall. The favourable weather conditions also supported the restocking of livestock that has been severely depleted since 2016.
22. Growth in the secondary sector was stagnant during 2018. Supply side constraints and subdued external demand for the country's exports hampered growth in manufacturing. The economy suffered from Government's fiscal crisis and arrears accumulation, in particular, construction activity was severely affected. These developments were countered by improvements made in the processing of sugar and a muted recovery in textile activity in the second half of 2018.
23. Mr. Speaker, while there was some growth in the tertiary sector driven by better performance in wholesale and retail, Government continued to wrestle with cash-flow challenges. This resulted in measures to curtail spending which negatively impacted growth in the tertiary sector.
24. Failure to implement a meaningful turnaround strategy will result in continued sluggish economic growth, well below 2 percent in the short to medium term. This is drastically below the growth the Nation requires to mitigate poverty. Baseline estimates suggest that growth is forecasted at 1.1 percent in 2019, 1.8 percent in 2020 and 1.5 percent in 2021. The suppressed outlook is due to inefficient Government spending, which has restricted private sector growth and investment.

## **2. Inflation and Balance of Payments**

25. Mr. Speaker, consumer headline inflation averaged 4.8 percent in 2018, down from 6.2 percent in 2017. Food prices recorded zero growth in 2018, compared to an 8.1 percent increase in 2017. Non-food inflation recorded an average of 7.1 percent in 2018, an increase compared to the 5.6 percent in 2017, as inflationary pressures were observed in electricity and water tariffs.
26. Preliminary figures indicate that the Current Account surplus declined by 15.2 percent in 2018 to E6.2 billion, from E9.5 billion in 2017. This was attributed to a complete reversal in the balance in the Goods Account which went from a surplus of E3.2 billion in 2017 to a deficit of E250.6 million in 2018. Although the Secondary Income Account continued to be in surplus during 2018, it declined by 8.6 percent to E7.3 billion due to a fall in SACU receipts and contributed to the deterioration in the Current Account balance.
27. Export earnings in 2018 amounted to E24.7 billion, an increase of 2.9 percent compared to 2017. Our major exports included sugarcane, wood and textile products, which, alone, accounted for 82.8 percent of the overall export earnings in 2018. Imports totaled E24.9 billion, a growth of 19.2 percent compared to 2017, causing the Current Account to go into deficit. The growth in US domestic demand is expected to increase our exports under AGOA.
28. Mr. Speaker, preliminary data indicates that the financial account deficit decelerated to E4.5 billion in 2018 from E7.8 billion in 2017. The slowdown was due to a net decline in foreign direct investment.

### **3. Financial Sector Developments**

#### **Monetary Policy, Interest Rates and Private Sector Credit**

29. Mr. Speaker, the Central Bank of Eswatini pursued an accommodative monetary policy to support growth and employment in 2018 as weak economic performance continued in 2018. The discount rate was cut by a cumulative 50 basis points in 2018 from 7.25 percent to 6.75 percent.

30. The accommodative monetary policy was supportive of growth in credit extension to the private sector and money supply. Credit extended to the private sector grew by 6.2 percent year-on-year to reach E14.7 billion at the end of November 2018. Broad Money Supply (M2) also increased by 2.4 percent year-on-year to reach E18.3 billion at end of November 2018, as both Narrow Money Supply (M1) and Quasi Money Supply expanded.

#### **Overview of the Financial Sector**

31. Mr. Speaker, in 2018 for the first time in 30 years Eswatini issued a new banking license, which brings the hope of extending access to finance throughout the Nation. This now brings the Nation's bank licenses to a total of five.

32. The banking sector remains stable, financially sound and compliant with statutory requirements. Both the Tier 1 capital and total capital ratios were maintained above the minimum statutory requirement of 4 percent and 8 percent at 17.2 percent and 20.0 percent, respectively. It is worth noting that the banking sector remained well capitalized even after the introduction of the Basel II accord in June 2018. The Eswatini banking sector remained

profitable in 2018, with the industry depicting a slight decrease in profits after tax ratios recording E353.2 million profit in 2018 compared to E419.7 million in 2017.

33. Financial sector interlinkages are deepening as Non-Bank Financial Institutions increase their investments within the domestic economy. Assets in the insurance sector increased, driven by investments stimulated through pension and retirement funds. Capital markets on the other hand are mainly investing in insurance companies and credit institutions. In the medium term, Government aims to reform the Banking Sector and enact regulatory changes to improve financial inclusion.

#### **Developments in Financial Sector Regulation**

34. Mr. Speaker, to ensure that the financial sector keeps evolving in line with global developments and the needs of businesses and consumers, the Central Bank of Eswatini has embarked on a legislative framework review exercise. This review is aimed at strengthening financial sector legislation and the regulatory regime to ensure that they support a stable, growing and competitive financial system. Draft amendment laws to the Central Bank Order, Financial Institutions Act, and a proposed Financial Stability bill are now ready, and it is anticipated that they will be tabled before Parliament in 2019. The Bank has finalized its anti-money laundering Risk Based supervisory framework and will be implementing it in phases.

