ABSTRACT

Improving the Planning, Budgeting, and Implementation of Capital Projects in Swaziland

by

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May 1990

When this report was written, underspending and delays in implementing capital projects had become critical constraints to infrastructure development, investment, and employment in Swaziland. Swaziland's Minister of Finance requested this study to examine the causes of delays and to recommend actions to improve the planning, budgeting and implementation of capital projects.

The report is divided into five categories: (1) planning, (2) budgeting, (3) implementation, (4) donor and (5) human resource issues. Specific recommendations are made for each area. As a follow-up to the report, the authors strongly recommend that the Government take the following actions: (1) establish a Development Advisory Committee to oversee the implementation of the recommendations contained in the report; and (2) hold a series of day-long Executive Working Group sessions to discuss the implementation of these recommendations.

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Prepared for the Minister of Finance, Kingdom of Swaziland

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Table of Contents

Executive Summary

Improving the Planning, Budgeting, and Implementation of Capital Projects in Swaziland

This report, commissioned by the Minister of Finance, analyzes the planning, budgeting and implementation of capital projects and makes recommendations to improve the system in order to accelerate Swaziland's development.

Swaziland is currently in a position that must be envied by most developing countries. As a result of sound economic management, it has positive balances in both its capital budget and balance of payments. This provides a strong economic foundation on which it can move positively to strengthen its development program.

However, Swaziland has also experienced growing delays and underspending in the implementation of capital projects, and this has become a critical constraint to the growth of infrastructure, investment, and employment in the nation. In the financial year 1988/89, only 66% of the allocated capital budget was spent. The seriousness of the situation was highlighted by the Minister of Finance in his 1990 budget speech to Parliament: "the severe bottlenecks in constructing roads and schools, in developing industrial land, and providing for new sources of energy will have permanently debilitating effect on our economy."

The weaknesses in Swaziland's economic infrastructure are sufficiently serious that they constitute a barrier to continued development. Therefore, Swaziland must now make use of its strong financial situation to accelerate and promote its national development through a two-part strategy: I) improve the present capital budget system, and II) adopt a more pro-active development strategy to accelerate growth.

I. Proposed Steps to Improve Capital Budget System

A) Planning Issues:

Planning plays a critical role in capital budget process. There have been several improvements in the planning process in recent years, most notably the introduction of a three-year rolling plan. However, the Department of Economic Planning and Statistics (DEPS) needs to be a more active advocate of accelerated development within Government. There should be better communication between central and line ministries on planning issues. The role of the Planning and Budgeting Committee (PBC) needs to be modified, with the PBC and DEPS encouraging line ministries to submit fewer, but better prepared projects.

Recommendations to Improve the Planning System:

■ Strengthen DEPS by transforming DEPS into a Ministry with its own Minister, appointing a full-time substantive DEPS Principal Secretary, and upgrading two planning officer posts.

■ Improve communications by distributing explicit PBC guidelines on the project approval criteria, establishing weekly meetings with all DEPS planning officers and a monthly meeting with all ministerial planning officers.

■ Require the Principal Secretaries from the central ministries to attend PBC meetings, involve a representative of the Ministry of Works in PBC meetings, and make a substantive secretary responsible for writing and distributing minutes of PBC meetings.

■ Provide line ministries with indicative estimates of their annual capital budget, in order to encourage ministries to submit fewer, better prepared capital project proposals.

■ Implement the proposed year-end review which will help provide up-to-date information on capital projects and identify implementation problems.

■ Strengthen the planning cadre and address the severe shortage of planning officers in some line ministries.

B) Budgeting Issues:

Slowdowns in the implementation of capital projects result because of delays in the approval of the appropriations bill and problems in the carryover of funds.

Recommendations to Improve the Budgeting System:

■ Accelerate the budget preparation process, so that the King may review and sign the appropriations bill by the beginning of the fiscal year. If this is not feasible, allow ministries to spend up to one-fourth of the prior year's capital budget (as is now done with the recurrent budget) until the appropriations bill is signed.

■ Introduce a Total Estimated Cost (TEC) system for capital projects to solve the year-end carryover problem. Once the total cost of a project has been approved, any funds not spent in a particular financial year would be automatically shifted to the following year, to be added to the funds already approved in the estimates.

■ An inter-departmental committee composed of the Principal Secretaries of the central ministries and the MOWC, the Auditor General, Accountant General, and the Attorney General, should meet before the end of July to review and consider the proposed budget recommendations.

C) Implementation Issues:

Line ministries bear primary responsibility for implementing their development projects. However, because line ministries can pass much of this responsibility for project execution on to Ministry of Works and Communications (MOWC), they are often careless in drafting proposals, predicting the cost and time needed to implement projects, and managing the implementation process. The MOWC also faces a severe shortage of experienced managers, architects, engineers, and surveyors.

Recommendations to Improve the Implementation System:

■ Change the project system to make individual ministries more accountable for the implementation of their own projects.

■ Explore how line ministries can participate more fully in the process of gathering briefs, tendering documents, and overseeing construction directly.

■ Contract out to the private sector increasing amounts of the design and actual construction of MOWC projects.

■ Strengthen the technical and financial capacity of indigenous construction firms.

■ Refocus the MOWC's scarce technical resources towards developing and enforcing design standards, preparing cost estimates, and enforcing timetables in the construction of capital projects.

■ Relieve the MOWC's critical shortage of technical personnel.

■ Allow the MOWC up to a full year to adequately plan large projects or those that do not use standard designs.

■ Improve communications between the MOWC and implementing agencies by explicitly designating a project contract person in DEPS, MOWC, and the line ministry.

■ Implement the recommendation for restructuring the Central Transport Authority found in the GTZ's consultant's report.

■ Phase out the use of directly employed labourers (DEL); increase the frequency of Central Tender Board meetings; waive the final sign-off on Ministry of Finance (MOF) capital release warrants; raise the limit on individual capital project expenditures.

D) Donor Issues:

Donors can provide valuable assistance in the development process. But donors can also impede the development process by requiring the exclusive utilization of their countries' personnel and equipment, placing substantial demands on the recurrent budget, and causing delays in the release of funds. Swaziland must ensure that future donor assistance is in response to national development priorities.

Recommendations to Improve Donor Assistance System

■ Present Swaziland's development needs to donors more actively.

■ Work closely with donors in designing new projects.

■ Study conditions carefully before signing any donor proposal to ensure they are consistent with Swaziland's long-term interests.

■ Coordinate all donor project activities through the PBC and DEPS.

E) Human Resource Issues

The Richards' Commission *Report of Public Service: Salaries Review Commission 1988* states that "the Government should commit itself now to the creation of a leaner, more efficient public service." A leaner, more efficient public service has two components. Creating a *leaner* public service is being addressed by reducing the size of Government, by eliminating unnecessary or redundant posts, and carefully reviewing all requests for new posts. However, less attention has been focused on the other side of the equation, creating an *efficient* public service. Government must create the type of work environment that attracts and retains committed public servants, that gives officials constant and challenging responsibilities, demands high quality of work, and provides commensurate rewards.

Recommendations to Improve Human Resources:

■ Place high priority on attracting and retaining qualified and motivated individuals to the critical posts in Government.

■ Expand the retention and remittance scheme to include economists and planners.

■ Define more clearly career advancement paths and training opportunities for those public officials directly involved in capital planning, budgeting, and implementation.

- Establish a system to publicly recognize excellent work done by Government officials.

II. A More Proactive Development Policy to Accelerate Growth

To accelerate the pace of development, this report suggests a careful shift toward a more active use of financial resources to promote development. Such a policy would emphasize increased spending on priority development activities, to the full capacity of the budget, as the implementing capacity expands. The Ministry of Economic Planning and Statistics would become a vigorous advocate and facilitator of a strong development program. It would mean that the pace of development would accelerate and the positive budget balance would decline over time. Government would become leaner but more effective, resulting in a smaller, better paid, and more efficient govern-ment structure that would not alter the recurrent budget. To achieve this, planning and budgeting organizations would have to shift their focus from a cautious approach aimed at avoiding mistakes to a more active one emphasizing development results. With good leadership, the careful judgment that has existed can be retained and combined with a more growth-oriented strategy.

Conclusion

A Development Advisory Committee should be established to oversee the implementation of the recommendations contained in this report. This committee is intended to play a critical role in encouraging the implementation of needed reforms and also to give private sector representatives an opportunity to make their views and priorities known to Government. The Minister of Finance should chair the committee and determine its composition to ensure that the committee can carry out this mandate.

A series of day-long Executive Working Group sessions (at the ministerial level, at the principal secretary level, at the planning officer level, as well as targeted workshops involving the MOWC, MOLPS, and DEPS) should be held to discuss the implementation of the recommendations in this report. These working groups sessions should be tentatively scheduled for August 1990. This would allow sufficient time to initiate some of the recommendations and to discuss strategies for implementing others.

