

**REPORT ON THE CIVIL SOCIETY BUDGET
FORUM HELD AT THE AMERICAN CULTURAL
CENTRE, MBABANE**

27 MARCH 2003

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1.EXECUTIVE SUMMARY

The Economic Association of Swaziland (ECAS), in collaboration with the Co-ordinating Assemble of Non- Governmental Organisations (CANGO) hosted the ECAS Budget Forum on Thursday March 27 at the American Cultural Centre.

The theme of the event was 'Assessment of the 2003/04 State Budget.'

The guest speaker for the day was the Honourable Minister of Finance, Mr. Majozi Sithole who presented the highlights of the 2003/4 budget. In addition, there was a panel discussion that included:

- Mr. Musa Hlophe (the Out - going Executive Director of the Federation of Employers)
- Professor Folayan Ojo (from the University of Swaziland) who gave an academic analysis of the budget
- Mr, Alfred Mndzebele (Director, CANGO) who discussed the civil society's perspective of the budget.

In summary, the Minister highlighted a number of key economic issues of the budget. These include:

- Employment,
- The budget deficit,
- Our level of indebtedness,
- Our fiscal stance,
- Our response to trade liberalisation
- HIV/AIDS
- National events

Panellists on the other hand, asked critical questions, amongst others:

- Governments commitment to good governance and the rule of law
- Where government will get money to generate cash flow and finance the jet, which is not budgeted for.
- Interference of the unaccountable government at Ludzidzini.
- Why the minister is deliberately quiet on the proposed purchase of the Kings jet

Furthermore panellists highlighted the academic analysis of the budget, drawing attention to

- Major global and regional developments
- Domestic developments
- Fiscal situation,
- Budget outturn

- Budget estimates

In addition, from the civil societies perspective, panellists highlighted:

- That the budget does not clearly address the concerns of food security, HIV/AIDS, Poverty and employment creation
- The ever-growing budget of public order, safety and defence
- Participation in development of government

At the end of the discussions, the Minister of Finance made comments addressing concerns of panellists. He gave clarifications to the various issues highlighted during presentations. These amongst others include

- The concern on the Kings Jet,
- The control of external travel and taxes,
- Food security
- Participation in development of government

At the end of the session, participants were engaged in an open discussion where they asked questions and made comments before government officials responsible for the budget. The minister could not stay for the open discussions - he had other pressing matters. He assured participants that the government team responsible for the budget would respond satisfactorily. However due to time constraints not all questions were answered.

At least 65 people from different professions attended the event.

1.1 BACKGROUND

The ECAS Budget forum was initiated in 1993 and unfortunately due to logistical and economic setbacks could not be hosted in 2002. It basically aims at providing a consultative forum amongst economic players. In the past it has proven quite a worthwhile exercise , in that some views developed during deliberations have, to varying extents , influenced government budgetary process. It has also assisted the general public, including business , appreciate how fiscal policy impacts on individual and business decision-making. This year's event will afford participants an opportunity to gain an insight into the key considerations taken to account in the preparation of the 2003/04 national Budget, and also present a space for input into the implementation of the year's budget.

2. THE DAY'S PROCEEDINGS

2.1 WELCOME REMARKS

His Excellence, Mr. James McGee – American Ambassador

The U.S Ambassador, Mr. James McGee in his welcome remarks highlighted the importance of the budget forum saying it goes a long way in improving the budgetary process of government. He stated that the economic development is one of the priorities of the country; thereby inputs towards improving the national budget are of great value. The ambassador encouraged attendants to continue supporting the forum and mentioned that the embassy was pleased to host the forum in its premises.

In conclusion, the ambassador apologised for not going to be present throughout the session. He read a statement, which served to brief the forum on the war between the coalition forces and Iraq.

2.2 OPENING REMARKS

Dr. Solomon Dlamini – Chairperson ECAS.

Dr. Dlamini on behalf of ECAS, also welcomed attendants to the forum and expressed appreciation to the American Cultural Centre for hosting the forum in their premises free of charge. He hoped that the good relations would continue, and the venue would be available in the future. Dr. Dlamini in addition acknowledged that it is a difficult time for the United States and the world community, hence appreciating the update on the war in Iraq by the U.S. Ambassador. In relation to the forum, he hoped for fruitful discussions.

Dr. Dlamini also welcomed the Honourable Minister of Finance Mr Majozi Sithole. He then explained that the day's proceedings were aimed at assisting the ministry to improve its future budgets so that the country could realise the vision 2022.

2.3 HIGHLIGHTS OF THE 2003/04 BUDGET

Honourable Minister of Finance, Mr. Majozi Sithole

The Minister firstly apologised for coming late. In his official presentation thereafter, he highlighted some of the key economic issues of the budget and then summarised the entire budget. These include

- Employment, Growth and Tax Incentives,
- The Government Budget and its Financing,
- Fiscal Restructuring Project (MTEF and PSMP),
- Trade Liberalisation,
- HIV/AIDS
- National Events.