35. The Central Bank of Eswatini continues with its drive to introduce relaxations in Exchange Controls. This is in alignment with the Bank's strategic objectives of creating a self-regulating financial sector whilst increasing the ease of doing business in Eswatini in support of the country's 2022 Vision. These include royalties and fees, Eswatini foreign investment limit, foreign investments by institutional investors, and the acceptance of foreign bank notes.

#### **4. Official Reserves**

36. Gross Official Reserves stood at E6.3 billion in December 2018, equivalent to 2.9 months of import cover. Compared to December 2017, our reserves have fallen by 8.8 percent, to a concerning level which is below the generally acceptable 3 month of import cover. We need to urgently address this, and Government remains committed to retaining the three-month benchmark.

### **III. FISCAL PERFORMANCE 2018/19**

#### **i. Revenue Performance**

37. Mr. Speaker, in 2018/19 Government revenue and grants are projected to reach E16.2 billion, which equals 26 percent of GDP, this was recorded against an initial budget of E17.2 billion. The shortfall is largely attributed to the non-passage of proposed revenue measures in 2018/19 and a reduction in tax receipts. This is a decline from E16.6 billion in 2017/18, due to a reduction in SACU receipts from E7.1 billion to E5.8 billion between 2017/18 and 2018/19. Despite falling by around 18 percent in 2018/19 from 2017/18, SACU revenue is expected to contribute around 37 percent of total revenue, or 9 percent of GDP.

#### **ii. Expenditure**

38. Mr. Speaker, total Government expenditure for financial year 2018/19 was budgeted at E21.6 billion in April 2018. Preliminary estimates indicate that end of year cash expenditure is expected to stand at E19.8 billion. Factoring in arrears accumulation across line ministries this estimate is expected to be revised upwards.

### **iii. Overall Balance**

39. Mr. Speaker, the deficit for financial year 2018/19 was budgeted at E5.2 billion. At the half year mark projections on the deficit indicated that it would stand at E3.5 billion. However, reiterating what was said about expenditure performance, arrears accumulation in line ministries could contribute to an upward revision of the fiscal deficit. Whilst we have been able to finance part of this through domestic borrowing, a large part of it has gone unfinanced and increased our stock of arrears.

### **iv. Public Debt**

40. Mr. Speaker, the total debt stock is expected to reach E14.58 billion by the end of this financial year, which is equivalent to 23.3 percent of GDP. Of this stock, external debt amounts to E6.15 billion, corresponding to 9.8 percent of GDP. Domestic debt amounts to E8.43 billion, corresponding to 13.5 percent of GDP. I must emphasize that this does not account for the arrears that Government has accumulated, nor for the debt required to be raised in 2019/2020.

41. During this financial year, Government signed loan agreements with different financiers which include; European Investment Bank and the African Development Bank. These agreements are for the financing of LUSIP Extension and a guarantee for FINCORP, respectively.

42. Mr. Speaker, the Ministry of Finance continued to issue Treasury Bills, Suppliers Bonds, Treasury Bonds and Infrastructure Bonds to raise much needed funds and develop the domestic capital market.



43. It is critical that Government strives to keep its public debt stock below the recommended 35 percent of GDP. There is need to exercise caution as we continue to acquire more debt through domestic borrowing and external financing for Government projects. The latter requires a strong evaluation of the feasibility prior to implementation.

**v. Cash Flow**

44. Mr. Speaker, managing Government's cash flow has become increasingly important. Cash inflows and outflows are often mismatched, but having unfinanced expenditures exacerbates this situation dramatically. We have been forced to ration cash and prioritize expenditures, but delayed payments and arrears have been inevitable. Further, we have been drawing down on all of our cash deposits and reserves, creating vulnerabilities to future shocks and threatening our currency peg to the Rand.

**IV. BUDGET STRATEGY FOR 2019/20**

**i. Fiscal Consolidation**

45. Mr. Speaker, fiscal consolidation remains our primary short-term goal. Without it, Government finances will continue on an unsustainable route, creating further arrears and constricting private sector activity. We aim to create fiscal space through enhanced expenditure prioritization, allocative efficiency, and revenue mobilization. Through this, we will bring down the deficit whilst ensuring efficiency of Government expenditure.

46. Mr. Speaker, I would like to take this opportunity to thank all of my colleagues across the Civil Service who had the extremely difficult task of finding budgetary space in their respective Ministries. We set ourselves the challenge of cutting 10 percent and whilst we did

not achieve it entirely, I believe that this Budget I am presenting makes great strides towards putting Government finances back on track.

47. Expenditure on Central Transport Administration, commonly referred to as CTA continues to be a major drain and in this regard Government is exploring the option of ultimately privatising this function.

## **ii. Revenue Mobilisation**

48. Mr. Speaker, without improving our Nation's revenue collection, the present economic crisis cannot be abated. It is imperative that this exercise is taken seriously and supported strongly by every Liswati. Non-compliance with the country's tax laws will not be tolerated.