It is hoped that the recommendations contained in this report will be carefully evaluated and implemented. Future growth in employment, income, investment, and output depends heavily on overcoming the current problems plaguing capital project implementation.

Improving the Planning, Budgeting, and Implementation of Capital Projects in Swaziland

II. Main Report

Underspending and delays in implementation of capital projects have become critical constraints to infrastructure development, investment, and employment in Swaziland. The Minister of Finance stated in his 1990 budget speech, "In the financial year 1986/87, 80 percent of the appropriated capital budget was actually implemented, in 1987/88 this dropped to 74 percent, and in 1988/89 there was a further fall to 66 percent. In real terms, the level of our public investment has fallen....the severe bottlenecks in constructing roads and schools, in developing industrial land, and providing for new sources of energy will have a permanently debilitating effect on our economy. Furthermore, the real fall in public investment we have witnessed over the last few years has a multiplier effect on the real economy because public investment is often the necessary complement to private sector expansion."

To address this problem, the Minister of Finance requested that the Harvard Institute for International Development examine the causes of delays and recommend actions to improve the planning, budgeting and implementation of capital projects. This report summarizes the results of that four-month investigation. These recommendations have emerged as a result of extensive discussions with over 80 Government officials and members of the non-government sector. Also, many of the ideas contained in this report were generated at the "Principal Secretaries Seminar on Capital Projects" held in December 1989 at Piggs Peak.

Swaziland's Strong Development Position:

It is necessary to start by seeing Swaziland's development in perspective. Swaziland's current economic situation can best be understood by comparing and contrasting it with developments in other African and Third World countries. Swaziland has avoided many of their problems, and should continue to do so. Although the Swazi economy has serious problems, some of which are addressed later in this report, overall it stands in sharp contrast to most other African nations.

1. The Government of Swaziland has pursued a sound fiscal policy, restraining increases in spending, and increasing tax revenues (with relatively modest tax rates).

2. Responsible monetary policy has been acheived by the linking of the Lilangeni to the Rand.

3. A favourable climate for private enterprise, with minimal Government controls and regulations, has led to rising investment, employment, output, and income, such that real income per capita has increased (in spite of a high population growth rate of about 3.3%).

4. The value of exports has risen faster than imports, so that there is a surplus in the trade balance; interest earnings and other transfers have contributed to a surplus in the current account, and positive net long-term investment in Swaziland has raised the surplus in the BOP Basic Balance. (For further information, see ANNEX 1 on "An Economic Analysis of Capital Project Implementation.")

The Development Challenges Facing Swaziland:

Obviously, Swaziland has benefited from strong and effective economic management. Therefore, the problem of the slow implementation of capital projects should be viewed against a background of basically solid Government policies, which have contributed to a relatively healthy and growing economy. In fact, to some extent, the infrastructure "problem" is the result of Swaziland's success: rapid growth has created demands which cannot be met by the present infrastructure. Given these conditions, the problems of capital implementation should be approached positively and with optimism. This report advocates changes that will make the Government of Swaziland more aggressive in its pursuit of development, while preserving the strengths of current economic management.

The root of the problem is one that is endemic to most Third World nations: a shortage of trained personnel. Until there is an adequate supply of well-trained, experienced, and highly-motivated economists, planners, architects, engineers, managers, and other skilled professionals, the problem will continue to exist to some degree.

Many people have singled out particular ministries or departments as responsible for the slow implementation of capital projects. This is inappropriate. Instead, the implementation of the capital budget should be seen as a complex system which is not working adequately and needs improvement in many areas. No single step will rectify the problem. This report suggests a number of specific changes which should be implemented immediately. Other recommendations are longer-term in nature, particularly those related to human resources, and will require consistent hard work over time if the situation is to improve.

The report has been divided into five general categories: A) planning, B) budgeting, C) implementation, D) donor and E) human resource issues. Specific recommendations have been made in each area.

A. Planning Issues

Planning is central to the capital budget process. If planning is weak, misallocation of valuable resources and delays throughout the entire system will result. There is almost unanimous agreement among those interviewed that the Department of Economic Planning and Statistics (DEPS) should play a stronger role within Government, vigorously advocating necessary infrastructure development, questioning why projects are not progressing as scheduled, providing assistance to line ministries in the preparation of plans and designs, and facilitating better communication between central and line ministries.

There are a number of recent developments in Swaziland's planning process that make one optimistic. The arrival of the new Chief Economic Planning Officer in DEPS in February 1990 (after a two-year vacancy in the post) marks an important step toward strengthening the central planning unit. Also, the introduction of the three-year rolling plan is an outstanding achievement which directly links sectoral strategies and annual spending for capital projects. The three-year rolling plan should be understood as one part of a three-part strategy being put in place by the DEPS to improve the planning process. The three parts include: 1) preparing a paper on longer-term national development objectives, strategies, and policies; 2) linking Sectoral Development Programmes more directly to capital expenditures through the utilization of the Three-Year Rolling Plan; and 3) reviewing capital project progress through a proposed medium- term development review, as well as monitoring progress through annual and semi-annual progress reports of all capital projects. The three parts, when fully in place, will strengthen and complement each other, providing a clearer picture of what has been achieved, what needs to be done, and how to do it.

The following recommendations support and reinforce the three-part planning strategy. Some of the recommendations are in the process of being implemented and are mentioned here to emphasize their importance.

1. Strengthen the Department of Economic Planning and Statistics (DEPS).

The role of the DEPS in the overall planning process is so crucial that it needs to be further strengthened. At present, DEPS is under the Office of the Prime Minister. However, the other pressing duties of that office have resulted in very little communication between DEPS and the Prime Minister. DEPS needs
to be more assertive in articulating and promoting the implementation of Swaziland's development programme. To achieve these objectives, the following steps are recommended:

a) The Department of Economic Planning and Statistics should be elevated to a "Ministry of Economic Planning and Statistics" and headed by a Minister. Its role will be to advocate and facilitate a vigorous development programme. This will strengthen the Government's ability to formulate and articulate a concrete strategy for Swaziland's social, economic, and infrastructural development. Having a Minister of Economic Planning and Statistics will create the productive tension between one ministry (Planning) advocating the expansion of the number of good, economically sound development projects, and another ministry (Finance) controlling excessive or unnecessary spending and maintaining fiscal responsibility. This dynamic tension, lacking in the present system, is essential to the more effective implementation of capital projects in Swaziland.

b) A full-time, substantive Principal Secretary should be appointed to DEPS immediately. The current Acting Principal Secretary of DEPS is in the untenable situation of trying to manage two full-time jobs. DEPS needs its own full-time Principal Secretary (PS) to take the lead in managing DEPS and to implement the relevant recommendations in this report.

c) Two planning officer posts in DEPS should be upgraded to senior planning officer posts. At present, DEPS has only two senior planning officers. For DEPS to be fully effective in providing assistance to the line ministries and facilitating the overall planning process, four senior planning officers are needed, one for each of the four major planning areas: the economic sector, the infrastructure sector, the social sector, and the macroeconomic planning unit.[1] This would *not* increase the number of planners in the department, but simply recognize, at a more realistic level, the work that is presently being done. DEPS and the Ministry of Labour and Public Service (MOLPS) should jointly formulate specific job descriptions for these upgraded posts, as well as clarify and refine present job descriptions for planning officers.

2. Improve communication among the ministries intimately involved in the planning of development projects.

The dialogue that exists among central and line ministries tends to occur very late in the annual planning cycle, i.e., in October and November during the meetings of the Planning and Budgeting Committee (PBC). However, numerous officials in line ministries indicated that they do not fully understand the PBC's criteria for project approval, without which it is difficult to prepare sound proposals.

a) The PBC needs to distribute explicit, written guidelines to all ministries on the criteria being utilized to assess proposed projects. Only when project approval criteria is clearly known by project designers will they be able to prepare appropriate projects. To achieve this, all ministries must receive clear instructions from the PBC and must have opportunities to discuss these instructions in relation to particular projects. In recent months, the PBC has made major improvements in the feedback system explaining why particular projects were deferred or not approved. This feedback system should be encouraged and strengthened.

b) The DEPS Chief Economic Planning Officer should initiate meetings with all DEPS planning officers at a fixed time each week to improve communications among officers on proposed and ongoing projects. Furthermore, line ministry planning officers should attend a meeting with DEPS at least once a month to discuss progress on the ministries' projects. Furthermore, these regular meetings of central and line planners will facilitate the type of communication essential to strengthening the planning cadre.

