

THE POLITICAL ECONOMY AND HISTORICAL TRAJECTORY OF THE SWAZILAND FISCAL CRISIS, 2010-2011

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Abstract

Swaziland is facing a serious fiscal crisis that is threatening to reduce the country into a failed state. The country has a huge budget deficit that has left government operations paralyzed and the threat of government failure to pay monthly salaries for civil servants is ever looming larger. In an attempt to address the situation, the Swaziland government partnered with the IMF to produce fiscal adjustment strategies to stabilize the country's economy through short-term policies. The partnership is crucial to enable the country to get a letter of comfort that would make it possible to receive loans from international financial institutions. The article focuses on an analysis of the explanations for the origins of the crisis. It acknowledges the factual aspects of dominant explanations, but argues that these explanations fail to provide a comprehensive explanation for proper planning of future development of the Swazi economy. The article argues that a more meaningful and long-term effective explanation of the crisis should interrogate the country's governance structure, especially the extent to which it has contributed to the poor performance of the country's economy, how it has contributed to fiscal indiscipline, and how it has nurtured wasteful spending and contributed to increasing levels of corruption.

Keywords: Swaziland; economy; crisis; fiscal; governance; monarchy; public expenditure; budget; corruption.

Slutelwoorde: Swaziland; ekonomie; krisis; fisikaal; regering; monargie; openbare uitgawes; begroting; korrupsie.

1. INTRODUCTION

One of the main responsibilities of governments in modern states is the development of fiscal policies and practices. This concerns revenue “derived from taxes such as income tax, sales tax, value added tax and other sources, while the expenditures compromise current expenditures such as salaries of government employees and social security payments, and capital expenditure such as investment in roads and other things” (Chang and Gabel 2004:188). It is in the economic interest of all modern states to maintain fiscal discipline, because excessive government expenditure can result in economic dislocations, such as budget deficits, which on its own may undermine investor confidence and induce inflation. Most importantly, budget deficits paralyze national economies as they cause failure to discharge its

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responsibility of providing public goods and may price private borrowers out of the market. African governments have faced serious fiscal challenges resulting in serious budget deficits. One of the main challenges for academics is to explain the causes of this problem that has allowed institutions such as the International Monetary Fund (IMF) to impose structural and fiscal adjustment measures. It is not possible to provide blanket explanations, hence the peculiarities of individual states should be taken into consideration.

Swaziland is a recent example of an African state that is engulfed in serious fiscal difficulties. Government operations have been paralyzed under the pressure of an escalating budget deficit. The aim of this article is to provide a critical analysis of the fiscal crisis in Swaziland with particular emphasis on the causes of the crisis so as to provide a comprehensive and more nuanced explanation of the issues making for the crisis.² The article recognizes the conventional explanations of the cause of the crisis that has been publicized by the Swaziland government and the IMF. It is argued that the country's financial crisis was caused by the general international financial crisis that came in 2008. According to this explanation, the crisis in Swaziland was not different from that of Greece and other countries of the world (Brown 2010). It is also important that the cause of the country's financial crisis was loss of revenue from the Southern African Customs Union (SACU). These explanations have value, but they fail to capture weaknesses in the management of the Swazi economy and finances. The article argues that these explanations are not comprehensive and do not provide a complete picture of the dynamics that have afflicted the Swazi economy for quite some time. It shows that the major limitation of these conventional explanations is that they concentrate on precipitating factors rather than cumulative developments. It also argues that, while the crisis can be explained through the loss of SACU revenue and the world financial crisis, there is need to go beyond this conventional wisdom and integrate the governance dynamic characterized by royal absolutism. It is through understanding the pervasiveness of royal absolutism in Swaziland that the crisis can be explained in a comprehensive manner. Without subscribing to neoliberal assertions, the author argues that government expenditure in Swaziland is wasteful and inefficient because spending decisions are distorted by a governance structure that nourishes corruption and unchecked royal spending.

2 The author relies heavily on the testimonies of individual Swazi citizens, and what has been published in newspapers. This is because the article is written at a time when there is nothing that has as yet been written on the subject in Swaziland.

2. DIMENSIONS AND MAGNITUDE OF THE FISCAL CRISIS IN SWAZILAND

From the beginning of 2010 Swaziland has experienced a crippling fiscal crisis largely as a result of fiscal indiscipline, but it would be ahistorical to give the impression that this was an aberration in the economic history of the country. In 1982 the country experienced budgetary problems both in terms of revenue losses and expenditure support payment to some parastals (Swaziland government 1983). In the late 1980s the country's "gross domestic expenditure constantly exceeded GDP" (Mcloughlin and Mehra 1988:663). In the same period the country's recurrent expenditure was growing at a rate of 16,5% (*Ibid.*:664). Therefore, the fiscal breakdown of 2010 was part of an established pattern in the economic history of the country.

At the beginning of 2011, Swaziland was on the brink of collapse as the country's economy was facing a serious fiscal crisis (*Mail & Guardian* 28 January to 3 February 2011) and was facing "severe liquidity problems" (*Sunday Times* 27 February 2011:14). The IMF stated that, "The treasury balances have been depleted, the gross internal reserves have fallen dramatically and the government is starting to accumulate large domestic arrears on all expenditure items. Continuing on the same trend will lead to higher domestic arrears, including on civil service wages, a spreading of the crisis to the financial sector" (*Mail & Guardian* 28 January to 3 February 2011:25).

The accumulated deficit was expected to reach 13% of gross domestic product in the fiscal year 2010/2011 (IMF Report 2011), indicating an escalating crisis considering the fact that the deficit for the 2009/2010 fiscal year was at 7,1%. This critical situation has not been helped by the decision to finance the deficit by drawing down government deposits at the central bank, engaging in significant domestic borrowing and accumulation of significant domestic payment arrears. The situation is made worse by the fact that the external current account deficit was estimated at 18% of GDP in 2010, and that has reduced gross international reserves of the central bank of Swaziland to a meager R4,5 billion. In the same year, real GDP growth was estimated at 2% while inflation increased to 4,5%.