49. Eswatini has a large shadow economy, as per a paper published by ESEPARC's in 2016 Eswatini's Shadow economy accounted for approximately 37.4 percent of GDP. This sector largely falls outside of the tax net. We have to address this through revenue diversification and a broadening of the tax base. This will include an increase in consumption taxes, such as an increase in the tax on fuel and the implementation of Value Added Tax on Electricity.

50. Mr. Speaker, we expect growth in our domestic revenue base to continue. Higher collections in VAT, Corporate Tax and Personal Income Tax will ease some of the burden. Although we wish to move away from dependency on SACU receipts, higher SACU revenues in 2019/20 will allow us precious time and momentum to enact wider fiscal reforms. On top of all of this, I am seeking the passage of new revenue measures that will increase our domestic

revenue collection by E900 million including an estimate of E400 million linked to the sale of Government assets.

51. May I take the opportunity to extend my sincere gratitude to all those who continue to pay their taxes voluntarily and on time, in compliance with the law. It is because of our compliant tax payers that I stand here today to deliver the National budget in support of Government's programmes, which include education, health, security, infrastructure development, social grants and many others.

52. Mr. Speaker, as you are aware, I have been in this office for four months now. I have been approached by big and small businesses alike who believe the Revenue Authority is too hard on them and threatening the very survival of their businesses. To address these concerns, I have engaged the Revenue Authority and have established that their actions are in line with what is provided for in legislation. I have also established that they are maturing in their work as they are already planning to implement a segmented approach to compliance management, which will see them treat taxpayers according to their behaviour. Today, I am tabling the Revenue Appeal Tribunal Bill to ensure that all taxpayers are justly and equitably treated.

53. I have further interrogated the legislation, which is crafted by my Ministry and ultimately approved in this Parliament. I have found that this legislation is benchmarked on international best practices designed to support the domestic resource mobilization agenda. Indeed, like any piece of legislation, we will need to improve on it from time to time to cater for new developments and to close loop-holes. Traditionally there has been a culture of non-compliance in tax payments. It is for this reason that a season of strict enforcement is needed.

54. Mr. Speaker let me also indicate to this honourable house that, the Revenue Authority is implementing initiatives to minimize the burden for those who have been non-compliant over the past years. In addition to allowing taxpayers to liquidate their tax debts in instalments, they have launched a voluntary disclosure programme, or “tax amnesty”, which will see penalties and interest being waived in exchange for full disclosure of the extent of your non-compliance and a commitment to be compliant going forward. May I implore all those who know that they have not been compliant to take advantage of this programme and approach the Revenue Authority before they come to find you.

55. Let me conclude this section Mr. Speaker by pointing out that in 2007 the International Monetary Fund (IMF) observed that, “paying taxes was optional” in Eswatini. Since the launch of the Revenue Authority by His Majesty the King in 2011, we have seen a considerable improvement over the years, with average annual increases in revenue collection of over 10 percent. In the 2017/18 fiscal year, the domestic revenue collection by the Revenue Authority accounted for 54 percent of total revenue. This achievement was delivered on the back of concerted efforts from all stakeholders including Parliament. We need to continue this trend if we are going to achieve the levels of development, we have set for ourselves.

### **iii. Stimulating Resilience to Adversity**

#### **1. Food Security**

56. Mr. Speaker, it goes without saying that the livelihood of our people remains a priority to Government. Agriculture plays a large role in stimulating the economy and driving transformation in the country’s rural communities. In an effort to mitigate the severity of

climate change and improve agricultural productivity, Government has prioritized the implementation of projects relating to water harvesting and irrigation development to increase agricultural production.

57. Government is accelerating the construction of dams and irrigation schemes in various areas. Budgetary allocations have been made to finalise feasibility studies for large dams in the south of Eswatini, to increase Eswatini's irrigation potential by another 25,000 hectares. Additionally, the second phase of LUSIP seeks to develop approximately 5,200 hectares which will be used for agricultural production under irrigation is now reaching completion. The achievement of increased crop and livestock production addresses the challenge of food insecurity and poverty. High production levels are expected to ensure food self-sufficiency while at the same time facilitating import substitution and export promotion. Through the High Value Crops and Horticulture Project, cold storage facilities and pack-houses have been established in strategic locations to facilitate the storage, handling and marketing of high-quality farm produce.

58. Mr. Speaker, in the 2017/18 planting season the country received good rains which had a positive impact on crop production especially in the High and Middleveld. This resulted in a good harvest for maize at National level where total production stood at 114,000 MT when compared to the previous season's total production of 84,000 MT - an increase of 36 percent. This increase in production is also attributed to the food security program which provided subsidized farm inputs and also paid particular attention to soil conditioning and mechanization. Government will continue with this farm input subsidy program and an allocation of E30 million has been set aside for this.

59. Structures have been put in place to commercialise unproductive agricultural land to promote food security, rural development, job creation and the export of high value agricultural goods.

60. Government has allocated an amount of E1.7 billion for the Ministry of Agriculture.

## **2. Water and Sanitation**

61. Mr. Speaker, in an effort to achieve 100 percent potable water coverage by the year 2022, Government will implement the Manzini Integrated Water Supply and Sanitation Project which covers four Tinkhundla. This project will cost up to E825 Million and is expected to benefit 76,000 people in the four peri-urban and rural areas under the Manzini region.