3. The Planning and Budgeting Committee (PBC) role should be modified and expanded.

Budget formulation and approval require the closest cooperation among the central agencies responsible for planning, finance and personnel matters, and the line ministries. In previous years, line ministries have expressed concern that the PBC meetings were often conducted without the PS's present. When the PS's of the central ministries do not attend, the PS's from the line ministries are less inclined to participate. The effective functioning of the PBC requires the full involvement of all the PS's, particularly those in the central ministries.

a) The PBC Working Group should at all times be chaired by the PS of the Ministry of Finance, or in his absence by either the PS of the DEPS or the PS of MOLPS. The PBC meeting should be rescheduled if none of the three PS's from the central ministries are in attendance. Furthermore, the PSs from the line ministries must be present when their budget is before the PBC. Attendance records of the PS's at PBC meetings should be documented and published.

b) A representative from the Ministry of Works and Communications (MOWC) should be involved in discussions before the PBC relevant to the implementation of capital projects. The lack of communication between the PBC and the MOWC is often cited as a major reason for delays in the implementation of capital projects.

c) A substantive secretary (preferably an economist provided by the MOF) should be appointed to write up the minutes of PBC meetings, highlighting specific actions recommended by the PBC. The minutes should be circulated to all participating ministries before the next PBC meeting.

d) The PBC should meet quarterly to review capital expenditure reports. This will provide information on progress in the implementation of particular capital projects, generate follow-up strategies to lessen future delays, and improve the preparation of supplementary budgets, ensuring that they are not prepared on an ad hoc basis.

e) The monitoring and coordination of external assistance should be a responsibility of the PBC.

f) The PBC should be more active in ensuring that personnel requirements are coordinated with budget expenditures. More specifically, the PBC should not approve projects for which line ministries and the MOWC do not have the personnel to carry out the planned development activities.

4. Encourage the submission of a smaller number of better prepared project proposals.

The combined cost of the project proposals submitted in a given year is often greatly in excess (sometimes 1000%) of the implementing ministry's anticipated capital budget.

a) The MOF, in cooperation with DEPS, should provide the line ministries with indicative estimates of their annual capital budget. With such estimates, ministries would be requested to prepare fewer, better capital projects totalling, for example, no more than two times the amount of their estimate. As the rolling plan becomes more familiar, an increasing percentage of the projects will already be in the plan and this will limit the amount available for new projects. Therefore, the need for indicative estimates will decrease. However, at present, they should be provided to give line ministries a more realistic sense of the actual amount available for new projects.

5. Ensure that new project proposals are consistent with the priorities in the Sectoral Development Plan.

a) DEPS and the line ministries should hold substantive consultations in June and July to discuss each ministry's objectives for the following fiscal year, and to prepare the first draft descriptions of planned development activities, policy measures, and institutional reforms. Ministries should be reminded that new projects can be submitted to DEPS throughout the year, even if funding is still decided during the usual budgeting cycle. Projects submitted earlier in the year have more time to be properly appraised, and therefore are more likely to be funded.

6. Implement immediately the year-end review proposed by DEPS.

During September-November of each year, the PBC and DEPS review the progress of all capital projects. This mid-year review provides valuable information for the preparation of the following year's capital estimates. However, since this is a very hectic time, PBC participants often are unable to give sufficient attention to delays and other problems with on-going projects, thus they are unable to take appropriate corrective action.

a) The end-of-year review proposed by DEPS should be implemented immediately with the full support from all the central and line ministries. This annual review will provide up-to-date information on the status of projects, the identification of implementation problems and the needed follow-up actions in a consistent and easy-to-read format.

In November 1989, Parliament passed a motion which requires ministries to submit progress reports on capital expenditures for the current fiscal year. At present, Ministries are submitting this information to Parliament in a variety of formats. The proposed year-end review could be used to provide Parliament with consistent and up-to-date progress reports on all capital projects.

7. Re-examine the number and placement of planning officers.

There are serious shortages of planning officers in some ministries. The situations in the Ministry of Natural Resources and the MOWC are especially critical.

a) DEPS and the Management Services Division (MSD) of the MOLPS should meet to determine the most effective ways: i) to fill current vacancies in planning officer posts and ii) to reassign planning officers to the ministries where they are most needed.

B. Budgeting Issues

Slowdowns in the implementation of capital projects often occur because of delays in the approval of the appropriations bill. In addition, the lack of flexibility in the carryover of funds causes wasteful spending near the end of the fiscal year and creates delays at the beginning of the next fiscal year.

1. Expedite capital spending at the beginning of the fiscal year.

There are two possible actions to improve the present budgeting delays.

a) The preferred solution is to move forward and accelerate the budget preparation process, so that the King has the opportunity to review and sign the bill by the beginning of the fiscal year.

b) If approval by the King at the beginning of the fiscal year is not possible, ministries should be granted permission to spend the equivalent of up to one-fourth of the prior year's capital budget (as is now done in the case of the recurrent budget) until the appropriations bill is signed.

2. Introduce the Total Estimated Cost (TEC) system for capital projects.

Existing procedures for carryover of funds require ministries, by September or October, to estimate the amount of capital funds which they will NOT use prior to the end of the fiscal year (so that provision can be made to increase the funding level in the following year). In many ministries, however, less than 30 percent of the project funds have been utilized by September, so it is very difficult to make the required estimates, and thus often they are simply not prepared. If submitted, these estimates are often inaccurate which leads to subsequent problems, particularly if the project has fallen behind schedule and adequate funding for the following year has not been provided. The carryover problem was reported by most ministries as a major factor contributing to the delays in the capital project system.

a) A Total Estimated Cost (TEC) system should be established that would allow the ministries more flexibility in controlling and running development projects. Once the total cost of a project has been approved, any funds not spent in a particular financial year would be automatically carried forward to the following year to be added to the funds already approved for the year in the estimates. It is quite simple to speed up or slow down the necessary level by means of reallocations: no further carryovers are required; supplementary estimates are required less urgently as funds are usually available for reallocations for urgent projects; Parliament is notified of any increases in costs that occur. The total estimated cost should be amenable to revision by DEPS and MOF, so that reallocations accompanied by an increase in total cost could be effected without prior Parliamentary approval (but subject to subsequent ratification by Parliament).

The TEC system fosters improved accountability since it focuses on the entire life of a project, instead of a one-year increment. and discourages the present "spend it or lose it" attitude at the end of the fiscal year. Overall control of capital projects will be improved by having MOF, DEPS, and Treasury report not only on capital expenditures for the current year but also for previous years. This will provide information on the total cost of a project over its entire life, including reasons for any major escalation of expenses arising from design faults, contractor failures or any other causes.

To implement this system it will be necessary for various changes to be made in the Appropriations Act. It will also be necessary for the MOF to take into account the impact of underspending in one year on the capital budget in the following year. A memo was circulated by Treasury in 1988 recommending that the TEC system be implemented. However, the proposal was never formally approved.

b) An inter-departmental committee should meet before the end of July and review and consider implementing the proposed budgeting recommendations. (This committee should include, among others, the Principal Secretaries of the MOF, DEPS, MOLPS and MOWC, the Auditor General, the Accountant General, and the Attorney General.)

C. Implementation of Capital Projects:

Line ministries bear primary responsibility for implementing their development projects. However, where physical construction is required, the Ministry of Works and Communications (MOWC) becomes directly involved. Because ministries can pass much of this responsibility for project execution on to MOWC, they are often careless in drafting proposals, predicting the cost and time needed to implement projects, and managing the implementation process. The project system must be changed to hold individual ministries more accountable for the implementation of their own projects.

1. Hold line ministries responsible for the implementation of their projects.

While line ministries will still have to rely on the MOWC for major assistance in construction activity, they must take final responsibility for implementation of their development projects. Also, working together, line ministries and the MOWC should explore the degree to which line ministries could participate more fully in the process of gathering briefs, tendering documents, and overseeing construction directly.

2. Contract out more feasibility studies and construction of projects to the private sector.

The Ministry of Works and Communications (MOWC) has extensive responsibilities for designing plans, estimating costs, tendering documents, constructing and monitoring capital projects. At the same time, the Ministry faces a severe shortage of trained managers, engineers, architects, and quantity surveyors.

As of March 1, 1990, less than half of the E63 million allocated for the MOWC for capital projects in 1989/1990 had been spent. In the 1990/1991 fiscal year, the MOWC will be responsible for implementing approximately E90 million in capital projects. The MOWC's severely constrained personnel capacity raises doubts about whether the Ministry can actually implement this amount in the 1990 - 1991 fiscal year.

a) The MOWC should contract out feasibility studies, design, and construction of capital projects to private firms to the fullest degree possible. The MOWC will retain extensive responsibilities associated with gathering briefs, tendering, and monitoring of projects. These are the areas on which the Ministry should focus its scarce technical resources: developing design standards, preparing cost estimates, and supervising and enforcing standards and timetables in the construction of capital projects.

b) MOWC, MOLPS, and DEPS should have regular meetings to assess the MOWC's capacity to undertake all new capital projects. Having a member of the MOWC more directly involved in PBC discussions will facilitate this process.