The general impact of this on the ability of the government to perform its functions for the public good were staggering. Government operations almost came to a standstill at the beginning of 2011 when supplies for government vehicles could not be paid for. By the middle of February 2011 government vehicles were grounded and this had a crippling effect on service delivery for many ministries (*Mail & Guardian* 18 to 24 February 2011). The Swaziland government was failing to pay suppliers of spare parts, exhaust pumps, engines, wheels, brakes and other essential parts, and the debt had gone up to R79 million

(*Times of Swaziland* 12 December 2010). Some of the suppliers were blaming this on poor government priorities, as one of them stated, “[...] the government should invest where there was [sic] a potential for economic growth [instead of] spending a lot of money on external trips and personal costs” (quoted in *Times of Swaziland* 12 December 2010:4). The Principal Secretary in the Ministry of Works played down the situation by claiming that, “[...] the Ministry had spoken to most of the suppliers and confided every financial detail of the ministry so that they would believe that it was not deliberate to delay the payments. Most of the suppliers sympathized with government and assured them [government] of their patience” (quoted in *Times of Swaziland* 12 December 2010:5). The inability of the government to provide transport for public services had a very serious impact on the training of teachers in different Teacher Training Colleges. In February and March 2011 some of the colleges were not able to complete the supervision of students on teaching practices, a requirement for the student’s teaching qualification. One lecturer from a Teacher Training College stated,

“This year the government completely failed to provide us with cars claiming that government has no money to get its cars running or to hire cars for this important academic activity. This leaves us in a very compromising position because by the end of the teaching practice period some students had not been supervised and by implication they cannot be able to graduate at the end of the academic year. The financial crisis afflicting the government has serious implications, some of which will come to haunt the country in the future” (Interview 28 March 2011).

Another college lecturer indicated some unconventional practices committed by lecturers to make sure that they have a grade to submit,

“No cars are provided and no lecturer is willing to use his/her car for teaching practice because the government announced that it will not be paying claims for personal cars. Some of us resolved to have contacts in the school who could supervise on our behalf so that at the end we have a grade we can submit. Some of the teachers we get to do this for us are sometimes not specialists on the subjects. This situation has deteriorated to such a low level that all that matters is a grade and issues of quality and professionalism are thrown out the window” (Interview 28 March 2011).

The preliminary indication is that the quality of teacher training education has been compromised.

The extent of the crisis was also indicated by the failure to pay allowances for civil servants, and uncertainty over the payment of salaries. In 2010 delays in the payment of salaries for civil servants were experienced. In November 2010 the government failed to pay allowances for medical doctors. This was particularly the case with overtime allowances and medical doctors were threatening not to respond to emergencies (*Swazi Observer* 9 December 2010). One doctor pointed out,

“The government owes us large sums of money in unpaid allowances. For the month of November I am one of the doctors whose allowance was not paid. This is a difficult situation because if the government fails to pay us, we have no option but not to respond to emergencies and that plunges the health sector into a crisis. The country has cash-flow

challenges, but government continues spending serving political ends of the royal family” (Interview 16 January 2011).

The Director of Health Services responded, “*Sabacela kutsi abacondze kutsi live libhekene nensindzabetjatsi* [we requested them to understand that the country is facing a huge problem], we asked them [doctors] to ensure services are not interrupted, the claims are now with the ministry of public service” (*Swazi Observer* 9 December 2010:6).

The damage was deeper and went beyond the health sector because in the first half of 2011 the government failed to pay salaries for Swazi workers stationed in embassies internationally for three months (*Times of Swaziland* 5 April 2011). Workers stationed in permanent missions to the United Nations in New York, and the Swazi Embassy in Washington D.C. were amongst those hard hit. An employee in one of the embassies said,

“The minister sent a memorandum to all the embassies last year officially informing us of the financial challenges government is facing. He told us money would be very tight in the foreseeable future. He, therefore, instructed us to save whatever we could because if we run out of the finances we have at our disposal, there won’t be any extra coming from home” (*Times of Swaziland* 5 April 2011:4).

The only consolation was that foreign nationals working for the Swazi embassies received their salaries. While the response of civil servants to delayed salaries or cut allowances was not well defined, there were indications of brewing social instability. There were indications that, “civil servants [are] bitter over unpaid allowances” (*Times of Swaziland* 6 February 2011:6).

The Swazi government was failing to provide even the most basic of things at the work place. Workers in the Ministry of Finance were told that, “you are kindly informed that there will be no supply of toilet paper in the lavatories. You are therefore asked to supply yourselves with this basic commodity, until further notice” (*Weekend Observer* 12-13 February 2011:2). The Ministry of Justice has also complained that it is not able to commit convicts to prison because there was no stationery to complete the paper work.

Another revelation of the depth of the fiscal crisis came in the form of government accumulation of domestic arrears beyond the limit initially set by the Central Bank. The IMF estimated that by the end of 2011 the government arrears would have risen to about R1,2 billion or 4,4% of gross domestic product. By the end of December 2010 government’s arrears had grown to about R900 million, that was about 3,2% of the gross domestic product (*Swazi Observer* 28 February 2010). The IMF Mission also noted that, “What has happened last year and this year is that expenditure commitments have gone ahead of the available cash the ministry of finance had and this is the reason why government now finds itself with a large amount of arrears” (*Times of Swaziland* 28 February 2011:3). It is clear that the Swaziland government was managing the country dangerously because

accumulation of domestic arrears is an undesirable way of financing a government deficit as it may have a negative effect on small and medium enterprises that are dependent on government contracts. The general slow-down of business activity would create lack of confidence in government and be an obstacle to the general and regular financial operations. The Minister of Finance argued that the government was doing everything possible to avoid further accumulation of arrears (*Times of Swaziland* 28 February 2011).

The above exposition clearly shows that by 2010 the financial position of Swaziland was very precarious. The government was desperately knocking on the door of neighbouring South Africa. However, what was more interesting was the tinkering manner in which the government attempted to deal with the situation. Most importantly was the half-hearted approach adopted to address the financial crisis.