62. The Ezulwini Sustainable Water Supply project is in the final stages of implementation. This project is aimed at providing potable water to the rapidly growing Ezulwini and surrounding areas. The construction of the water infrastructure under this project will cost up to E180 million.

63. Furthermore, Government will continue with the construction of the new waste water treatment plant in Nhlangano, to increase the capacity for sewerage disposal. This project will cost approximately E250 million and is expected to yield high socio-economic benefits to the people of the area.

## **3. Energy**

64. Mr. Speaker, significant progress has been made in the energy sector towards attaining the Kingdom's National development goals. In pursuit of this, Government has completed the review of the National Energy Policy, the Energy Master plan, the Short-Term Generation and Expansion Plan and the electricity procurement toolkit. These are all pivotal in scaling up

investment in the energy sector, with a focus on renewable energy. It is vital that we break the country's dependency on imported fossil fuels with a targeted renewable energy plan focused on solar, hydro and biomass power. This will include a competitive bidding process by Independent Power Producers for the 40MW solar photovoltaic power plants and 40MW Biomass power plants. These projects are expected to be implemented in the next 3 to 5 years. The 10MW Lavumisa Solar PV plant and the 13MW Lower Maguduza Hydro Power Plant projects are expected to be completed by 2019 and 2021 respectively.

65. The implementation of the rural electrification programme will increase National electricity access from 78 percent to 80 percent in 2019/20.

#### **4. Environment**

66. Mr. Speaker, environmental issues are taking the lead in the global arena. Government endeavours to safeguard the environment, conserve wildlife and culture, ensure sustainable forest management, mitigate negative climate impact and build a climate change resilient country. These together with other efforts will propel the country to achieve the Sustainable Development Goals and attain Vision 2022. In this regard, Government will be launching several campaigns that will be fully launched in the strategic turnaround strategy.

#### **5. Social Transfers**

67. Mr. Speaker, Government is responsible for providing social protection and security for all vulnerable people in the Kingdom of Eswatini. Government will continue providing budget allocations for "bogogo nabomkhulu" and our vulnerable children. Government will be undertaking an exercise to verify qualifying recipients and reducing the cost of distributing the grants. This will result in increased grant for each qualified recipient. This measure will

assist to address growing inequalities between the rich and the poor. Government is pleased to announce that as of 1st April 2019 over 70,000 elderly people will be catered for with a total allocation of E417 million. This allocation will cater for both existing and new beneficiaries. In 2018, a total of 58,186 children benefited from the Orphans and Vulnerable Children (OVC) Educational Grant, a 4.7 percent increase from 2017.

68. Government appreciates the enactment of the Sexual Offences and Domestic Violence Act and The Persons with Disabilities Act. Plans are underway to have the Acts translated into Braille and SiSwati to inform and sensitize the population about the contents of the laws.

69. Mr. Speaker, the implementation of the OVC Safety Net Cash Transfer pilot project has been completed. The beneficiaries are 13,500 OVC in about 4,500 households from 4 pilot Tinkhundla. Government further seeks to develop an integrated social security and social protection policy to provide a social safety net for our most vulnerable citizens.

70. Around 120 Civil Servants have graduated on Level One Sign Language Communication skills. This will ensure that the deaf community is able to communicate with service providers to receive exceptional levels of service. Government has allocated an amount of E702 million for the Deputy Prime Minister's Office in order to continue the social protection improvements for Emaswati.

#### **iv. Human Capital Development**

71. Mr. Speaker, human capital development plays a critical role in promoting sustainable and inclusive economic growth, poverty eradication, income inequality reduction and laying a



foundation for future prosperity. Therefore, Government will continue to invest heavily in our most important resource, our people.

## 1. **Education**

72. Mr. Speaker, Government has made significant strides in the implementation of state funded primary education. The Primary School Net Enrolment rate stands at about 95 percent in 2018. To increase enrolment, reduce absenteeism and enhance children's nutritional status, Government is implementing the School Feeding Programme. The programme currently covers every public secondary school and 99 percent of public primary schools. During 2018, the school feeding programme benefitted 241,745 primary school learners and 119,740 secondary school learners. In 2019, Government will introduce an additional meal to improve learner's concentration and participation as well as to boost their nutritional status.

73. A competency-based curriculum has been developed and was introduced to Grade 1 at the beginning of the 2019 academic year. This new curriculum promotes entrepreneurship amongst learners and empowers them to be globally competitive. It puts emphasis on the development of essential competences, skills, values and attitudes to contribute effectively to the economy.

74. Mr. Speaker, access to secondary school seems to be limited and inequitable. The net enrollment rate stood at 46.3 percent. This indicates disappointingly low educational attainment and calls for concerted efforts from all stakeholders in ensuring that eligible learners are given the opportunity to participate.

75. Over the next year, Government will focus on expanding access to vocational training to out of school youth and adults through the Rural Education Centres and the Sebenta programme. During 2018, Government trained over 3,000 learners and plans are to increase this number. This will be made possible by the construction of four Rural Education Centres with the support from UNESCO Bridge project.