3. Relieve the critical shortage of technical personnel in the MOWC.

It appears that there is very little communication between MOWC and MOLPS concerning the critical shortages of architects, engineers, and quantity surveyors in the MOWC. In fact, a senior official in MOWC reported he was unable to obtain information on the exact number of engineers being trained at present and those actually working in the field. For example, in the MOWC's Buildings Branch, there are four posts for architects (one senior architect and three junior architects), whereas there are only two architects and no senior architect; there are posts for five engineers, but there are only two; and there are posts for two quantity surveyors, while there is only one.

a) The MOWC and MOLPS need to verify the actual numbers of skilled technicians available and the number of technical posts vacant, and to develop strategies for filling the critical vacant posts. In consultation with the MOF, the MOWC and MOLPS need to re-examine the Recruitment and Retention Allowance (RRA) for engineers, architects, and quantity surveyors and ascertain whether this is a sufficient incentive for attracting these skilled professionals to the public sector. Of course, greater financial incentives are only part of the solution. Creating a more challenging work environment will attract more engineers, architects, and quantity surveyors and keep them longer.

b) The PS's of MOLPS, MOWC, and DEPS need to discuss and recommend strategies that deal with the shortage of the key technical personnel in the MOWC.

4. Allow more time for the MOWC to prepare cost estimates, approve technical designs and complete the site acquisition process, particularly on large projects.

Capital submissions are often presented and approved in anticipation of acquiring sites. When sites are subsequently identified, they are often discovered to be inaccessible and/or unsuitable for immediate commencement of work. For example, there are cases where there are no roads (or even trails) into the site of a proposed project. In these situations, it is unrealistic to expect the MOWC to begin construction in year one.

a) The MOWC needs a full year to adequately plan a large project (say, for example, projects over E1 million or projects which do not use standard designs.) Under such a system, planning, site acquisition, and design preparation could be completed in year one, so that construction would begin in the next.

5. Improve communications between the MOWC and implementing agencies by explicitly designating a project contact person in DEPS, MOWC, and the line ministry.

Successful projects were identified as those where the project proposals were well prepared, the line ministries remained in regular contact with MOWC, and the MOWC informed the line ministries and PBC when additional information was needed. However, except in a few line ministries and departments, no person is designated as being responsible for a particular capital project. This leads to haphazard contacts with various people in the line ministries and results in little continuity of communication.

a) One person from the line ministry should be formally designated as responsible for a particular capital project. Conversely, the MOWC needs to inform line ministries about who at the MOWC is responsible for any particular project.

b) DEPS should include a complete list of the individuals responsible for capital projects in the year-end progress reports.

6. Enhance the technical and financial capacity of indigenous construction firms.

The commitment of the Government of Swaziland to utilize and strengthen indigenous construction firms is commendable. However, indigenous firms often lack the start-up capital, equipment, and technical capacity to begin work once they have been awarded a contract. This results in numerous delays and, in some cases, an inability to complete the project as contracted.

There appears to be almost unanimous agreement within Government on the need to support the small, local firms. The only question is how to do this most effectively. Among the indigenous firms' most serious constraints are the lack of managerial and financial skills. These firms may have technical expertise as bricklayers or electricians, but less expertise in construction or financial management.

a) Financial and construction management training programs targeted at indigenous Swazi firms should be developed. This would be a worthy project to approach a donor about supporting —particularly a donor interested in supporting private sector initiatives in Swaziland.

7. Implement the recommendations for restructuring the Central Transport Authority (CTA) found in the consultants' report, "Central Transport Administration: A Five-Year Plan 1988 - 1993."

The Central Transport Authority's inability to maintain Government vehicles in workable condition results in major delays in the implementation of capital projects. As first noted in the 1984 Feasibility Study and confirmed by the work of the 1984 - 1987 GTZ/CTA project, the CTA's present structure makes it difficult to identify the departments which are under-performing and submit them to close financial analysis. Furthermore, the current Public Service Hierarchy and Personnel Administration are not geared to ensure labour discipline, commercially oriented operations, and managerial efficiency within the CTA.

The efforts since 1984 by consultants and CTA officials have improved CTA's management reporting, record keeping, and vehicle availability.

a) The recommended structural changes (to which the CTA Board has already agreed) need to be undertaken immediately. In order to allow the new structure to function as intended, the Government of Swaziland must enact an amendment to the 1976 Finance Act which administers the Central Transport Board. The changes involve i) revisions in the terms of employment to permit the use of incentive payments, and ii) regulations regarding the transfer of staff into and out of CTA to permit the retention of expensively trained, skilled personnel and prevent the assignment of unsuitable, untrained personnel to CTA.

8. Introduce incentives to encourage the MOWC's directly employed labourers (DEL) to complete work in a timely fashion: in the long

term, phase out the use of DEL.

At present, there are few incentives for directly employed labourers (DEL) to complete projects in a timely fashion, and no penalties if they do not work at all. The DEL may well be the antithesis of the Government's stated objective of a "leaner, more efficient public service."

a) A major effort should be made to utilize less DEL. Labourers should be encouraged to join existing local firms or be assisted in setting up their own construction firms or association of builders. This recommendation should be linked to the strengthening of local firms suggested in C.6 above.

Although the formal restructuring of the DEL program is beyond the scope of this inquiry, the general direction of such a program is clear. The recommendations for the CTA to incorporate more incentives and more accountability could serve as a model for DEL. For example, directly employed labourers should be paid a fixed wage plus a bonus if work is completed in a timely fashion. There should also be more flexibility in firing DEL not performing up to standard.

9. Increase the frequency and regularity of Central Tender Board meetings.

Implementation delays often result from the infrequent meetings of the Central Tender Board. It is scheduled to meet once a month, but in the fiscal year 1989/90, the Board only met seven times. Therefore, the tenders of a particular ministry came up before the Board only once every two or three months, contributing to the delays in the awarding of the contracts.

a) The Tender Board should meet, on a fixed day, every two weeks and the time of meeting should be communicated to all ministries and departments. This will facilitate the tendering of documents, the selecting of contractors, and the procuring of equipment for capital projects in a more timely manner. It might be useful to combine the Central Tender Board meetings with those of the Treasury Tender Board (which meets every Friday morning at 9 a.m.).

10. Waive the final MOF sign-off on capital release warrants.

At present, a capital release warrant is required for funds to be formally released. This process is initiated by the line ministry or MOWC, and then requires sign-offs from DEPS and the MOF. Since these funds are already allocated (and approved by MOF), this final sign-off from the MOF seems unnecessary and is often cited as contributing to the delays in capital projects.

11. Raise the limit on individual capital project expenditures allowed using order books.

Individual expenditures from the order books is limited to E2,000. This limit has been in place for many years during which there has been 15 to 20 percent annual inflation. The limit should be raised substantially, as it is an unnecessary constraint on capital spending.

a) An inter-departmental committee (made up of representatives of MOF, including Treasury, DEPS, and MOWC) should be set up to review the recommendations raised in C.9, C.10, and C.11.

D. Donor Issues

Donors were cited both as an asset and as a liability in the implementation of capital projects. They provide valuable resources, both financial and technical, and at times participate with Swazis as partners in national development. But donors can also impede the development process by requiring the exclusive utilization of their countries' personnel and equipment, putting unreasonable conditions on projects, placing substantial demands on the recurrent budget, and causing delays in the release of funds or the execution of projects.

As a result of Swaziland's high level of development, strong financial position and new capital reserve fund, the country is in an extremely strong position in its relationship with the donors. Swaziland could, in principle, finance its entire development budget. This realization should be empowering and an encouragement for Swaziland to negotiate more vigorously with donors to ensure that donor projects are consistent with Swazi priorities as defined in the Development Plan, and that donor conditions will not cause unnecessary delays in the implementation of capital projects. Finally, and probably most important, Swazi officials need to be willing to reject projects that are not consistent with Swazi interests, have too high recurrent costs, or demand too much in the way of scarce technical resources.

Five general guidelines are recommended in the Government's relationship with donors:

1. Government officials need to think of themselves as partners with donors in the development of Swaziland.

2. Government should take the initiative in articulating its priorities to donors.

3. Government should work closely with donors in designing any new projects.

4. Government should study conditions carefully before signing any donor proposal and ensure that donor proposals are consistent with Government priorities.

5. Individual ministries should not act unilaterally: there is a pressing need to coordinate all donor projects activities with the PBC and DEPS.

E. Management of Human Resources

"People" was the most frequently mentioned issue during discussions of the constraints on the implementation of capital projects: the lack of skilled managers and technical people in critical positions in Government, problems with morale and commitment, and the "brain drain" to neighboring countries. Unless the Government is able to attract and retain motivated people to posts in Government, the problems in the implementation of capital projects will not be solved.

This view is consistent with that of the Richards' Commission *Report of Public Service: Salaries Review Commission 1988:* "the Government should commit itself now to the creation of a leaner, more efficient public service."

A leaner, more efficient public service has two components. One part, that of creating a *leaner* public service is being addressed by reducing the size of Government, by eliminating unnecessary or redundant posts, and carefully reviewing all requests for new posts.