3. CAUSES OF THE FISCAL CRISIS IN SWAZILAND

There is no doubt that the impact of the global economic crisis has had an impact on the economies of Southern Africa. This has been particularly the case with the members of Southern African Customs Union (SACU) involving Botswana, Lesotho, Namibia, Swaziland and South Africa. These countries had to adjust to lower revenue from the Customs Union. This has seriously affected the fiscal structures of these countries. It has generated a problem of fiscal instability that has translated to budgetary deficits that compromised the capacity of the countries to invest in public goods. However, the impact of this short-fall in revenue has been uneven among the member states as it is more pronounced in the smaller economies (*Swazi Observer* 7 January 2011). For instance, it is estimated that South Africa will experience a short-fall of 0,3% of its gross domestic product, Lesotho 23%, and Swaziland 15,9%.

Consequently, the IMF and the Swaziland government have argued that the country was entangled in a fiscal crisis and possible economic collapse because of the loss of revenue from the SACU. The country experienced a sharp drop in revenue from the SACU, on which it relied for most of its income (*Mail & Guardian* 28 January to 3 February 2011). Some commentators have pointed out that “a change to customs revenue-sharing agreements has left the Swazi Kingdom terminally short of money, exposing King Mswati III to the bite of civil society action (*Mail & Guardian* 18 to 24 February 2011:24). It is argued that Swaziland was in such fiscal crisis because the “country has experienced a 62% drop in SACU revenue last year” (*Sunday Times* 27 February 2011:14).

There is no doubt that the above explanation for the fiscal crisis in Swaziland is factually correct. The issues raised, especially the reduction of revenue from the SACU, definitely contributed to a huge budget deficit that reduced the

government's capacity to invest in public goods. However, this should be viewed as a precipitating factor, but it is somehow ahistorical to reduce the income generation capacity of the country's economy to one variable. Such an explanation fails to enable us to understand the crisis in the context of failing structures and poor governance over a period of time. For instance, it fails to unveil the fact that the Swazi economy has been in a crisis for a long period of time before 2010 and 2011. It also fails to highlight how the uncontrolled expenditure of the monarchy has negatively impacted on the capacity of the country's expenditure to invest in public goods.

Some scholars have pointed out that a better understanding of economic change over time in post-colonial Swaziland can be better understood with the incorporation of the country's governance structure into the discourse. For instance, Alan Booth has argued that the capitalization of the Swazi monarchy began after the Second World War, but it intensified after independence (Booth 1983). Along similar lines, the author has also shown that immediately after the Second World War the Swazi monarchy aligned itself with capital interests to capitalize itself (Simelane 2003). What was crucial about this process is that it gave the Swazi monarchy the opportunity to accumulate by diverting the income from the country's natural resources to itself, rather than to the nation as a whole. According to these views, the dominance of the monarchy in the economic affairs of the Swazi state has been non-developmental and has also deprived the public domain of income that could offset deficits caused by movements in the international economic system and by declining levels of domestic production.

Evidence indicates that for more than a decade before the crisis of 2010/2011, the Swazi economy has been failing to generate sufficient revenue for expenditure in public goods. For more than a decade, economic growth in the kingdom had been around 2% annually. In 2006 the Minister of Finance said, "Mr. Speaker, the budget I present here today has been prepared under very hard economic conditions with barley a 2% GDP growth rate" (Mabuza 2011:28). The country's mining sector had completely collapsed, as is indicated by the closure of both iron ore and coal mining. Also, forestry companies such as Sappi Usuthu and Peak Timbers closed down. These are companies that have previously played a crucial role in generating revenue for the country and which were not encumbered by monarchical extraction. The closure of these companies provoked King Mswati III to say, "The nation is equally concerned about the closure of some companies in the country. Government will continue to monitor the situation as it unfolds with a view to finding lasting solutions" (Quoted in Makhubu 2011:17). The closure of the companies reduced economic activity in the country and subsequently the income to government (*Swazi Observer*, 30 June 2010).

Another indicator of a long-run breakdown of the Swazi economy is the high level of poverty. The United Nations Complementary Country Analysis shows that about 759 000 people (about 69%) in a population of about 1,1 million are living below the poverty line of R7,50 per day (*Times of Swaziland* 13 June 2010). This is attributed to the fact that, “income distribution remains skewed with 56% of the wealth held by the richest 20% of the population, while the poorest 20% of the population owns less than 4,3%. Swaziland has recorded a coefficient of 0,51 reflecting a high level of inequality by international standards” (*Ibid.*:7). The 2007 Population and Housing Census Report shows that the country’s unemployment rate is 40,6% (*Times of Swaziland* 12 November 2010).

The breakdown of the Swazi economy over time made it possible for the country to degenerate to a fiscal crisis. However, a purely economic approach cannot be useful in comprehending the issues that have plunged the country into a fiscal crisis. These explanations can be more useful if they integrate the dimension of governance. For present purposes, such governance constitutes the way the rules and actions are produced, sustained and regulated. In the case of Swaziland this sums up to royal absolutism, because all other structures are informed and dominated by it. The governance system of the country, especially its pinnacle, monarchical absolutism, has contributed significantly to the crisis that engulfed the country in 2010 and 2011 and is still continuing today. This can be analyzed in terms of a long-run approach or an immediate one. Several scholars have analyzed the Swazi governance system, especially its structure and how it survived colonialism in a period when African monarchies were being destroyed by western imperialism (Booth 1983; Macmillan 1986; Potholm 1972; Kuper 1978). Such an analysis need not be repeated here, except to point out that the essence of monarchical absolutism in Swaziland is that the monarchy is empowered by tradition and custom to influence all structures of the country. The economy of the country has not been immune and there are no constitutional checks and balances to monitor the excesses of the monarchy, because in the governance of the country the monarch is above everything. It is on the basis of this premise that the monarch and the country’s governance have contributed to the imbalance of payments that degenerated into a crisis in 2011.