76. Mr. Speaker, Government has set aside an allocation of E3.5 billion to the Education and Training sector to implement priority programmes. This is a 7.5 percent increase on 2018/19.

## **2. Health**

77. Mr. Speaker, Government is committed to ensuring Universal Health Coverage. That is, all Emaswati having access to equitable, affordable and quality health care, irrespective of age, gender, and socio-economic status.

78. The country has made enormous progress in the fight against HIV and AIDS. The HIV incidence rate has decreased from 2.5 percent to 1.4 percent between 2012 and 2016, while the prevalence rate is at 27 percent and viral suppression is at 73 percent. Approximately 190,933 patients are on ARTs. Government will provide E274 million towards the purchase of ARVs.

79. Mr. Speaker, in continuing the fight against malaria, Government will establish a malaria elimination fund with the aim to make Eswatini malaria-free by 2030. The 2019/20 budget provides E5 million as seed money for the fund in line with the country's leadership role in the fight against malaria. I encourage the entire Nation, particularly business, to contribute towards this fund.

80. Mr. Speaker, Government has collaborated with UNICEF to initiate the procurement of vaccines through the UNICEF Supply Division which enables us to save approximately E12.5 million per year. I urge other Government Departments to explore avenues to create savings on the procurement of goods and services.

81. Government continues to work towards the development of a robust and Integrated Health Management Information System, based on the establishment of a Client Management Information System operative across all facilities. This Information System will help generate quality patient data and better inform clinical health care services and patient management. It has been established in 186 facilities and the plan is to scale it up to the remaining 141 facilities.

82. Mr. Speaker, Government will embark on the following priority programmes among others to improve the access to health services:

- Operationalize four new clinics
- Complete the construction of Emergency and Referral Complex at Mbabane Government Hospital
- Commence construction of the National Referral Hospital
- Conduct a System of Health Accounts assessment to generate consistent and comprehensive data on health expenditures in Eswatini

83. Government has allocated E2.2 billion to the Ministry of Health to implement the above and other priority programmes. This is a 15.6 percent increase on 2018/19.

### 3. Labour

84. Mr. Speaker, in line with the objectives of the Investor Roadmap and the National Development Strategy, Government is working towards meeting the human resources demands of the 21st century by formulating the National Human Resource Development Policy. Our overall goal is to ensure we have the relevant skills and competencies to meet the future labour market requirements of an improved economy.

85. Government is in the process of reviewing the minimum wage with the intention of significantly increasing it. This will be accompanied by a review of the industrial relations and employment legislation with the intent of creating jobs and increasing investment by making labour markets more flexible and business friendly.

86. The Department of Social Security is in the process of preparing a legal policy framework, which will set up, incept and operationalize the National Social Security Authority. This will help Government save money and increase the number of Emaswati benefiting from these funds through the efficient distribution of social protection services from an integrated framework.

87. Mr. Speaker, the Development of the Labour Market Information System has been implemented, deployed and the system is now being piloted. This has been done through the Statistical Capacity Building Programmes, sponsored by the African Development Bank for E1.3 million. It will integrate all labour related information, including unemployment, skills available and vacancies available, into one system easily accessible by both domestic and foreign investors.

88. Government engaged a third party to recover funds from beneficiaries of the Pre-Service Tertiary Education and Training Loan. Since its launch in June 2017, we have recovered E47.8 million as of December 2018. On a monthly basis, we are collecting E4 million which we project to increase to E10 million if all beneficiaries start paying.

89. COLA is the most contentious economic issue in our country at this moment and I am compelled to address this. Our growing wage bill is placing insurmountable pressure on our Budget and Government has been under immense strain to pay salaries due to the cash flow crisis. For wages and pensions, expenditure will increase from E8.2 billion in 2018/19 to E8.5 billion in 2019/20, this is despite the current hiring freeze. Given the state of the economy, it is not prudent or possible to budget for a Cost of Living Adjustment in 2019/20, as the country simply cannot afford it. I appeal to the Public Service Associations and its members to appreciate the current financial strain and to join us in actively addressing these challenges.

**v. Financial Innovation**

90. Mr. Speaker, technology enabled financial services include mobile payments, which are now provided by the two licensed Mobile Network Operators MTN Eswatini and Eswatini Mobile; and digital customer service channels deployed by our Commercial Banks. These services have positively contributed to the increased awareness and use of financial services by Emaswati. Government intends to promote financial literacy amongst all citizens in partnership with the Bankers' Association.

91. Mr. Speaker, regulatory initiatives include proposed amendments to the legislative frameworks applicable to financial services. Ultimately the regulatory environment should

enable the country to benefit from Fintech opportunities through attracting global investments and promoting financial inclusion.