However, less attention has been focused on the other side of the equation, creating an *efficient* public service. To achieve this objective, Government must create the type of work environment that attracts and retains committed public servants, that gives officials constant and challenging responsibilities, demands high quality of work, and provides commensurate rewards.

Much of the public discussion about the problems in attracting people to critical posts in Government has focused on salaries. In this regard, Government took an impressive step when on March 15, 1990, the Minister of Labour and Public Service announced a back pay award and a salary enhancement of 7.7 percent (amounting to a total increase of 25 percent for fiscal year 1990/91) for all civil servants and teachers.

Attention should now focus on the other factors that make it attractive for people to remain in the public sector. grappling with important and challenging societal problems, serving one's country, and acquiring additional training and professional skills for oneself.

1. Give higher priority to attracting and retaining qualified and motivated individuals to the critical posts.

These critical posts include planners, economists, engineers, architects, surveyors, and experienced managers who are essential to the planning and implementation of capital projects. The Ministry of Labour and Public Service estimates that each year there is a saving of approximately 5 percent of the resources allocated for salaries because of vacant posts. Unfortunately, it is often the critical, highly skilled, technical and managerial posts that comprise much of the 5 percent vacancy rate.

The Richard's Commission Circular recommended, among other steps, that three actions be taken immediately to alleviate this human resource constraint: a) establish a Recruitment and Retention Allowance for qualified and experienced staff in selected areas; b) increase training efforts in shortage areas; and, c) implement a bonding scheme that requires those who receive overseas training to serve a commensurate time in the public service upon their return.

a) It is recommended that the Recruitment and Retention Allowance be extend to economists and planners. The purpose of the Retention and Remittance Scheme is to assist in the procurement of qualified staff in selected areas of Government employment where private sector salaries are above Government scales, these skills are being sought by the private sector, and the Government has difficulty recruiting qualified replacements. The following cadres are presently included in the Recruitment and Retention Allowance provisions; engineers (civil, electrical and water), quantity surveyors, architects, lawyers, doctors, veterinarians, dentists, and computer personnel. (Establishment Circular No. 20 of 1988 Recruitment and Retention Allowances).

b) There is a need for the MOWC, DEPS, MOF, MOLPS, (and particularly the Management Services Division) to examine the actual vacancies and training needs, and identify specific strategies to increase training opportunities in these priority areas. One of the most attractive features for an individual considering the public service is the opportunity to develop oneself professionally through on-the-job, short-term, or long-term training. To date, very little progress has been made on actually identifying and then training public officials in priority areas. There is also little coordination with donors who provide the bulk of training funds. A central feature of this training strategy should be to look to large future projects and to begin to train people *now* for those projects.

c) A bonding scheme should be put in place that requires those public officials who participate in overseas training to continue serving in the public sector for a specified amount of time on their return to Swaziland. It is reasonable to ask civil servants who leave Government positions to receive further training (paid for directly by Government or indirectly through the utilization of donor resources) to commit themselves to a specified period in the public service, commensurate with the length of the training undertaken. This condition should be made explicit at the outset of any Government-sponsored scholarship or training opportunity.

2. Define career advancement paths and training opportunities.

The first priority should be to define career advancement paths and training opportunities for the critical posts identified above. At present, most involvement in training activities is initiated by individuals and is not part of any formal training plan.

a) There needs to be further development and refinement of plans in which ministries identify critical areas of training needs. One of the strongest recommendations from the PS's at the December 1989 Capital Budget seminar was for a "manpower development strategy" to identify ministries' training needs and to provide civil servants the opportunity to improve their professional skills and credentials in ways consistent with Government's needs. Ministries, working closely with the MOLPS, should clarify the skills which are lacking and their training priorities.

b) There is an urgent need to update job descriptions. For the most part, job descriptions have not been revised or updated since 1976. The scope and responsibilities of some jobs have changed dramatically. Further, the job descriptions should provide a road map for possibilities for career advancement and participation in training activities. This effort to update and improve job descriptions must involve individual departments working closely with Management Services Division.

c) There is a need to reintroduce, strengthen and enforce the staff performance appraisal report. An annual evaluation should form part of the officer's permanent file and be an input into any decision about career advancement and training. At present, the appraisal system is only utilized when it has been decided to promote someone. For such an appraisal system to work, there must be a systematic program to train people to evaluate one another. Any policy recommendations on these issues would naturally involve the Personnel Administration and the Civil Service Board.

3. Provide incentives and publicly recognize good work and, take disciplinary actions against civil servants not satisfactorily completing their assigned tasks.

Many people indicated that there are few, if any, incentives to do a good job, no motivation for individuals to execute their jobs quickly, and no penalties for work left incomplete. Attracting committed, professionally talented people to Government is one side of the equation; having the ability to dismiss individuals not satisfactorily completing their responsibilities is the other side.

a) There needs to be more flexibility for department heads to provide civil servants incentives for performing well. One suggestion would be to allow managers more discretion in rewarding employees on an annual basis based on their performance evaluations. At present the system for advancement is almost automatic, based on length of time in the position. If someone stays in a job long enough, that person will move up.

There should be rewards for individuals who do outstanding work and opportunities for those people to move up more rapidly. For example, after staff performance appraisal forms have been completed, a manager with 20 employees could be given additional increments to be awarded on the basis of merit. For example, to the department's best people, the manager could allocate two increments, to an average person one, and to poor performers, none. These increments might be relatively minor, one or two percent of salary a year, but over the longer run it could make a significant difference because it ties positive incentives to superior performance.

b) There needs to be more active interactions between the ministries and the Civil Service Board on disciplinary action. At present, it is almost impossible to fire a civil servant short of alcoholism on the job or outright theft. Civil service regulations regarding poor performance and the penalties for those not functioning effectively should be strengthened and implemented.

c) There should be a system under which the most senior Government and traditional leaders give public recognition on a annual basis to the excellent work done by Government officials. The King, Ministers, and Principal Secretaries should all be involved in these public recognition ceremonies.

The thrust of these recommendations on human resource issues is not to create new posts in Government (although there are a few critical areas where additional posts would improve the system). Instead, the priority must be to fill existing positions, particularly posts for economists, planners, engineers, architects, and quantity surveyors, and create the type of environment that challenges public officials, rewards them for excellence and encourages the good people to stay in Government.

F. Conclusion

The recommendations contained in this report should be seen as the continuation of the process begun in December, 1989, with the Principal Secretaries workshop on the development budget process. Many of the ideas presented in this report were generated at that workshop, and have been refined through subsequent discussions and meetings with public officials and representatives of the private sector. As a follow-up to this report, two actions are strongly recommended:

1. Establish a Development Advisory Committee to oversee the implementation of the recommendations contained in this report.

The Development Advisory Committee (DAC) should serve as a focal point for activities undertaken to improve the present problems in the development budget process. The Committee, appointed by the Minister of Finance, should be comprised of Government and private sector individuals committed to improving the development process in Swaziland. The Committee's activities will include overseeing the implementation of the recommendations in this report, establishing working groups to examine specific issues, directing attention to the most glaring deficiencies, and pushing for necessary change.

2. Hold a series of day-long Executive Working Group sessions to discuss the implementation of these recommendations.

These working group sessions should be held at the ministerial level, at the principal secretary level, and at the planning officer level. Targeted sessions involving the MOWC, MOLPS, and DEPS should also be held. These sessions are tentatively scheduled for August 1990. This would allow sufficient time to have initiated some of the recommendations and to have discussed strategies for implementing others.

At the Executive Working Group sessions, the Ministry of Finance, the Ministry of Labour and Public Service, the Ministry of Works and Communications, and the Department of Economic Planning and Statistics should report back on specific steps they have taken to date to improve the capital project implementation process.

It is hoped that the recommendations contained in this report will be carefully evaluated and implemented as deemed appropriate by the Government of Swaziland. Future growth in employment, income, investment, and output depends heavily on overcoming the current problems plaguing capital project planning, budgeting and implementation.

1. The economic sector includes agriculture, forestry, fisheries, co-operatives, industry, handicraft, tourism, commerce, and mining; the social sector includes public administration, law and order, defense, community services, education, and health; and the infrastructure sector includes water and sewer, housing and urban development, transport and communications, energy, and land utilization.

Annex I

An Economic Analysis Of Capital Project Implementation

I. Introduction.

The purpose of this Annex is to examine the capital budget and the slow pace of implementing capital projects, in light of fiscal policy as a whole, and, in turn, to evaluate fiscal policy in the context of the macro economy.

An initial picture of the current economy of Swaziland can usefully be drawn by comparing and contrasting it with developments in other African countries and in other countries in the third world. The following brief description applies generally to many (and probably most) of these other developing economies, although the details will differ in individual cases. Swaziland has avoided many of their problems, and it should continue to do so.

