HEADLINE MESSAGES

• The 2017/18 Budget’s main priorities are fiscal consolidation and infrastructure growth for sustainable development and improved access to basic health care, education and social services for the whole nation.

• Swaziland’s average GDP growth rates are projected as follows: from 1.3% in 2016, to 1.2% in 2017, 2.4% in 2018 and to 2.3% in 2019. Despite the expected recovery, short term growth outlook remains below the pre-drought level of 6.9% in 2013, and below the Southern African Customs Union (SACU) average growth rates of 4%.

• Swaziland’s inflation rate is expected to average 5.7% in 2017 through to 2019, underpinned by high food inflation. However, both Health and Education inflation have been trending downwards, a positive development for access by children.

• On the back of volatile SACU receipts, revenues have been declining, thereby, negatively affecting the government’s ability to provide adequate resources for key infrastructure and social spending, including in health, education and social and child protection.

• A relatively small share of the budget is allocated for social services, with the key social sectors (Health, Education, Water Sanitation and Hygiene (WASH) and Social Protection) receiving a combined total of E6.61 billion, representing 30.5% of the total budget.

• The Government’s reform agenda should focus on diversifying the revenue base, protecting and improving quality and efficiency of spending, especially in child related sectors to achieve better results for children.

• Operational costs to reach the hard-to-reach children;

• Invest more towards high impact interventions in immunisation, maternal and Under 5 Mortality, given that they remain high for a middle-income country.
INTRODUCTION

The national Budget of any country is one of the most important policy tools at the disposal of government to influence economic growth, poverty reduction and facilitate social inclusion, among other key macroeconomic and social goals. Hence, how and where the country spends its budgetary resources has a huge bearing on economic growth, equity and determines whether the marginalised members of the society, including children are truly reached.

It is therefore, important for stakeholders to undertake budget analysis and track resource flows during the course of budget implementation to determine the size and quality of budget allocation and efficiency of expenditures in their sectors of interest. This is particularly important for UNICEF and stakeholders working for children, given that the investment case for children is often not clearly defined or is subsumed under the broader objective of social development and cohesion. Through Budget Analysis, stakeholders are able to advocate for government to make investment in children, a self-standing and explicit priority for poverty reduction and sustainable development.

This brief is, therefore, one of four Budget Briefs that explore the extent to which Swaziland’s National Budget addresses the needs of children in the country. It provides an appraisal of the macro-fiscal health of the country and an overview of the government’s budget composition, with specific reference to sectors that benefit children - health, education and social and child protection. Detailed sector analysis of the three sectors is presented in separate Budget Briefs.
GROWTH AND INFLATION DEVELOPMENTS

Economic Growth Trends and Forecast

Swaziland’s growth outlook remains somewhat subdued albeit recovering from the effects of the drought that affected most economies within the region in 2015. It is projected that growth will recover from 1.3% in 2016, to 1.2% in 2017, 2.4% in 2018 and to 2.3% in 2019. The 2017 Budget themed ‘Rising above Adversity to Create Prosperity for All’, seeks to achieve this growth through fiscal consolidation and infrastructure growth, improved access to basic health care, education and social security – sectors that really matter for child survival and development.

The envisaged 2017 economic recovery is premised on bumper agriculture production, following a good rainfall season. The non-agro related industries such as manufacturing, electricity and transport are expected to contribute to a higher growth outturn compared to the 2016 figures. Agriculture performance is expected to achieve higher harvests, with maize, the main staple crop projected to increase by 155% from 33,000 metric tonnes in 2016 to 84,000 metric tonnes in 2017\(^1\). This should be a major relief for Swazis, given that a significant share (76.3%) of the population, including children, resides in rural areas, and depends on agriculture for food, employment and their general livelihoods.

However, despite the expected recovery in 2017 through to 2019, the country’s projected growth remains below the pre-drought levels of 6.9% achieved in 2013, and below the SACU average growth rates of 4.0% (Figure 1). The lower growth outlook is mainly on account of weak performance of the SACU region, in particular, the South Africa (SA) economy, which is the country’s major trading partner. Hence, weak performance of the SA economy has spill-over effects on the Swazi economy and beyond the SACU region. In South Africa, economic growth slowed notably to 0.1% in 2016, and is projected to modestly improve to 0.8% in 2017, expanding to 2.3% in 2019.