**vi. Tourism**

92. Mr. Speaker, tourism has been identified as a priority sector that has potential to catalyse economic growth across the economy. In 2018, the country experienced a 5.1 percent decline in tourist arrivals, an issue which we need to address urgently. The sector has proven to be resilient and a fundamental contributor to economic activity in the country by generating foreign currency and creating jobs. Government continued to create awareness of the country and to promote it in various international and regional platforms. Government would like to thank our Cooperating Partners, the SADC Trade Related Facility, for funding the formulation of the National Tourism Bill. The proposed legislation seeks to effectively regulate the tourism sector through active participation of all stakeholders. Government will be reviewing Eswatini's visa regime to launch e-visa and visa-on-arrival for tourists.

**vii. Information, Communication and Technology**

93. Mr. Speaker, in its attempt to increase prosperity, the Kingdom of Eswatini is set on transitioning into a knowledge-based economy, and on enhancing scientific and technological innovations in its public, private and academic sectors. Furthermore, Government has prioritized the revision and development of the Science Technology and Innovation policy regimes and legislation. The Bill for the establishment of the National Research Council, Bio-economy Strategy, and the revised Royal Science and Technology Park Act are in the pipeline.

94. Through the Royal Science and Technology Park, Government has managed to complete the establishment of infrastructure, installed the passive equipment for the National Data Centre, and a live-connection has been achieved with the Eswatini Posts and Telecommunication Corporation. In the short term, we will pursue the operationalization of the National Data Centre which will provide a platform for the National data repository through shared infrastructure, reducing the maintenance costs of the data housing services. In 2019/20, Government will finish the Service Centre project, this is currently 80 percent complete. This new centre will unlock the benefits of the Special Economic Zone through attracting investors.

95. Mr. Speaker, at the Biotechnology Park, preliminary designs of a Research and Development Quality Testing and Assurance Laboratory have been developed. The Laboratory is a priority to incubate businesses and provide services to the Special Economic Zone for investors.

96. Mr. Speaker, Government recently enabled the ICT support infrastructure through the introduction of a wire-line broadband service along with the Next Generation Network. Currently, broadband networks are being rolled out to provide internet to schools, hospitals and other public key areas both in the rural and urban areas. Government seeks to liberalise broadband access to improve connectivity, speed, and pricing.

### **viii. Infrastructure Development**

#### **1. Roads**

97. Over the last two decades, Government has invested immensely in the development and improvement of road infrastructure in the country. By the end of 2017, the paved road network in the country accounted for just about 40 percent of the total planned road network.

However, the lack of a consistent mechanism for maintenance has led to the level of disrepair in most of the roads becoming unbearable. The budget allocates E947 million for construction and road maintenance.

## **2. Aviation**

98. Mr. Speaker, the development of the King Mswati III International Airport provides civil aviation operations an opportunity to promote air transport in the Kingdom of Eswatini. The entities entrusted with the responsibility to promote air transport have a substantial challenge in ensuring the facilities developed are optimally used.

## **ix. Private Sector**

### **1. Trade, Industry and Investment**

99. Mr. Speaker, in order to boost the Nation's Ease of Doing Business Ranking, the country needs to improve a number of indicators. Primarily, it includes Starting A Business, where we need to establish a centralised business start-up hub that will host a number of services relating to starting a business.

100. Government is committing to the following initiatives to boost private sector investment and improve the Ease of Doing Business:

- Review the Competition Commission mandate to facilitate investment and economic activity
- Improve access to land for business development by reviewing land ownership, laws and policies
- Review work permit and immigration policies to be investor friendly



- Convene investment summits in Eswatini and internationally to present stimulus packages
- Unlock the mining sector
- Operationalise the Sectional Titles Act
- Operationalise various trade and taxation agreements and treaties
- Implement 24-hour border operations with our biggest trading partner, the Republic of South Africa
- Significantly reduce Corporate Taxes

101. These Measures will guarantee that our Eswatini businesses grow and that we attract new businesses to Eswatini. The main reason for doing this is to create employment for the currently unemployed Emaswati.

102. Mr Speaker, allow me to express on behalf of the Government of the Kingdom of Eswatini our sincere apologies to all its suppliers and service providers who have been affected by the cash flow crisis in the recent past and commits to using this fully financed budget, a strong strategic plan and an implementing partner to approach the debt markets to raise earmarked financing for an arrears clearance strategy. Going forward, we commit to meeting our obligations in a timely manner. We will not allow any unanticipated financing shortfalls to result in arrears accumulation and will instead re-align the budgetary allocation. Failing which, emulating other countries, we will have no option but to cut the wage bill.

## **2. Small and Medium Enterprises**

103. Mr. Speaker, the role played by small and medium enterprises in stimulating economic growth is significant. The introduction of a presumptive tax system will promote the growth of small and medium sized business. The addition of regional trade fairs has enabled the participation of small companies at grassroots level.

104. Eswatini is yet to capitalize on local SMEs to promote inclusive and sustainable growth. In the 2019/20 financial year and beyond, Government shall prioritize private sector development by placing Micro, Small, and Medium Enterprises at the heart of new business ventures and industrialisation in Eswatini. To foster SME growth, Government has constructed the Manzini Trade Hub, established the Informal Traders' Revolving Fund to be extended to informal traders and re-capitalized the Small-Scale Enterprise Loan Guarantee Scheme.