The macro characteristics of many other third world economies:

1. The Government has a substantial and growing budget deficit, which is often out of control.

2. The Government budget deficit has been "monetized", through the sale of Treasury bills and stock, which are financed by an increase in the money supply created by the banking system.

3. The combination of deficit fiscal policy and expansionary monetary policy have caused excess aggregate spending leading to demand-pull inflation.

4. This domestic inflation has raised costs and priced exports out of the world market, and it has made imports appear cheaper than goods produced at home, resulting in a large and growing deficit in the balance of trade.

5. Financing the trade deficit has forced the Government to exhaust international reserves and to borrow extensively, resulting in growing international debt.

6. Paying interest has accentuated the net import of services, causing a large and growing deficit in the current account of the BOP, requiring additional borrowing. Even more debt has been incurred for the repayment of past loans. (Of course, some desperate countries have stopped debt servicing altogether, thus undermining their international credit rating.)

7. The resulting pressure for depreciation or devaluation of the domestic currency has been resisted, so the domestic currency has remained over-valued, discouraging exports and perpetuating the BOP deficit.

8. Exchange controls and import licensing have been introduced, making it extremely difficult for both the agricultural and manufacturing sectors to buy the inputs which they require, so that production has lagged.

9. Price controls have been applied in an attempt to control inflation, but they have caused "black markets", they have lowered profits, and they have reduced economic activity and investment. Perhaps the worst effect has come from holding food prices low (in order to help the low income consumer), because these low prices have undermined the incentive to farmers (who are often the largest and poorest segment of the population), so that food shortages have been worsened and perpetuated.

10. Exchange controls, price controls, and numerous other government regulations have caused the investment climate to deteriorate, so that there is less expansion of capacity for increasing future employment, output, and income.

The overall result for many other third world countries has been low income, wider inequality in the distribution of income, rising unemployment, increasing inflation, larger BOP deficits, growing debt, and increasing dependence upon other countries and multi-national organizations. The phrase "international basket-case" has been used in the worst instances.

A major explanation for the poor performance described above is that it has been caused by *external* factors: OPEC price increases (particularly in the 1970s); world-wide depression (in the early 1980s); drought and famine, and rising protectionism against third-world exports (both in the 1970's and 1980's); and security problems (during much of the past two decades), which have required large defence expenditures, and which have destroyed some of the infrastructure. While there is some validity to this argument that external factors are to blame, it must be noted that, to a large degree, Swaziland has faced the

same (or very similar external factors, but with much better results. The economic differences between Swaziland (and Botswana) on the one hand, and most other third world countries on the other, are due, in large measure, to the choice of policies pursued.

Although the Swazi economy has many serious problems, some of which are addressed later in this report, overall it stands in sharp contrast to the picture painted above.

1. Government has pursued a sound fiscal policy, restraining increases in spending, and increasing tax revenues (with relatively modest tax rates). The budget has been in *surplus* during the past three years.

2. Irresponsible monetary policy has been avoided by the linking of the Lilangeni to the Rand. Under this exchange rate system, the money supply depends directly on the Balance of Payments:

a. the money supply *increases* with a BOP *surplus* (more specifically, the surplus in the BOP "Basic Balance");
b. the money supply *decreases* with a BOP *deficit.*

3. A favourable climate for private enterprise, with minimal Government controls and regulations, has led to rising investment, employment, output, and income, such that real income per capita has increased (in spite of a high population growth rate of about 3.3%).

4. The value of exports has risen faster than imports, so that there is a *surplus* in the Trade Balance; interest earnings and other transfers have contributed to a *surplus* on Current Account, and positive net long-term investment in Swaziland has raised the *surplus* in the BOP Basic Balance, such that there has been a steady rise in foreign reserves, including those of the Government, Central Bank, and commercial banks, (which are allowed to hold reserves to facilitate the financing of futures contracts).

Obviously, Swaziland has been doing something (or many things) "right", so that the serious problem of slow implementation of capital projects (now under review) should be viewed against the background of solid Government policies overall, which have been contributing to a relatively healthy and growing economy. In fact, to some extent, the infrastructure "problem" is the result of Swaziland's success: rapid growth has created demands which can not be met by the present infrastructure.

II. Economic Analysis of the Capital Budget

Two economic perspectives or approaches to the under-spending on capital projects will be discussed. The first includes all of the reasons why capital spending should be substantially increased, and the second explains (and defends) the more conservative fiscal policy which has been pursued in recent years. They are presented here with sharp distinctions, so that the differences may be easily discerned. However, they are definitely *not* mutually exclusive, and in the last analysis, the best policy will be one that draws on both.

1. The Economic Arguments for Substantially Increased Capital Spending.

The essence of this position is that the Government has (or should have) so many worthwhile (efficient, productive) ways of spending money, both in the capital and recurrent budgets, that there should be a small Government Budget Deficit; and investment in the economy should be so high, with the consequent rise in imports of capital goods, that there are BOP Deficits in the balance of Trade and on Current Account, financed by net foreign investment (official + private) on Capital Account.

a. The Private Business Perspective.

Comparing the Government, and the macro-economy, with a highly successful *private* business is relevant and useful:

First, the most profitable and successful firms in the long-run are those which *reinvest* their profits into their own business, steadily expanding with financing which comes, in part, from their own resources. Such firms do not lend their money to other firms in order to earn interest; they plough back their earnings in order to make more profits in the future.

Second, in addition to reinvesting their retained earnings, the most successful private firms *borrow,* increasing their profits through leveraging other people's money. An historical examination of the balance sheets of most highly profitable businesses will reveal that their net borrowing *increases* over time, so that their outstanding debt is higher than it was the year before. Of course, the productive utilisation of these borrowed funds results in substantial and sustained *increases* in the net worth of such firms; (the efficient use of these loans results in the firm's assets growing much more rapidly than their liabilities).

Analogously, it is reasonable to argue that a "successful" Government, and a rapidly growing economy, should not only be using their own resources fully, but should be augmenting these resources through borrowing (thus increasing debt).

A somewhat different "private business" argument in support of budget deficits is the growing need for Treasury Bills and Stock as *financial assets.* Insurance companies, pension plans, and commercial banks could use Government bonds as a secure (though lower interest-paying) element in a balanced portfolio. A net increase in such assets can only occur when the Government budget is in deficit.

Thus, there are sound "business" reasons for Government to increase its spending on capital projects, even to the extent of running a budget deficit.

b. The "Supply-Side" Approach.

The "Supply-side" approach is, perhaps, the most obvious, and it can be summarized as follows: there are serious bottlenecks to investment in particular, and to development overall, which are caused by glaring deficiencies in the basic economic infrastructure.

During our interviews over the past three months, and especially during the last three weeks of our study, a virtually unanimous consensus emerged: the weaknesses in Swaziland's economic infrastructure are so widespread and so serious that they constitute a barrier to continued development. The successes of the past few years, in terms of investment, output, employment, exports, and Government revenue will *not* be sustained, and worse, there is a credible threat that some existing businesses will fail (or leave Swaziland, in the case of foreign firms) unless corrective actions are taken soon.

The difficulties are so well-known that they only need to be summarized. (See Annex II for a somewhat expanded discussion.) Current business activity is being curtailed and future expansion and new investment are being discouraged by serious problems with:

i. **roads**: over-crowding, over-loading, lack of bitumenised surfaces, pot holes, deteriorating edges and shoulders;

ii. **electricity**: outages due to excess demand and inadequate maintenance, delays in obtaining expanded capacity and new connections;

iii. **telecommunications**: excess demand for limited lines bringing delays in long-distance calls and in FAX transmissions, which must often be made after business hours;

iv. **crime**: theft, increasingly with arms (and mentioned as much as any other problem), causing some small firms to close up and new firms to think carefully before investing here;

v. **land acquisition**: for sites for industrial plants, schools, etc., and the associated staff housing; a related "land" problem is erosion (and deforestation) which poses a serious and increasing longer-term threat;

vi. **water**: lack of water for irrigation, industry, and drinking, due to problems of dams, channels, pumps, etc.;

vii. **education**: inadequate classrooms, staff housing, and equipment, especially in light of the high birth rate and the rapidly growing number of school children; and

viii. **health**: shortages of hospital rooms, clinics, medical equipment, and staff housing.

While all of these areas are of high priority, the first five (roads, electricity, telecommunications, crime, and land acquisition) have been described in "*crisis*" terms, requiring immediate attention. While there are specific, urgent problems in the other areas (water, education, and health), they may be more "long-term" in nature, to be resolved in terms of years, rather then in terms of the coming weeks and months.

In conclusion, the "supply-side" perspective is that future growth of the economy (expansion in employment and continued increases in the standard of living) will be undermined, unless there is more spending soon on improvements in the basic infrastructure, which includes both better maintenance and expanded facilities. The reason for this is that the deficiencies noted above will reduce future potential economic activity in both rural and urban areas, and will discourage future investment in expansion of existing enterprises and in the development of new firms.

c. The Large and Growing Government Deposits Are An Attractive Target For Those Who Would Engage In Wasteful Spending.