In practical terms, the Swazi governance system has allowed the monarchy to appropriate revenue that could otherwise be used to balance the country’s fiscus for the benefit of all. This came in the form of allowing the monarchy to create institutions that appropriate public revenue to enrich the royal family. It was in the first year of independence that royal absolutism allowed the Swazi monarch to monopolize revenue generated through the exploitation of the natural resources of the country. In 1968, King Sobhuza II announced the establishment of *Tibiyo takaNgwane* (wealth of the Swazi nation) as a body to receive and monitor

all mineral royalties in the country (Booth 1983; Daniel 1986; Levin 1997). The language of the charter that established the organization indicates that the revenue from mineral royalties was to benefit the Swazi nation as a whole. There were, however, certain issues of concern from the very beginning. Firstly, all the members of the governing body were appointed by the king and, secondly, the financial books of the organization were open to public scrutiny as they were not under the control of the Minister of Finance. Consequently, all income from Tibiyo did not get to the national treasury but became a separate account for the benefit of the royal family. Tibiyo became a vehicle that “enriched members of the royal family and some members of the traditional elite” (Macmillan 1986:105). Another scholar has pointed out that Tibiyo has emerged “as an exclusive vehicle of capital accumulation for the royal family” (Daniel 1986).

Tibiyo has been able to conclude business deals with companies such as Lornho,³ Turner and Newal (Fransman 1978). In addition, it has become a shareholder in companies such as Royal Swaziland Sugar Corporation (RSSC), Maloma Colliery Limited, Lubombo Sugar, Alexander Forbes and many others. Tibiyo owns about 25 companies, and all are controlled by the king (*Times of Swaziland* 13 March 2011). The governance system of the country allows all these companies not to pay tax. This is a huge problem for the Swazi national budget and the matter has recently raised the concern of the IFM, whose leader of the delegation to Swaziland, Joannes Mongardini, questioned Tibiyo’s tax exemption status and called for it to be reviewed (*Times of Swaziland* 28 February 2011). He stated, “The status of Tibiyo should be clarified on whether it should be taxable or not. If taxed, Tibiyo could be one of the biggest tax contributors in the country. It is not clear to me why it is not taxed” (*Ibid.*:2). Justifying Tibiyo’s, its Managing Director, Mr. Themba Dlamini said, “We are paying bursaries for many Swazis. We make donations in various forms and also contribute significantly to the nation’s cultural and tradition activities” (*Ibid.*:7). A counter argument could be that the parents of the students who receive bursaries from Tibiyo actually pay for these bursaries, because Tibiyo is not taxed.

The fact that Tibiyo generates large revenue that is appropriated by the royal family has been a concern for some Swazi citizens. They decry the fact that revenue from Tibiyo is not under the Minister of Finance and therefore does not contribute to the provision of public goods or balancing national payments. When the issue of Tibiyo financiers are shrouded in secrecy and not open to public scrutiny, the

3 Lornho, especially its leadership, had a very controversial history in post-colonial Africa. At one time, British labour MP, Willie Hamilton, argued, “They are a bunch of crooks running Lornho and should be in Brixton Prison, every one of them” (quoted in Carroll Quigley, *Tragedy and hope: a history of the world in our time* (New York: Macmillan, 1966), p. 137. The negative publicity was particularly strong against the Lornho boss, Roland Walter, “Tiny” Rowland. For more information, see Thomas Pakenham, *The Boer War* (London: Weidenfeld and Nicolson, 1979).

Minister of Finance said, “These entities were formed in terms of a royal charter which does not provide for their income to be part of government income” (quoted in Hourdent 2011). Tibiyo’s exploitation of the country’s resources to generate revenue to bankroll the lavish lifestyle of members of the royal family is receiving increased criticism from the public. Commenting on this matter, Nkululeko Dlamini said,

“I am puzzled when people say that Swaziland is a poor country. Right now we are being told that the country is not generating enough revenue. There is no truth in this because most of the revenue generated through the utilization of the resources of the country is expropriated by the king, his family and those who surround him. Where does the revenue from Tibiyo go and where does revenue from Tisuka go? I am sure that if the money from all Tibiyo companies were credited to the national treasury we would not be so dependent on the SACU revenue. What we need in this country is to change the governance structure” (Interview Manzini 17 March 2011).

Another very critical comment came from Zanele Nhlabatsi.

“I do not understand why all the newspapers and the Minister of Finance are blaming the reduction of revenue from SACU for our present fiscal crisis. Generally, I think this is because Swazis are hypocrites and they always run away from the truth. Our main problem is the monarchy that has been allowed to consume the major portion of the country’s revenue leaving the citizens poor. When Tibiyo was formed we thought it was meant for the Swazi nation, but it has become clear over the years that it is for the royal family. The position of Tibiyo in the Swazi economy should be reviewed such that it contributes to the total revenue of the country. We will be affected by reduction of revenue from SACU, but the economy of the country will not collapse” (Interview Manzini 16 March 2011).

Nkosinathi Ndlovu came up with an interesting comment, opposed to the above views,

“The educated Swazis are a problem and I think they want to make themselves kings of this country. I am concerned by the fact that they consistently question everything done by the king. Now they are saying it is wrong for the king to control and benefit from Tibiyo. What is the problem there? Mswati III is king of this country and he has the power to do anything. The royal family should continue to consume revenue from Tibiyo. At times you hear women saying the Swazi are poor because of the king, what nonsense is that? The monarchy in this country should remain as it is and we should not allow this democratic nonsense to tell us that our king should be a puppet” (Interview Matsapha 22 March 2011).

In 2009 Tibiyo’s assets were estimated at R1,13 billion, by 2011 it had risen to about R2 billion. In the same year the Forbes list of the World’s Richest Royals, King Mswati’s wealth was estimated at \$100 million (*Mail & Guardian* 18-24 February 2011). This did not include the \$10 billion that was put in trust in King Mswati’s name by King Sobhuza II (*Ibid.*). This prompted one commentator to say, “It is ironic that the government of Swaziland has no money but the head of state is one of the richest monarchs in the world” (quoted in Hourdent 2011:1). This is wealth that should have been accrued to the Swazi nation and, therefore, it is no rocket science to figure out that, if all the revenue generated by Tibiyo went into the national treasury in 2011, the country would not have been in a fiscal crisis.

It was not only through allowing the monarchy to create an extractive institution that the country’s governance system contributed to the fiscal crisis, but it also allowed the monarchy to engage in wasteful expenditure using public funds.