### **x. Strengthening Governance**

#### **1. Public Finance Management**

105. Mr. Speaker, strong public financial management systems and procedures are critical for any Government to develop a sound fiscal policy and a credible fiscal consolidation roadmap.

106. Adoption of the Public Financial Management Act 2017 by the Kingdom of Eswatini was a major milestone in introducing and giving legal force to modern PFM practices. Full implementation of the PFM Act is an ongoing process, as it requires extensive capacity building to change the existing regulations, IT systems and old PFM practices. The Treasury

Department has taken the initiative of framing PFM Regulations in consultation with all stakeholders.

107. Mr. Speaker, Treasury is implementing an Integrated Financial Management Information System (IFMIS) to replace the existing Treasury Accounting System. The IFMIS will serve as an effective platform to implement many provisions of the PFM Act, including implementation of the International Public Sector Accounting standards.

108. Government is simultaneously working on a new multi-dimensional Chart of Accounts for configuration in the IFMIS. Better classification of transactions will multiply the reporting capacity of the IFMIS and will provide more comprehensive and detailed reports for better formulation and execution of fiscal policy.

## **2. National Security**

109. Mr. Speaker, Government will continue to enhance support to our security forces as we pursue economic stability and growth in the country. The Umbutfo Eswatini Defence Force will tighten our border security and maintain peace countrywide.

## **3. Combating Corruption**

110. Mr. Speaker, Transparency International ranked Eswatini 89<sup>th</sup> globally in their Corruption Perceptions Index of 2018. Corruption is detrimental to economic development and is a major concern of the international and regional communities. Eswatini is no exception and is even more vulnerable with the prevailing economic constraints. Government shall continue to take the primary role in the fight against corruption in the Kingdom. This is becoming more and more 'Indzaba yetfu sonkhe'.

111. Government has taken a stand of zero tolerance towards corruption. Our key focus shall be on preventative initiatives to corruption. Government will continue supporting all structures involved in the value- chain to tackle corruption and recovery of illicit assets in the Kingdom. These include the Anti- Corruption Commission, Directorate of Public Prosecutions and other stakeholders.

#### **4. Public Order and Safety**

112. The Judiciary is committed to significantly reducing the backlog of cases. To deal with corruption, the Judiciary has prioritized the allocation and hearing of more Serious Offences cases, Corruption cases and Commercial cases by the Judges and Magistrates. In tabling the Revenue Appeal Tribunal Bill Government seeks to ensure that all taxpayers are justly and equitably treated, further this will ease some of the backlog of tax-related cases from the National Courts.

113. The Correctional Services will continue to provide enhanced security and rehabilitation services in all of its centres to improve the administration of its operations. An amount of E72.5 million has been allocated for the rehabilitation and improvement of prison facilities.

114. The Royal Eswatini Police Service will continue to roll-out its Corporate Development Strategy (2015 – 2020) which includes effective service delivery, heightened safety and security, and policing through the adoption of science and information technology. An amount of E30 million has been allocated for the construction of the Buhleni Police Station.

## **5. Audit**

115. Mr. Speaker, Government has undertaken Financial Audits, Compliance Audits, Environmental Audits, Performance Audits, Investigative Audits, and IT Audits. These often result in the strengthening of internal controls of the public entities and the immediate recovery of misappropriated public funds. During the financial years 2016/17 and 2017/18, E40 million and E120 million respectively were recovered from private companies, public enterprises and Civil Servants.

116. We must address urgent areas, such as the significant wastages at Central Transportation Administration (CTA) including charges, the operations of Phalala Fund, Payroll System, Tendering and Procurement System, Management of Capital Projects, Management of School Funds, Performance Management System, and IT related controls.

117. The Public Finance Management reforms project will assist Government Audits through the implementation of International Auditing Standards. These standards require the extensive documentation of working papers and a three-level review structure for all audit assignments.

## **V. REVENUE AND EXPENDITURE FOR 2019/20**

118. Mr. Speaker, I will now present the Budget estimates for the financial year 2019/20.

**i. Revenue**

119. Mr. Speaker, for a fully financed budget Government must ensure that our total expenditure, including redemption of public debt must match or be lower than our total available resource envelope. In 2019/20, our resource envelope stands at E22.97 billion, this includes total revenue at E17.41 billion, Grants at E550 million, proposed revenue measures amounting to E500 million and Government is targeting an E 400 million from the sale of Government assets. An exercise is underway at the Ministry of Finance to identify Government assets that can be sold to this effect. Financing for the 2019/20 comes in the form of external loans that have been secured for specific capital projects and domestic financing in the form of Treasury bills and bonds. E 3.19 billion has been raised through external loans and E 925 million is a baseline projection for domestic debt financing.

120. Total income taxes are projected to increase by about 11.5 percent from an estimate of E5.2 billion in 2018/19 to about E5.7 billion in 2019/20. Corporate income taxes are expected to grow from E1.4 billion the previous year to E1.6 billion in 2019/20. Similarly, personal income taxes are expected to grow from E3.3 billion to E3.7 billion.