Although this argument has important economic implications, it is essentially "political" or "administrative" in nature. The three-year surplus, and the consequent growth in Government deposits, are a prime target for new demands on the Treasury. Some of these will be politically appealing though economically wasteful, and they can only be forestalled by prompt spending of the available funds on worthwhile projects (mainly through the capital budget).

d. The Macro-economics of Government Spending: More Government Spending Will Stimulate Greater Employment, Higher Output, and a More Rapid Rate of Real Economic Growth.

In addition to the specific needs for increased Government spending noted in b. and c. above, there is the macro-economic impact of stimulating the economy as a whole.

i. Unemployment is high and increasing (especially among school leavers, who will constitute a vocal and politically important segment of the labour force).

Many believe that the number one problem facing the Swazi economy is unemployment, which is serious now, but which will probably become much worse in the future.

Substantial private employment could be generated directly by the increased Government spending on capital projects which are contracted out, and more jobs will be created indirectly from the improved investment climate (and rising business activity) resulting from the better infrastructure.

ii. Inflation and Stagflation.

Swaziland is experiencing about 15%-16% annual inflation, which has persisted during most of the past decade. Traditionally, sound fiscal policy requires that *Government spending be reduced*, along with other efforts to restrain aggregate demand overall. However, this is inappropriate under present circumstances in Swaziland.

Swaziland is importing "supply-side" (or "cost-push") inflation from South Africa, over which it has no control. If aggregate demand is constant, or increasing only slowly, then *"stagflation"* will be the inevitable result, with both employment and real output stagnant (or increasing too slowly). This occurs because inflation-induced higher prices will force buyers to purchase less, so sales and profits will decline, and firms will cut back on output and employment.

Although it is impossible to know with certainty whether Swaziland is experiencing stagflation at the present time, import demand has not kept pace with export earnings, which suggests that growth in income and in aggregate spending may be sluggish. That is, while real income and income per capita have been increasing, they probably would rise more rapidly with increased macro spending.

This interpretation must remain speculative, because current and complete data on unemployment and utilization of capacity are not available. However, it is supported by the fact that there are surpluses in both the Government budget and the Balance of Payments. Part of the income being received in Swaziland is being saved (including the budget surplus, which is Government "saving"); however, some of this saving is *not* being spent here, but is flowing abroad to finance investment in South Africa and other countries. Hence, it is quite possible that there is inadequate aggregate spending to maintain full employment, full production, and rapid economic growth. An argument can be made that there should be increased Government spending (and even budget deficits) to correct this macro-economic problem.

e. The International Dimension: the Case for a BOP Deficit.

An inevitable side-effect of the BOP surplus and growing foreign exchange reserves is, as noted above, Swaziland's savings are being used to finance the economic development of other countries (especially South Africa), instead of being ploughed back into more rapid increases in output and standard of living here. This is one of the most telling arguments in support of increased spending on capital projects. The Swaziland economy could (and should) be growing so fast (partly due to increased Government spending on maintenance and expansion of infrastructure) that imports, particularly of capital goods, are increasing faster than exports, resulting in deficits in the Trade Balance and in the Balance on Current Account. These deficits should then be financed by foreign capital, such that foreign savings are contributing to the economic development of Swaziland, and not *vice versa*. (This is the logic behind the comment of the international economist, Dr. Wolfgang Stolper, "No self-respecting third world economy should be without a deficit in its BOP.") This point can be restated in a different way, by stressing that when Swaziland has a BOP surplus, donor aid is indirectly leading to increased Swazi deposits (or investments) abroad; it is not contributing directly to development here.

In summary, this section has marshalled the arguments —business, supply-side, micro, macro, and international economic arguments — for strongly supporting increased Government spending. It lends support for running Government budget deficits to finance efficient and productive expenditure in both the capital and recurrent budgets. And it concludes that a BOP deficit is not only justifiable, but it is highly desirable.

2. The Economic Arguments Against Major Increases in Capital Spending.

The essence of this second approach can be stated quite briefly. While clearly meritorious projects which have appropriate real rates of return should definitely be financed, Government spending should be prudently constrained, and any resulting surpluses should be financially invested at the best rate of return; there should be saving for "a rainy day", which will come inevitably, and which will probably come soon.

a. Swaziland's export earnings and Government revenues are unstable and unpredictable.

The recent rise in export earnings (with the resultant BOP surpluses), and the recent rise in Government revenue (with the resultant budget surpluses) are due to temporary phenomena, such as the sanctions against South Africa, good weather, and favourable international prices. Therefore, it would be economically unsound to base an increase in spending on recent developments in the budget and BOP. Caution is appropriate in order to avoid increasing the "permanent" size of Government spending, by creating "entitlements". Increasing Government expenditures is easy; reducing them later is extremely difficult.

There are many instances (Zambia being one case in point) where countries which once had budget and BOP surpluses, undertook heavy foreign borrowing with disastrous results. Shocks such as the OPEC price increases (in the 1970's) or world-wide depression (in both the 1970's and 1980's) suddenly created large and "permanent" BOP deficits, making debt servicing difficult (and in some cases impossible). The negative *"macro characteristics of other third world economies"*, described in the Introduction on page 1 above, are all too common; they can be avoided only by extreme caution and prudence in Government spending.

b. Only projects with appropriately high social rates of return should be undertaken.

Over the past two decades, the International Finance Corporation (IFC) has had extensive experience with a wide variety of investment projects in many countries. Their Economics Department has analysed IFC past investments, comparing the *ex-ante* rates of return revealed in the feasibility studies with the *ex-post* results actually achieved. This study (reported in the December, 1989 issue of *Finance and Development*) revealed that the average *ex-ante* economic rate of return (ERR) was 23%, whereas the average ERR actually realized *ex-post* was only 11% (with many projects having much lower - and even negative - ERR's). Similarly, the *ex-ante* financial rates of return (FRR) averaged 20%, contrasted to an average of 11% *ex-post* (with many weaker projects posting negative FRR's).

The reasons cited for this discrepancy are two-fold. First, basically sound projects became unprofitable due to cost overruns in their construction and inefficient management once production had started. Second, Government interventions in the economy ("i.e., taxes, subsidies, tariffs, controls, regulations, and so on"), which were often intended to assist business (and which were viewed favourably in the feasibility studies), had an unanticipated negative net impact on IFC projects.

However, the results of the IFC study should not be evaluated solely from the perspective of the *ex-ante/ex-post* discrepancy. The 11% average *ex-post* return for both ERR and FRR reflects good decisions and good implementation overall, as the return on U.S. dollar funds during the same period was about 5%. In order to avoid spending on investments with low or negative returns, such as those earned on some projects elsewhere, only those projects should be undertaken which are socially profitable, and these should be implemented efficiently. Government projects should be based on carefully prepared feasibility studies which clearly indicate that they have a higher rate of return than can be earned on alternative investments (including Government and Central Bank deposits in other countries).

III. Summary and Conclusion

In contrast to many other third world economies, Swaziland has a strong, healthy, and growing economy, blessed with surpluses in both the Government budget and in the BOP. However, the future will be less bright unless there is a substantial improvement in the basic infrastructure, involving both better maintenance and expansion of transport, electrical, telecommunications, and other facilities.

The Government has the resources (in hand and from willing donors) for this necessary expansion, and the numerous valid economic reasons for increased Government spending are enumerated and explained in this Annex. Of course, wasteful spending is to be avoided. Further, in light of the instability of foreign exchange earnings and Government revenues, budget flexibility must be ensured by avoidance of "permanent" expenditure increases which create "entitlements" (and which cannot be reduced when a sudden downturn comes, as it inevitably will).

However, while continuing the strong fiscal control, a much more aggressive approach to capital spending is needed.

Annex II

A Description of Infrastructure Problems

The purpose of Annex II is to describe in some greater detail the several infrastructure problems which make the implementation of the capital budget so important.

1. Transport

a. Roads

While tremendous strides have been made in converting to bitumenised roads over the past decade, much more has to be done. (1) The main roads running to the borders must be maintained at a standard that will carry the heaviest of lorries, for imports, exports, and goods in transit to and from Maputo and South Africa. Many now have "pot-holes" and dangerously deteriorating shoulders. (2) Agro-based industries have been the mainstay of manufacturing, and they will retain their prominent role. Roads connecting the major highways to the sugar, timber, maize, cotton, and related areas need substantial improvement, and more should be covered with a permanent surface. The road to the Usutu Forest has been promised for four years, but work has yet to begin. (3) Perhaps most important, is the dual carriageway (or a second road) from Oshoek (or from Mbabane) to Manzini (or to Matsapa).

b. Railway

We were told that the railway could play a much more significant role in fast and efficient transportation of supplies and of outputs, but there was no time for us to ascertain any details of the problems being faced in this area. Strictly speaking, The Swaziland National Railways is a parastatal, which is not within the Government capital budget. However, these problems are a key element of the broader infrastructure issue, so they must be mentioned here.