King Mswati III has persistently drained the revenue of the country through his luxurious lifestyle, which has been financed through public funds. For instance, his wives live in sprawling mansions all built at the expense of the taxpayer (*Mail & Guardian* 28 January to 3 February 2011). A director of a local bank related the pressure his institution was subjected to in 2006 to fork out money to build the mansions after the Minister of Finance had declared that his ministry did not have the cash to continue financing the construction of the royal mansions,

“In 2006 I found myself under immense pressure to release money to build two of the mansions. First, I was approached by the Minister of Finance who told me that his ministry is required by the king to mobilize funds to continue the work of building the mansions. Apparently the contractors were threatening to stop work because they had not been paid. The Minister mentioned that the King’s Office informed him that it had no money to continue with the work, so the Minister of Finance should find the necessary funds. The Minister therefore required the bank to release funds for this purpose. Surprisingly I was not even supposed to inform the Board about this” (Interview Manzini 23 March 2013).

The building of the mansions exerted a serious strain on the national revenues as it forced the government to spend more than what was provided in the budget. An employee in the King’s Office remarked,

“The expenditure on the royal mansions was very huge and beyond the capacity of the revenue generated by the government. At one point the money dried up and it was impossible to continue with the construction. The Chief Executive Officer in the King’s Office together with the Minister of Finance were ordered by the King to find the money without fail. That is why the Managing Director of the Swaziland Savings and Development Bank was instructed to get the money from the bank to finance part of the construction. I am not sure which other financial institutions were given the same instruction” (Interview 28 April 2013).

The above statement is just one of many instances when the monarchy disregarded budgetary provisions in order to finance the luxury of the royal household. Such fiscal indiscipline has played a very important role in plunging the country into a financial crisis, but very little has been said or written about it. Under the present governance system the king can access public funds at any time and he is not required to account for such funds. The principles of accountability and transparency are totally disregarded when it comes to monarchical spending. When austerity measures are implemented, it is austerity for the citizenry and luxury for the royal family.

The governance system allows the king to use the country’s revenue to glorify and reproduce the institution of monarchy. In 2008 the Swaziland government spent more than R50,2 million on a double celebration to mark the king’s 40th birthday and the country’s forty years of independence (*Weekend Observer* 18-19 December 2010). The celebrations gave an opportunity to corrupt civil servants and members of the royal family to help themselves to the finances of the state. The “experience of such important national events had shown that elements driven by corrupt intentions help themselves hoping to hide under the cover of His Majesty the King. The Auditor

General's report revealed that even the 40/40 Double Celebrations were not spared as elements helped themselves in [*sic.*] the national coffers" (*Ibid.*). Most recently, King Mswati III has spent about R400 million of state funds to build an international airport whose business viability is questionable.

The system of governance has made it possible for the government to spend money to protect royal absolutism and to guarantee regime security without full consideration of national budgetary constraints. In 2011, the Swaziland government spent close to half a billion rands (*Times of Swaziland* 23 March 2011) to purchase military artillery. The Minister of Foreign Affairs and International Cooperation, Lutfo Dlamini, justified this expenditure as essential for the army's peace-keeping activities on behalf of the United Nations. Civil society groups have condemned the expenditure of R429 million to purchase army artillery. The Swaziland Coalition of Concerned Civic Organizations stated,

"We condemn, in the strongest possible manner, this gross misallocation of state funds against the backdrop of severe and catastrophic economic crisis engulfing the country when most ordinary Swazis live in the face of grinding and abject poverty. It occurs at a time of serious threats to the salaries of teachers, nurses, and other public servants. It is done when the ordinary people suffer the daily collapse of government services such as provision of drugs, clean water, quality education, elderly grants and students scholarship" (*Times of Swaziland* 17 March 2011).

Some members of society have argued that the expenditure on the military is meant to strengthen the monarchy to suppress protest from civil society. Nimrod Hlongwane expressed such a feeling.

"The army in Swaziland is meant to protect the monarchy against the citizens who engage in protests from time to time. The soldiers are armed to suppress protests within the country. The monarchy is under great pressure to democratize but is refusing. It is arming itself to fight the forces of change. The regime is (more) concerned with self-reproducing than making the country economically viable" (Interview 4 June 2011).

Zakhele Ngcobo explained the move of the Swaziland government to spend huge sums of money on military artillery as a reaction to political developments in North Africa.

"The leadership of the country is always alert to protecting itself from social movements advocating change. The developments in North Africa have indicated the resolve of home grown social forces of transformation to bring about political change. The Swazi leadership is aware of the fact that Swaziland is not immune to these developments as it also has a huge democratic deficit. The reaction been to strengthen all institutions of coercion. This is a decision aimed at regime security and also against human security" (Interview 8 June 2011).

A more defining comment came from Mzwandile Shongwe,

"I am not sure why most Swazis are surprised at the decision of the government to spend a large sum of money on military artillery when the country is facing a major financial liquidity problem. Such unnecessary expenditure has been happening for years in the face of large levels of poverty. This decision also explains why the country is in a serious fiscal crisis. It shows that there is no logic in heaping the blame on reduced revenue from SACU. The monarchy has the power to direct the finances of the country to any direction and the government is the enforcer. The source of the crisis is inappropriate spending and that is intertwined with the governance system of the country" (Interview Manzini 9 June 2011).

The decision to spend money on military artillery has been questioned by institutions such as the IMF and the ADB. This has been the case with other financial institutions that have received loan applications from the Swaziland government.

Swaziland's degeneration into a fiscal crisis cannot be divorced from rampant corruption that is nourished by the country's governance system. The study of the extent of corruption in Swaziland is at an infant stage but recent research has shown that the monarchy is the largest cite of the corruption that is destroying the Swazi economy (Simelane 2011). In June 2010 it was estimated that six government ministries had misappropriated about R147 million of state funds (*Times of Swaziland* 22 June 2010). One commentator noted, "It is true that the *Tinkhundla* government has lost over R147 m in six ministries through corruption, one can expect more because there are over 18 ministries. If mathematics is anything to go by, then the loss through corruption is over R441million" (*Times of Swaziland* 29 June 2010:19). In February 2011, the Minister of Finance lamented: "Corruption is happening in this country. We are losing a lot of money, the over R40 million we were losing per month has now doubled to over R80 million. Those who steal the money don't even prosper so this is not helping anybody. The corruption is from the lowest level up to Cabinet. It's a fact. It's killing this economy" (*Times of Swaziland* 24 February 2011:5). Swaziland is failing to combat corruption, because "(t)his system [of governance] was founded on corrupt principles accompanied by deceitful ideology and it thrives on nepotism and ignorance of the electorate and the general populace. People who are a product of corruption cannot dare stop corruption, but will always cushion its survival by using delaying tactics and numerous excuses" (*Times of Swaziland* 29 June 2010:19). Research has shown that the formation of the National Anti-Corruption Unit in 2006 has failed to be effective in combating corruption because of the country's governance system. The author (Simelane 2011) has demonstrated the relationship between corruption and the system of governance in Swaziland. The loss of revenue through corruption is nourished by the country's system of governance.

