



## **Media statement on an agreement to provide financial assistance to the Government of the Kingdom of Swaziland**

Swaziland approached the Government of South Africa for financial assistance to alleviate her fiscal crisis.

The decline in SACU revenue of more than 60 per cent, the delay in taking steps to adjust spending to the new environment, and the lack of fiscal and broader public sector reforms are the main causes of the crisis. This has manifested in a budget shortfall that the government of the Kingdom of Swaziland is unable to finance. While the need for fiscal reforms is the primary objective, this has to be anchored by governance reforms.

The Government of South Africa has agreed to provide a conditional guarantee for a loan of R2.4 billion from the South African Reserve Bank (SARB) to the Central Bank of Swaziland (CBS). The repayment of the loan will take the form of a debit order against the SACU account that is held by SARB on behalf of the Government of the Kingdom of Swaziland. The repayment will coincide with the quarterly payment schedule of SACU transfer payments by South Africa in its capacity as the manager of the SACU Common Revenue Pool.

The loan guarantee is premised on four pillars. These are:

- Confidence building measures to be undertaken by the Government of the Kingdom of Swaziland;
- Fiscal and related technical reforms required by the IMF and to be implemented by the Government of the Kingdom of Swaziland;
- Capacity building support to be provided by South Africa; and
- Co-operation in multilateral engagements.

### **1. Confidence Building Measures**

The first pillar is guided by the 2004 Agreement on the establishment of a Joint Bilateral Commission for Cooperation (JBCC) between the Government of the Republic of South Africa and the Government of the Kingdom of Swaziland, and recognising the historical, cultural and economic links that bind both countries.

The JBCC contains a set of objectives that promote economic and social development, multilateral cooperation, democracy, human rights and good governance, credible and effective leadership, development of a strong civil society and respect for universal human rights and the

rule of law. In light of the current dialogue between the two countries, the Government of Swaziland will give renewed impetus to these processes by:

- (a) Broadening the dialogue process to include all stakeholders and citizens of the Kingdom of Swaziland;
- (b) Agreeing on milestones and time-frames;
- (c) Allowing the parties to the Swazi dialogue to determine appropriate reforms needed;
- (d) Agreeing to ensure that the above processes take place in a conducive environment that is open and enjoys legitimacy amongst the people of Swaziland and the region.

The two countries agree that the JBCC's annual meetings will be used to assess progress of the implementation of the Confidence Building Measures.

## **2. Fiscal and related technical reforms**

The Government of South Africa aligns its financial support and conditions to those of the IMF, the World Bank and African Development Bank.

The loan from the SARB to the CBS will be made available in three equal tranches, starting in August once the negotiations with the relevant parties have been finalised. The second and final payments will be made in October 2011 and February 2012.

In the joint and separate engagements between the Kingdom of Swaziland and the IMF, WB, AfDB, a number of economic reforms were identified. These relate to fiscal policy, public financial management procedures and practices, legal frameworks and related rules that govern financial management.

The South African government agrees with the need for a package of fiscal and financial reforms. These reforms are:

- (a) Table in parliament the Public Finance Management Bill by October 2011;
- (b) Implement the Fiscal Adjustments Roadmap by February 2012;
- (c) Protect the peg between the lilangeni and rand;
- (d) Agree on priority spending programmes as contained in the Staff Monitored Programme that was agreed between the Government of the Kingdom of Swaziland and the International Monetary Fund; and
- (e) Implement acceptable financial reporting and finalise and implement an auditing bill.

### **3. Capacity building**

The Government of South Africa is committed to support the Government of the Kingdom of Swaziland with the implementation of the identified reforms. Such support will be programmed through the annual work plans of the African Tax Administrators Forum, Collaborative Africa Budget Reform Initiative, the Office of the Accountant-General of South Africa and the African Organisation of Supreme Audit Institutions.

Priority areas of support will be in customs administration, design and implementation of VAT, budgeting and fiscal policy, accounting standards and auditing.

### **4. Co-operation in multilateral engagements**

There is an agreement between the South African National Treasury, the International Monetary Fund, African Development Bank and the World Bank on the need to prevent the cash-flow crisis in Swaziland from becoming a financial and economic crisis. In assisting the Government of Swaziland in meeting the requirements set out in its Fiscal Adjustment Roadmap and in the IMF Staff Monitored Programme, the parties agree to collaborate in the provision of financial and technical support, which will take the following form:

- (a) Agree with the Government of the Kingdom of Swaziland on a set of critical economic and financial reforms needed to alleviate the cash-flow constraints as well as the reform of the government's budgetary systems that would ensure long-term financial sustainability;
- (b) Measure progress on these reforms in a co-ordinated fashion through the creation of a Task Team comprising the World Bank, the IMF, National Treasury and the AfDB thereby easing the capacity constraints placed on the Government of the Kingdom of Swaziland in dealing with each party individually; and
- (c) South Africa will provide the critical funding needed for the Government of the Kingdom of Swaziland to meet its immediate cash-flow constraints while assisting the Government of the Kingdom of Swaziland towards meeting the requirements for access to long-term funding.

Progress on the reforms (including the conditions attached to the IMF Staff Monitor Report) will be assessed on an ongoing basis. South Africa is committed to ensuring that positive assessments by the task team lead to the enhancement of the relationship between Swaziland and the IMF, World Bank and African Development Bank.

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