2. Electricity

Complaints about electrical outages are legion. Existing firms have had to incur the cost of standby generators; (for example, Conco has a small one, but it is now in the process of installing a second one of larger capacity). Some new firms requiring a reliable power supply have decided not to come to Swaziland; (an E 100 million citric acid plant was mentioned to us, as well as smaller cases involving glass, etc.).

The Swaziland Electricity Board (SEB) is also a parastatal, but power shortages are intimately related to the other infrastructure deficiencies. Although time did not permit a proper investigation of any of the parastatals, we were informed that pricing was a key problem, with higher user prices being desirable and necessary for adequate financial returns. Without proper pricing, FRR analysis will yield the wrong signals, and there will be inadequate resources for maintenance and expansion of facilities. Of course, there are internal problems related to productivity and efficiency which must also be resolved, but this can not be done successfully without a change in pricing policies.

3. Telecommunications

We were advised that there are long delays in obtaining new phones, and extensions to existing lines. Further, the present system is overloaded, with inadequate maintenance, such that firms are sometimes unable to make long distance calls or send messages by FAX during normal working hours. Again, these problems lie outside the Government's capital budget, because the Swaziland Posts and Telecommunications Corporation is a parastatal, but they are included here for the reasons mentioned in connection with the SEB above.

4. Crime

The lack of infrastructure relating to the police, on the one hand, and the court system on the other, were mentioned in many discussions. We were informed that eight small scale, foreign firms have left Swaziland this year, primarily due to rising crime. Newspapers have reported that small Swazi merchants have closed, or are considering such a move, due to fear of robbery. A report to the Prime Minister on the recent seminar on crime is under preparation and should point the way to improvements in this area, so no extended discussion is included here.

5. Land Acquisition

Both the expansion of existing firms and the creation of new firms are severely hampered by problems and delays associated with obtaining the required land. Many were critical of the Matsapa Industrial Estate, suggesting that future sites elsewhere in the country should benefit from the mistakes made at Matsapa, relating to the lack of planning for adequate space and proper zoning.

Small-scale firms have the most severe problems acquiring land (and in obtaining credit and other inputs, as well). It has been suggested that Government policies toward SEDCO be revamped, to allow firms to remain in the SEDCO estates (instead of "graduating" to other sites), with additional land (and other facilities, including grants) being provided to encourage new small, local firms.

A medium to longer-term land problem is the "silent" erosion which is washing large and increasing portions of the top soil down the rivers to the Indian Ocean. Deforestation and "slash and burn" agriculture, accentuated by the rapidly rising population, were the causes listed most often. Unless actions are taken soon, there will be less and less land to allocate, thus worsening the already serious problem of land acquisition.

6. Water

Three aspects of the water problem were presented to us, relating to (a) irrigation dams and channels (where substantial work is now underway and planned, but where so much more is required); (b) industrial water supplies, which are critical in certain manufacturing processes (e.g. Conco as an input, and NATEX for humidity control); and (c) drinking water (since it is obvious that many still carry water long distances, either because pumps and piping have never been installed, or they have broken down. In the case of (b) and (c), sewage constraints were also stressed, as unhealthy conditions are widespread.

7. Education

The requirements of the schools, from primary through the University, have been the subject of many studies revealing shortages of buildings (classrooms and housing) and equipment. These problems are becoming more acute in light of the high birth rate and the rapidly growing number of school-age children. One school we visited had good basic buildings, with special rooms for crafts (with power lathes, drills, saws, etc.) and home economics (with two new electric stoves), but the original electrical wiring was so badly installed, *none* of the electrical equipment has been used, and only a few of the electrical lights are operative. The science laboratories, in particular, were severely hampered by the lack of electricity, as well as by very limited equipment for experiments. Due to water supply interruptions, the taps in the chemistry and home economics labs are often inoperative (as they were during our visit).

8. Health

Although we were told that hospitals, clinics, and staff housing were in short supply, we did not have an opportunity to examine this problem first-hand.

Of these eight areas of infrastructure, the first five (transport, electricity, telecommunications, crime, and land) have been described in "*crisis*" terms. There is a sense that these problems must be addressed immediately. The final three areas (water, education, and health) have particular problems requiring urgent attention, but, based on our interviews, they appear to be "longer-term" in nature. These are high priority sectors, but, as suggested in the text above, the issues need to be addressed in terms of years, rather than in terms of the weeks and months in the immediate future.

Annex III

Implementation of Capital Projects in Swaziland:
List of those Interviewed

by Steve Reifenberg, John Thomas and Philip Thomas
(November 1989 - March 1990)

A. Ministry of Finance
B. S. Dlamini, *Minister of Finance*
Andreas Fakudze, *Principal Secretary*
Noreen Maphalala, *Under Secretary*
Musa Fakudze, *Under Secretary*
Christopher Adam, *former Assistant Secretary*
Lucy Goodhart, *Assistant Secretary*
Byron Tarr, *Public Enterprise Unit*

B. Treasury
I.S. Shabangu, *Accountant General*
Patrick Stratford

C. Auditor General
G. P. Dlamini

D. Department of Economic Planning and Statistics
Elliot Bhembe, *Acting Principal Secretary*
Geoffrey West, *Chief Economic Planning Officer*
Nomathemba Dlamini, *Chief Economic Planning Officer*
Bella Katamzi, *Senior Econ Planning Officer*
Cindi Mabuza, *Senior Econ Planning Officer*
Phindile Mkhonta, *Under Secretary*
J. Peter Holla, *Macro Advisor*
A.D. Augustin, *Tech. Co-operation Management Advisor*

E. Ministry of Works and Communications
Wilson Mkhonta, *Minister*
N.Z. Malinga, *Principal Secretary*
Gilbert Dlamini, *Deputy P.S. (retired)*
Evart Madlopha, *Principal Buildings Officer*
Mike Hill, *Financial Controller*
G. Libsekal, *CTA Roads Branch*
Leo Dlamini, *Principal Accountant*
Michael Mahala, *Senior Clerk in Works*
Wilson Kunene, *Senior Planning Officer*
Zandile Tshabalala, *Senior Asst. Planning Officer*
Trevor Tshabalala, *Planning and Design*
Jim Craigie, *Quantity Surveyer*

F. Ministry of Natural Resources
Sandile Ceko, *Principal Secretary*
June Nonhlandhla Richards, *Planning Officer*

G. Ministry of Labour and Public Service
B.M. Nsibandze, *Minister*
Futhi Kuhlase, *Acting Principal Secretary*
Almon Mbingo, *former Acting Principal Secretary*
Cyril Kunene, *Undersecretary*
Ken Charles, *Management Services Division*
John Hunt, *Management Services Division*
Richard Tilley, *Management Services Division*

H. Ministry of Health
Chris Mkhonta, *Principal Secretary*
Ephrain Hlophe, *Undersecretary*
Kara Hanson, *Planning Officer*

I. Ministry of Commerce, Industry, and Tourism
T.M.J. Zwane, *Principal Secretary*

J. Ministry of Agriculture
H.S. Mamba, *Minister*
Frank Buckham, *Principal Secretary*
Noah Nkambule

K. Ministry of Education
Musa Nsibandze, *Principal Secretary*
Goodman Kunene, *Undersecretary*
Elphas Dlamini, *Research and Planning*
Harry Hundsdorferoff, *Planning Officer*

L. Central Bank of Swaziland
H. B. B. Oliver, *Governor*
Martin Dlamini, *Deputy Governor*
Modern Samketi, *Assistant General Manager*
S. G. Mdluli, *Head of Research*
Ian Thompson, *Foreign Reserves Manager*

M. Parastatals
John Avery, *Director of Swaziland Railroad*
A. B. Busa, *National Provident Fund*
Michael Matsebula, *Department of Economics,*
University of Swaziland

N. Central Tender Board
Donald Mnisi, *Government Stores Controller*

O. Swazi Development Bank
S. S. Kuhlase

N. Non-Government Sector
Peter Capozza, *Khalipha Investments*
Roger Carlson, *Director, USAID*
Robert Cormak, *Conco Limited*
Tony Dickerson, *Barclays Bank*
Peter Dodds, *Federation of Swaziland Employers*
Stephen Dube, *Sibako Chamber of Commerce*
Bongo Ginindza, *Sibako Chamber of Commerce*
Bob Friedlander, *SWAKI*
John Hayter, *Tax Advisory Committee*
Ken Mbuli, *S.I.D.C.*
Karl Niessen, *S.I.D.C.*
David Price, *Institute of Accountants and Swaziland Chamber of Commerce*
Scott Reed, *Khalipha Investments*
Derek von Wissell, *SWAKI*