The huge wage bill that is so topical in discussions between the Swaziland government and the IMF is also related to governance. The building of patron-client relations, or what Richard Sandbrook has called neo-patrimonialism (Sandbrook 1985), nourishes corruption (Adetula 2011). Although patrimonialism is complicated and multilayered (Crouch 1986), in Swaziland it is partly manifested in the provision of jobs to family members, friends, and political supporters. A former Permanent Secretary explained how the monarchy has inflated the size of the civil service over time.

"The leadership of the country has been forcing ministries to employ people even if they were not needed. When I was Permanent Secretary I received lists of people from the royal family to employ even if there were no vacant posts. Some of these lists were coming from the king's wives who wanted their relatives and friends to be employed. This was also

happening in other ministries. The main problem is that all senior officers in the public sector have to follow instructions from the royal family even if the instructions are not in line with the requirements of the ministry. Year after year the government was expanding its civil service with people to simply loiter in the ministries, adding no value” (Interview Mbabane 4 April 2011).

The Swazi monarch compounded the expansion of the civil service by creating Royal Committees that were outside the operations of government, but remunerated from government revenues. These committees included the Land Management Board, Border Restoration Committee, Mineral Board and many others (*Weekend Observer* 9-10 April 2011). These committees are a drain to the revenues of the state and their value is only found in propping the power of the monarchy.

Much as Swaziland has experienced a reduction in SACU revenue, the real problem “stems from years of financial mismanagement and overspending by the monarchy” (*Mail & Guardian* 18 to 24 February 2011:25). In 2006 the IMF stated, “Swaziland is increasingly paralyzed by poor governance, corruption and the private spending of authoritarian King Mswati III and his large royal family. The growing social crisis in the country and the lessening interest of donors to support King Mswati’s regime has also created escalating needs for social services beyond the scale of national budgets” (quoted in Mabuza, *The Nation* March 2011:28). Studies have shown that there is a relationship between governance and better economic performances. Deacon (2002) has argued that the provision of public goods improves in a democracy compared to a dictatorship.

As outlined above, the Swazi system of governance that revolves around royal absolutism is central to the financial crisis in Swaziland in that, firstly, it has allowed the monarchy to monopolize some leading finance generating institutions.⁴ Such monopoly has denied the government a source of income that would significantly contribute to balancing the country’s budget and offset some deficits. Secondly, the system has also given the Swazi monarch the power to access government finances at any time. This is because the Swazi king is above all laws and policies of accountability and he is not subjected to any constitutional checks and balances. Thirdly, the governance structure of the country has allowed the monarch to engage in lavish spending without being questioned. Fourthly, royal absolutism has allowed the Swazi civil service to be expanded beyond the revenue generating capacity of the country. The sterling contribution of the monarchy to the financial crisis is not located in the construction of inappropriate policies, but

4 The leading ones are Tibiyo takaNngwane and Tisuka whose proceeds are not included in the national accounting system, but reserved for the royal family. The finances of these institutions are not debated in parliament and the monarchy is not required to account for them. For more information on these institutions, see Richard Levin, *When the sleeping grass awakens: land and power in Swaziland* (Johannesburg: Witwatersrand University Press, 1997); John Daniel, “The political economy of colonial and post-colonial Swaziland”, *South African Labour Bulletin* 7, 6 April 1982.

is embedded in a governance structure which does not have the mechanism of checking the excesses of those in power. The Swazi governance system allows the monarch to be above the law and, therefore, cannot be held accountable for his actions and decisions.

4. FISCAL ADJUSTMENT STRATEGIES TO ADDRESS THE FISCAL CRISIS: STRADDLING CONTRADICTIONS

The Swaziland government has attempted to put strategies in place to address the crisis, but it can be argued that these attempts have been half-hearted. While Swaziland desperately needed money to balance its payment, it was at the same time not fully committed to go all the way in instituting the reforms needed to address the crisis as suggested by the International Monetary Fund (IMF). The reason is simple and interwoven in the governance structure that has dominated the country since independence. Some of the suggested reforms and strategies were asking much deeper questions about the governance structure of the country. These are reforms that were pushing the leadership to adopt democratic principles of accountability and transparency, but they were not ready to go that route.

The first attempt at addressing the situation was the government's attempt to obtain a loan of R600 million from the African Development Bank (AFDB). Because of concerns on whether the Swaziland government will be able to repay the loan, the IMF required a letter of comfort from the IMF. This was the beginning of problems for the Swaziland government because the IMF proposals were asking serious questions about the country's governance. The IMF concluded that the country needed to undergo a Fiscal Adjustment Programme (FAP) to address the country's financial liquidity problem. Fiscal adjustments are "monetary and fiscal policies to induce macroeconomic stability and to correct internal and external disequilibria" (Lopez and Toman 2006:13). It has been used by the IMF in different countries of the world as an instrument for influencing short-term policies. There is no doubt that the objective of reducing unsustainable deficits to achieve macroeconomic stability is essential, but there are also dangers. A study conducted by the Economic Commission for Latin America (ECLA) concluded that fiscal adjustment policies have previously failed to protect social expenditure as fiscal austerity was imposed to stabilize the economy (ECLA 1989). In the same context, Stryker *et al.* (1989) concluded that in some African countries fiscal adjustments as implemented in the 1980s led to reduced funding for institutional reform and a reduction in public resources available for certain economic activities.