For Swaziland, fiscal imbalances remain the biggest downside risk to growth. The government is facing widening deficit (as shown in Figure 4) because of declining SACU receipts against rising expenditure demands, resulting in rising domestic debt. This is not only unsustainable, but has a crowding-out effect on private sector borrowing, thereby undermining economic growth.

As such, it is important to note that the current growth levels and projections for the near term are significantly below levels needed to ensure sustainable development and poverty reduction, thereby exacerbating risks of social exclusion and associated increased inequities and vulnerabilities, especially among children. The Swaziland poverty estimates (2014) show that a higher percentage of children (69%) than the general population (63%) is living in poverty.

Inflation Developments

Swaziland’s average inflation in 2016 reached 7.8% largely due to a steep rise in food prices, making

\[\text{FIGURE 1: Swaziland Growth Vs Regional Growth Rates} \]

Source: SCSO and IMF Country Reports

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it the highest in the SACU region (Figure 2). Food inflation remained the main driver of overall inflation with monthly figures reaching a high of 18.7% and 19% in November and December 2016, respectively.

The increase in food inflation is mainly attributed to food shortages following the El Niño induced drought in 2015. The prevailing inflationary trend means that general prices in the economy were much higher in 2016 compared to 2015. This is a common factor that drives poverty and inequalities, particularly among children, who are naturally vulnerable.

Swaziland inflation is, however, expected to marginally decline to 7.4% in 2017, as food prices stabilise owing to improved availability on the back of better agriculture production. However, despite the projected decline in overall inflation, Swaziland’s inflation remains 1.9 percentage points higher than the projected SACU average of 5.5% (Figure 2).

Education and Health inflation are important factors determining access, particularly by children. For instance, high or rising education or health inflation means the prices of educational materials and school fees are rising, a factor that can worsen exclusion. Rising health inflation is a common barrier that perpetuates exclusion, particularly in cases where out-of-pocket payment is the major source of paying for healthcare services.

Both Health and Education inflation have been trending downwards, implying that the average costs of health and education have been increasing at a much lower rate than in the past (Figure 3). This declining trend in both Education and Health inflation is a positive development, particularly for children, as it points to the fact that the cost to access is increasing at a much slower rate and below overall inflation, promoting better access to both health and education, which are key dimensions for every child’s survival and development.
BUDGET ESTIMATES FOR 2017/18

The 2017/18 Budget projects to raise total revenues and grants amounting to E16.89 billion against total expenditures amounting to E21.78 billion, giving a total deficit of E4.89 billion (Figure 4).

For successive years, the Government of Swaziland has been implementing an expansionary fiscal policy. Total expenditures have continued to grow faster than total revenues resulting in successive fiscal deficits. In the fiscal year 2016/17, the government incurred a total fiscal deficit of E6.842 billion, about 12.31% of GDP. This is expected to narrow down to 8.21% in the 2017/18 fiscal year, albeit 3.22 percentage points higher than SADC Macroeconomic Convergence target of 5%.

These fiscal deficits are being financed through both domestic and external borrowing. As a result, public domestic debt is estimated to have grown from 5% of GDP in January 2016 to 8% of GDP in January 2017, as the government sought to cover the funding gap. There is therefore the need to contain the levels of debt issuance or contracting, as over-reliance on domestic borrowings has the potential problem of ‘crowding out’ private sector borrowing, affecting its development and overall economic growth.

Revenues

The past two years have been particularly difficult for the Government of Swaziland, with regards to revenue collections. Total domestic revenue collection for the 2016/17 fiscal year was around E7.7 billion, an increase of 14% compared to the previous fiscal year\(^2\). Total revenue forecasts for 2017/18 are projected in the 2017/18 budget to be E16.5 billion, indicating a 22% increase from the 2016/17 collection. One of the factors mentioned as to generate the expected

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increase in collection is the SACU receipts, which are expected to reach E7.1 billion, a 36.8% increase from the 2016/17 amount.3

In 2017/18, the biggest share of revenues will come from SACU receipts, contributing E7.1 billion, representing 44.38% and 42.01% of total revenue and grants. It is thus worth noting that any major shock to the SACU region, affecting revenues, will have a significant impact on the budget. Therefore, fiscal sustainability requires greater diversification of the country’s revenue sources, in the medium to long-term.