121. Mr. Speaker, taxes on goods and services excluding SACU receipts are expected to grow by 13.2 percent to E4.8 billion. VAT is expected to grow by 17.3 percent to E3.5 billion, as we benefit from the first full financial year of the higher 15 percent rate. Fuel tax and road toll are both expected to grow by 3 percent amounting to E1.1 billion and E34 million respectively. The levy on imported vehicles is projected to grow from E6 million to E10 million whilst other licences and other taxes are expected to reach E90 million.

122. Government intends to increase the minimum taxable income threshold from E41,000 to E55,000 annually. This revision in the primary rebate will take significant tax pressure off the lower income earners and offset some of the increased expenditure pressures on low income earners through the consumption tax revision. Government also intends to increase the marginal tax rate payable by income earners above E 250,000 from 33 percent to 36 percent. The net effect of this PAYE revision will reduce Government's revenue by E94.2 million which is meant to address income inequality in Eswatini.

## **ii. Expenditure**

123. Mr. Speaker, Total Expenditure for the financial year 2019/20 is estimated at E 21.83 billion, this includes:

- Appropriated Recurrent Expenditure: E14.90 billion
- Appropriated Capital Expenditure: E5.77 billion
- Statutory Expenditure (excluding the redemption of public debt): E1.16 billion

124. In addition, E1.09 billion has been provided for the Redemption of public debt, following budget convention this item comes "below the line" and is, therefore, not included in the estimates of Total Expenditure.

125. Appropriated recurrent expenditure is set to increase by 0.3 percent in 2019/20. We have managed to reprioritise expenditure in order to channel additional resources into the five Ministries key to economic and social development, that is Education, Health, Agriculture, ICT and The Deputy Prime Minister's Office.

126. Mr. Speaker, capital expenditure is set to grow by 3 percent in 2019/20, standing at E5.77 billion. Of this, E2.03 billion is locally financed, the rest is externally financed through foreign loans amounting to E3.19 billion and foreign grants amounting to E 0.55 billion.

### **iii. Overall Balance**

127. Mr. Speaker, in presenting this fully-financed Budget I have sought to find a balance between our tough economic realities, limited fiscal space and broad socio-economic demands of our country. Believe me, Mr. Speaker, this has been no easy task. What we have tried to achieve is an environment that promotes the growth of investment, while prioritising relief at the lower end of our income spectrum and casting a wider tax net to include the shadow economy.

128. With our primary goal being fiscal consolidation, our fiscal deficit is estimated to be E2.98 billion in 2019/20, 4.5 percent of GDP. This deficit we are talking to is contingent on the approval of the new revenue measures and the sale of Government assets.

129. Cabinet has already considered and approved the E1.20 per litre increase in fuel tax that will be effective in the next fuel pricing session. Through this adjustment an additional E383 million will be generated. The new revenue measures where I request the support of the House are; the Finance and Alcohol and Tobacco levy bills that should give us an additional E280 million in 2019/20. I have also tabled the Savings and Development Bank Amendment that seeks to bring our bank within the tax net, in line with all commercial banks. Whilst the SRA Act amendment seeks to transfer all Government Revenue offices to the Revenue Authority to efficiently run and curb revenue losses



## **VI. APPROPRIATION**

130. Mr. Speaker, by virtue of the responsibility entrusted in me as the Minister of Finance, I now present to this August House the Budget estimates for 2019/20 financial year **assuming the passage of new revenue measures:**

- i. Revenue and Grants: E18.86 billion**
- ii. Appropriated Recurrent Expenditure: E14.90 billion**
- iii. Appropriated Capital Expenditure: E5.77 billion**
- iv. Total Expenditure: E21.83 billion**
- v. Deficit: E2.98 billion**

## VII. CONCLUSION

131. This budget I present to you today is a direct reflection of our tough realities. The hard work required of each one of us must begin today to start building the Eswatini that we all want to live in. By making the choice as Government to contract our spending in real terms and allow the private sector to thrive, we will better serve our Nation with a focus on the most vulnerable populations. I invite the House to reconvene into a Committee of Supply to approve the Appropriation Bill, Finance Bill, Manzini Integrated Water Supply Loan Bill, Manzini Golf Course Interchange Bill, Alcohol and Tobacco Levy Bills and amendments of the SDSB order and SRA act.
132. Today, I call on parliament and the Emaswati people to prepare for a new era of change that will benefit us all, that will require sacrifices from us all in the short term. This Government is the last administration in line to deliver the 2022 vision, mandated by His Majesty. Ensuring that this vision is delivered, rests in our hands.
133. I wish to extend an invitation to every stakeholder and every Liswati to make this budget your own. In the spirit of inclusivity, I invite you to make innovative submissions to better deliver on our commitments to our partners and serve Emaswati in the process.
134. Today, I echo His Majesty's encouragement for a spirit of togetherness as I call on everyone to unify support for our economic recovery and truly collaborate to build the proud Nation that we all envision and deserve. If we each play our part to make sacrifices and transform the economy, we will deliver on His Majesty's call to "reignite the essential human virtues of compassion and humanity" or "Buntfu".

135. I THANK YOU ALL.