In an attempt to address the concerns of the IMF, the Swaziland government adopted what was referred to as the Fiscal Adjustment Roadmap (FAR) (*Times of Swaziland* 25 March 2011). This outlines the measures to be adopted to arrest

the crisis and its main objectives were to reduce the deficit to below 3% of GDP by 2014/15; to maintain the debt-to-GDP at less than 40% over the medium term; strengthen public institutions to support the FAR; and to continue making progress towards development objectives (*Weekend Observer* 9-10 April 2011). The FAR proposed several measures to be implemented over the medium term. These include strengthening Finance Ministry functions, such as public financial management, expenditure policy and revenue administration (*Swazi News* 9 April 2011). The framework also proposed reducing the civil service by 20% through an enhanced voluntary early retirement scheme.

One of the FAR strategies was an increase in taxes. Consequently, the fuel levy was increased by 50 cents per litre in three stages: firstly by 25 cents per litre for gasoline and diesel in November 2010, secondly by 10 cents per litre in February 2011 and finally by 15 cents per litre in March 2011 (*Weekend Observer* 9-10 April 2011). It was expected that this will yield around R100 million in additional revenue annually. Also, excise duties on alcohol and cigarettes were raised and sales tax on these items was raised by 30%. The measures on sales tax were projected to raise about R150 million per annum.

These measures have provoked different responses from different sections of the Swazi population. Ndodenye Mamba said,

“For me the amount of taxes imposed on us right now are taking us back to the colonial period when the Swazi were described as the most heavily taxed natives in the southern hemisphere. We are now reduced to money machines through taxes. While all these taxes are heaped on us, we are not sure how responsible we are for the present financial situation in the country. We are paying for the sins of other people. I do not think it is fair” (Interview 21 March 2011).

There were also very critical views of the government that was accused of depressing the standard of living of the Swazi people. Siphon Nyembe said,

“The country is in a serious liquidity crisis because of a very reckless government. This government has no clue of public financial management. The main problem with the Swaziland government is that it is corrupt and government expenditure on certain items is inflated by officials on a daily bases. When it comes to spending money on unbudgeted items our government is number one. In fact the whole governance system of the country is responsible for our present crisis. Now we are suffering under the burden of increased taxes to solve a situation that was caused by government. We are on a very futile exercise because government will continue misusing the money” (Interview 23 March 2011).

Some of the concerns raised are real because the adjustments and the continued structural impediments to growth are projected to dampen real GDP growth to about 0,5% (IMF Report 2011). The IMF noted that “the consumer price inflation is projected to rise to about 8% in 2011 reflecting higher domestic taxes and levies on various products, as well as the increase of food and fuel prices on the internal markets” (IMF Report 2011:2).

Perhaps the most substantial adjustment the government of Swaziland was trying to push through was the reduction of the government’s wage bill. Swaziland

has the highest public wage bill in Sub-Saharan Africa (*Mail & Guardian* 28 January to 3 February 2011). The Prime Minister emphasized this point when he said, “In relation to both GDP and the total recurrent budget, the present wage bill is excessive and the highest in Sub-Saharan Africa” (*Times of Swaziland* 25 March 2011:20). The plan was to reduce the wage bill by R250 million (*Swazi Observer* 8 March 2011). The government started off by proposing the retrenchment of 7 000 civil servants (*Mail & Guardian* 28 January to 3 February 2011; *Sunday Times* 27 February 2011). The IMF advised the government against this approach because of its serious social implications. This was particularly the case because the country has a very high unemployment rate and retrenching so many civil servants would make the situation worse. There was also the possibility of social unrest if such a recommendation was implemented.

The Swaziland government shifted from this measure and moved to manage the wage bill by cutting the salaries of civil servants over a period of three years (*Times of Swaziland* 25 March 2011). This was in line with the recommendations of the IMF, but different in modality. The IMF was concerned with salary cuts for the lowest paid civil servants (see Table 1), while the Swaziland government wanted to cut the salaries of all civil servants to maximize the reduction of the Wage Bill (see Table 2).

Table 1 IMF proposed salary cuts

Salary scale (per annum)	Proposed wage cut
R300 000 and above	10%
R200 000 – R300 000	8%
R100 000 – R200 000	6%
R0 – R100 000	0%

Source: *Times of Swaziland* 29 March 2011

Table 2 Government of Swaziland proposed salary cuts

Salary scale (per annum)	Proposed salary cut	Number of civil servants affected
R300 000 and above	10%	451
R200 000 – R300 000	9%	839
R150 000 – R200 000	8%	2 415
R100 000 – R150 000	6%	7 864
R0 – R100 000	4,5%	26 147

Source: *Times of Swaziland* 29 March 2011

The proposed salary cuts have provoked different responses from different segments of the Swazi population. Cabinet ministers and Royal Committees accepted the

pay cuts. The Prime Minister stated, “This is not a time to display negative and uncooperative attitudes. It is the occasion for harmony and commitment as the nation drives in unison towards fiscal and economic revival. Consensus is the key to renewed fiscal stability and the road to greater prosperity for all” (*Weekend Observer* 9-10 April 2011). The Prime Minister continued to show the commitment of the leadership to salary cuts when he stated,

“The size of the present payroll cost is unsustainable, and an agreement by social partners to the proposed cuts, which would be largest among the highest paid employees, is crucial to restoring fiscal stability. The leadership which includes cabinet ministers, royal advisory committees, boards and commissions, have already agreed to the pay cuts. The parliamentarians have agreed to make a similar sacrifice. Thereafter, we trust that all social partners will make the necessary commitment in pay cuts as a vital step to government meeting the necessary payroll cost reduction targets” (*ibid.*).

The positive response of the better paid groups was not complemented by a similar response from other groups. The president of the Swaziland National Association of Teachers (SNAT) expressed a different view when she said,

“If the situation truly calls for us to make sacrifices, then we might consider entering negotiations over salary cuts just to save the country. But we would only do so once the Prime Minister and his team have resigned. We do not want a situation whereby the IMF comes back and says we must now have salary cuts above 10 per cent because we would be losing R100 million a month due to corruption” (*Times of Swaziland* 1 April 2011:3).