The expected recovery in revenues is mainly driven by improved SACU receipts. SACU receipts for 2016/17 amounted to E5.3 billion which was 23.1% below SACU receipts for 2015/16.

Therefore, SACU receipts are expected to anchor revenue recovery in 2017/18 through to 2019/20. For instance, in 2017/18, SACU receipts are expected to improve to E7.1 billion from E5.3 billion received for the 2016/17 fiscal year (Figure 5a). The expected 35.41% increase in SACU receipts is attributed to a combination of lower deduction in 2017 compared to 2016.

However, despite the projected improvements in SACU receipts between 2017 and 2019, the nominal receipts remain below the E7.5 billion (53.61% of total revenues) received in 2014/15. As a share of total revenues, SACU receipts are expected to average 39% during the period 2017 to 2019 compared to the average of 47% between 2014 and 2016 (Figure 5b). Conversely, non-SACU revenues are expected to improve from an average of 52.8% (2014-2016) to 61%, in response to government efforts to diversify its revenue base and improved tax administration.

Cognisant of the negative consequences of the SACU receipts volatility, the government is instituting a cocktail of measures to diversify the revenue base. The 2017/18 Budget proposed the following measures: upwards review of liquor license, motor vehicle and driver’s license fees, mobile telephone company license fees, levies on alcohol and tobacco consumption, lotteries and gaming, as well as road toll fees. These revenue measures are projected to yield an additional E452.94 million.

**EXPENDITURES**

Total Government expenditures have continued to trend upwards, rising from E15.3 billion in 2014/15 to an estimated E21.2 billion in the 2016/17 financial year. The 2017/18 Budget projects government expenditures to further increase to E21.8 billion, in 2017/18 (Figure 6). Growth in expenditures in the 2017/18 financial year is mainly attributed to growth in on-going construction and personnel costs following the salary review, which came into effect in 2016. Future expenditure projections from the Budget Estimates Book, shown in Figure 6, are mainly a reflection of inflation adjustments to the current expenditure levels.

**Composition of Expenditures**

A significant share of the 2017/18 budget amounting to E16.2 billion, will be spent on recurrent expenditures,

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accounting for 74.3% of total. Capital spending will consume €5.58 billion, accounting for 25.7% of total budget allocation. Of the recurrent allocation, 31.65% (or 40.6% of total revenues) was allocated towards employment cost (Figure 7a). Figure 7b provides trends in the composition of expenditures from 2013/14 to estimates for 2017/18.

Sources of Budget Financing

The recurrent budget will largely be funded by domestic revenues. However, only 51.8% of the capital budget is expected to be funded by domestic revenues. Therefore, 86.7% (€18.9 billion) of the total budget is expected to be funded from domestic revenues, with loans and grants contributing the remainder. However, this does not include off-budget support for recurrent expenditures- which is channelled directly to projects.

Of the €5.58 billion capital budget, 40.4% will be financed through loans, while 7.6% (€425,572) will be financed through grants (Figure 9). Therefore, as a share of the total budget, loans and grants are projected to account for 10.5% and 2% respectively.

Allocations to Ministries

As is normally the trend in many countries, the 2017/18 Budget allocated the largest share of the budget towards Education. The Ministry of Education and Training (MoET) was allocated €3.45 billion (16.9% of total expenditure) (Figure 9). Other social sectors, benefiting children such as Health and the Deputy Prime Minister’s Office accounted for 9% and 2.8%, respectively.