Some members of the public responded by blaming the government for the crisis. Sinenhlanhla Ngcamphalala said,

“The situation in the country is a very difficult one for all of us. Every month there is uncertainty if the government will be able to pay salaries for its workers. The main cause of this is that those in power have been using state funds without any regard for the future. For most of us it is very difficult to accept being told to make sacrifices for a problem created by others. The King, the Prime Minister and his cabinet have been helping themselves on the country’s resources and denying the rest of us. Now they want us to bail them out from the fruits of their greed. No, they must solve the situation themselves” (Interview 21 March 2011).

Some have argued that salary cuts will have a negative effect on the already impoverished Swazi population. It has been argued that: “This can be counter-productive since a number of supermarkets and other consumer based businesses would be affected and either shut-down or relocate. This would mean the loss of many jobs, further exacerbating the poverty situation in the country” (*Swazi Observer* 31 March 2011:8). It appears that very little sympathy will be extended to the Swaziland government in its attempt to get support for the salary cuts.

In an attempt to revitalize fiscal stability, the Swaziland government has put into place strategies for maximizing revenue collection. One of the initiatives is the formation of the Swaziland Revenue Authority (SRA). The mandate of the SRA revolves around the efficient collection of taxes from customs and excise, sales and value added tax, as well as income tax (*Weekend Observer* 12-13 March 2011). It is estimated that the country can collect about R20 billion from value added tax. The

Prime Minister expressed concern when he said, “The existing taxpayer culture [...] leaves much to be desired. There is, therefore, a need for the citizens and residents of Swaziland to be educated on issues of tax compliance” (*Ibid.*:11). The formation of this structure is conceptually very positive because it will address the problem of tax evasion. In some developing regions it has been observed that the failure to put into place appropriate structures to avoid tax evasion compromises the effectiveness of fiscal adjustment programmes (Lopez 2006).

Another strategy that has been adopted by the Swaziland government was the formation of the Economic Recovery Strategy (ERS) to work side by side with the Fiscal Adjustment Roadmap to “restore fiscal stability in a reasonably short period of time” (*Times of Swaziland* 30 May 2011:6). Its main objective was to revive the economy through accelerated, shared and sustainable economic growth. The Swaziland government recognized that the economic growth rate of less than 5% per annum was failing to create enough jobs and to reduce poverty. It was hoped that the implementation of the ERS will lead to a more rapid growth in GDP for the generation of more revenue. The formation of the ERS was also an admission that the fiscal crisis was, in part, a product of a long-run failing economy premised on the extractive nature of the Swazi governance system.

The most glaring omission was that the Swaziland government made no mention of governance reforms. For instance, there was no mention of how the government was going to deal with the uncontrolled expenditure of the monarchy that was undermining the economic stability of the country. The silence was probably due to the fact that control of government expenditure was interwoven with the country’s governance structure, characterized by royal absolutism. As long as the governance issue was not tackled honestly, all the attempts that were made by the Swaziland government remained half measures. It is also not clear, in the context of the country’s governance structure, how the Swaziland government hoped to reduce expenditure on the Wage Bill in 2011, when the problem was identified as early as 1983 and nothing was done to solve it (National Development Plan 1983-1988:297).

5. CONCLUSION

Swaziland has continued to face a huge budget deficit that has undermined the ability of the government to invest in public goods or to provide public services. The IMF has indicated that the country is on the verge of possible collapse, as the government has no money to finance its operations. The main problem faced by the government in 2010 and 2011 and beyond is that it is not in a position to raise loans from international financial institutions as its ability to repay the loans is in question. Much as it has been emphasized by the IMF and the Swaziland

government that the country is not facing an insolvency problem but a liquidity one, the problem has continued to cripple the functioning of the government.

The government has been forced to run down its reserves, a condition that threatens the stability of the economy. The reserves are also run down because the government does not have the needed money to finance its operations. The government has increased its level of internal borrowing, something that does not argue well for the future stability of the country's economy. Internal borrowing has the potential to ground the whole economy, because financial institutions such as banks and the whole public sector could be crowded by government's internal borrowing. The extent of the crisis was also shown by the fact that most government operations have been compromised. The article has shown that the government transport system has been grounded due to failure to pay its suppliers. This has affected skills training as teacher training colleges are not able to complete their training programmes. Lack of funds threatened processes of public investment, further pushing the majority of citizens to poverty. The payment of salaries for civil servants is shrouded in uncertainty every month, and this has created a sense of insecurity.

The article has indicated that the Swaziland government has put into place certain measures to arrest the situation. These include a recovery roadmap that constitutes a fiscal adjustment programme that was constructed with the help of the IMF. The components of the adjustment programme include the imposition of new taxes, the establishment of a revenue collection and administration body, proposals for reducing the civil service or implementing salary cuts for all civil servants. At the moment the implementation of these measures has not gone full circle, and time will tell on their success. The article flagged the fact that these measures would come at a huge social cost and have a huge impact on the economic conditions of the Swazi people. The experience of structural and fiscal adjustments of the 1980s has shown that such programmes are usually accompanied by less investment in social programmes as austerity measures are applied.

The issue of the origins of the crisis remains contested. There are explanations advanced by the Swaziland government, the IMF and other commentators that have become conventional wisdom. They include the huge reduction in the country's revenue from SACU, and the depletion of the country's human capital. This article has argued that conventional explanations fail to provide a comprehensive and holistic picture of the crisis. The author has argued that it is not adequate to explain the crisis without factoring a governance dimension. It has shown that the Swazi economy has been on a down spiral as a result of poor economic management that has been accompanied by a general misallocation of funds as a result of the preferences of the monarchy. These include expenditure on projects that capitalize the royal family, as against stabilizing the national economy. It also include a lavish lifestyle of the royal family at the expense of the national treasury. The article has

also argued that the country's governance structure has prevented an effective combating of corruption that continues to be a huge drain to the country's revenue.

From the evidence provided, a meaningful approach to explaining the fiscal crisis in Swaziland should integrate a process of governance reform. It would be to the interest of the country if principles of transparency and accountability were integrated into the operations of the state and were applicable to all levels of leadership. This could be to the benefit of the country and its citizens if a shift from royal absolutism to democratization is made. Such an approach would provide a long-term solution to revitalize the Swazi economy, achieving the much needed economic growth and economic stabilization.

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