The key social ministries and departments (Health, Education, Water Sanitation and Hygiene (WASH) and Social Protection) were allocated a combined total of €6.61 billion, representing 30.4% of the total budget. In comparison, the average share of social sectors in the SADC region is above 45%.
FIGURE 8: Sources of Funds for the Capital Budget for 2017/18
Source: Estimates of Expenditure Book for 2017/18

FIGURE 9: Ranking of the Top 10 Ministry Allocations

FIGURE 10: Top 10 Capital Allocations to Ministries
Source: Estimates of Expenditure Book for 2017/18
However, given that a significant share of the budget is spent on employment costs, particularly in education, it is important to consider prioritisation towards non-wage spending. Therefore, in terms of capital allocations, the MoET ranks 7th with an allocation of E139.27 million (2.5% of total) (Figure 10). The Ministry of Health ranks 4th with E274.75 million, representing 4.9% of the total capital budget. There is however, concern that more should be allocated towards capital investments in education, targeting school infrastructure for secondary education, given that the number of secondary schools are only a third of the number of primary schools, hence creating a bottle-neck to the education sector. Equally, capital investments could target construction of teachers’ houses in rural areas to incentivise qualified teachers.

Consistent with the Budget’s theme of promoting infrastructure development, ministries such as Public Works and Transport, Economic Planning and Development (micro projects), Agriculture, Information Communication Technology (ICTs) rank among the top 5, when it comes to capital allocations (Figure 10). Infrastructure development is seen as a top priority for the government, as it is a major catalyst for the promotion of economic activity.

**Social Sector Priorities for the 2017/18 Budget**

The key social sector priorities for the 2017/18 Budget are summarised in the following Table:

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<th>Sector</th>
<th>2017/18 Priorities</th>
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| **Education**| • Continued support to the Free Primary Education programme  
• Provision of free teaching and learning materials  
• Provision of qualified teachers  
• Improvements in education infrastructure  
• Provision of nutritious meals for learners  
• Cater for the education and welfare of marginalised, orphaned and vulnerable children. |
| **Health**    | • HIV/AIDs treatment and prevention  
• Early detection and treat those infected with all forms of Tuberculosis  
• Fight against malaria and other non-communicable diseases such as cancer  
• Improving maternal and newborn health  
• Construction of new clinics in Ezindwendweni, Maphalaleni and Lundzi  
• Integration of personnel from sub-vented organisations into Government establishment. |
| **Social Protection** | • Increase the allowances for the Elderly Grant from E240 to E400 per month;  
• Increase the grant for the disabled from E80 to E180 per month  
• Provide free education to those orphaned and vulnerable children who are graduating to Form 1 from the Free Primary Education. |
| **WASH**      | • Development of a National Water Policy  
• Development of at least 9 macro water supply schemes for potable water and backyard gardens in all the four regions  
• Complete the Mbabane Emergency Water Supply Augmentation Works from Luphohlo Dam  
• Complete, with AfDB (African Development Bank) support, the Nondvo Dam Project that will supply the Manzini-Mbabane corridor. |

**TABLE 1: social sector Priorities in the 2017/18 Budget**
CONCLUSION AND RECOMMENDATIONS

- **Fiscal Space remains constrained by low SACU receipts.** Regional shocks remain a major risk to Swaziland revenues and therefore its ability to support social and economic growth projects that benefit the Swazis, including children. Therefore, the medium-to-long term requires greater diversification of the revenue base, coupled with improved tax efficiency and administration.

- **There is a need to protect and promote spending in critical social services in line with improvements in overall revenue collection.** Child related sectors would greatly benefit from the adoption of hard fiscal rules that set a floor on spending in health, education, social protection and child protection. Meeting international commitments, such as the 15% of total spending for Health and 20% of total spending for Education, can be good starting points.

- **Enhancing the quality and efficiency of social spending is important.** Given the combination of declining revenues and low budget execution, particularly capital expenditures, ministries will have to achieve more with less. Hence the need for better targeting and focusing on high impact interventions for better outcomes for children and the wider economy.

- **Reducing or eliminating discretionary spending is key to maintaining fiscal balance.** Systems must therefore be put in place to closely and better monitor expenditures across government ministries and agencies, and block leakages through non-essential expenditures.

- **Aggressive advocacy is needed to ensure that additional fiscal space is created and invested in children.** UNICEF and other development partners should continue to advocate for the protection and promotion of social spending benefiting the Swazi children.

- **Disaggregation of Budget Data at the decentralised level is critical to facilitate analysis for equity.** This is important to inform resource mobilisation and allocations aimed at addressing equity gaps that may exist among children from across geographical or income groups.

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