Employment, Growth and Tax Incentives

The Minister stated that creating employment for the over 25% unemployed is the most critical issue facing the country today. He said 2002 did see some improvements, as there was 1.3% employment growth, mainly because of new investments and increased infrastructural works. Other measures include broadening efforts to promote the development of small businesses, the introduction of tax breaks to deserving industries and provisions of factory shells with subsidised rentals. Swaziland Investment Promotion Authority (SIPA), General System of Preferences (GSP) and the African Growth and Opportunity Act (AGOA) also played a key role in the drive to attracting both foreign and domestic investments. The Minister also highlighted that the tax incentives for the manufacturing sector were revised in 2000 in order to give the country a competitive edge in attracting foreign and domestic investments. This comes as a result of the fact that it has been said in some quarters that the budget did not do enough to ease the tax burden on business. *(See Annexure 1)*

The Government Budget Deficit and its Financing

The minister stated that one of the key aspects of the budget is the size of the budget deficit, which is usually expressed as a proportion of GDP. He said the figure is significant and acts as a signal to the state's public finances as well as an indicator that government was spending beyond its means, thereby incurring additional debt and running down cash reserves. He stated that Budget reserves provide up to 5 months. Concerns of the country include:

- HIV/AIDS
- RFM issue where money is not used well
- Orphans
- Scholarships

- Agriculture
- Dam construction
- Investment Climate.

In order to address the debt policy problem, the Minister proposed preparation of a debt policy paper both external and domestic debt, to guide governments borrowing. (see annexure 1)

Fiscal Restructuring Project, PSMP and MTEF

The minister informed the forum that government would implement the Public Sector Management Programme (PSMP) that will help reduce the wage bill which has become untenable. This will include the building of a much more efficient public service and the adoption of more efficient government investments decisions. In addition government is restructuring its fiscal system through the Fiscal Restructuring Project. The initiative aims to

- Firstly focusing on diversifying of tax base in order to reduce Swaziland's heavy reliance on diminishing SACU receipts. This will include replacing the existing sales tax with a comprehensive value added tax.
- Secondly, it aims at strengthening the administration of all taxes through more effective boarder controls, stronger enforcements, application of top of the range technology and merging of the customs and excise department with the department of taxes to establish a semi- autonomous Swaziland Revenue Service Department.
- Thirdly the project aims at improving public expenditure policy and management through measures that include three- year budgeting under the Medium Term Expenditure Framework (MTEF). The framework seeks to bring about greater transparency and accountability in the management of public funds as well as placing a greater emphasis on outputs and performance rather than on inputs into government operations, as in the past. For example, external travel and delegation sizes needs to be reviewed, as well as corruption. There is also a need to close all loopholes on the tendering bill and have a policy on parastatals. (See Annexure 1)

Trade Liberalisation

The Minister stated that a further key aspects of the budget sets out the implications on the government about the growing liberalisation of world trade. The Minister said both the Cotonou Agreement and a recent South Africa – European Union Trade and Development Cooperation Agreement (TDCA) mean that Swaziland must reduce tariffs by 2012, eliminate tariffs with the EU. This will drastically reduce Swaziland's custom receipts and have a negative impact of the budget, which is largely financed by SACU receipts. (See Annexure 1)

HIV/AIDS

The minister stated that the prevalence of HIV/AIDS is a key factor in the prospects for the country's economic development. By 2010, without AIDS life expectancy would have been 62. However, with AIDS life expectancy he said is projected to be 27 years of age. Furthermore, an increased incidence of HIV amongst 15-24 year old still shows that a lot still has to be done in bringing the epidemic under control. The minister said he was pleased that NERCHA was awarded \$56.7 million from the Global Fund for HIV/AIDS pandemic, TB and Malaria over a five-year period.

National Events

The minister lastly mentioned that many events will take place in 2003, which will require considerable budgetary resources. These events include

- Global 2003 Smart Partnership International Dialogue to be held in August,
- Under 17 African Youth Football Championship to take place in May 2003,
- Forthcoming national elections planned for late 2003,
- The presentation of the draft constitution
- The double celebration of the 35th Independence anniversary and the king's birthday in September 2003.

2.4 PRESENTATION BY MR. M HLOPHE

FSE/SCCI

Mr. Hlophe introduced his presentation by mentioning that he was not representing his organisations, FSE/SSCI. His remarks were

independent. He said the 2003/04 national budget is good and has a clear vision as it focuses on priorities such as HIV/AIDS, education and social infrastructure. Furthermore, He appreciated the Ministers sentiments on NEPAD, AU and NDS. Mr. Hlophe however said he was wondering if the minister comes from a team that shares his sentiments. He wondered if the country is committed politically to vision 2022.

He highlighted that the two systems of governance continue to be a problem in the country such that one wonders if the sentiments expressed can be pursued without the interference of the other government. He said bad governance in the country is at its peak and has seen workers in the street twice during the mass stay away. Hlophe described governance presently in the country as a worst-case scenario that was highlighted in the original NDS document.

Mr. Hlophe also wondered how government would generate cash flow and where money for the king's jet would come from. He went on to ask the minister why he was deliberately quiet on the Jet issue.

In conclusion, Mr. Hlophe said he was pleased that government was on the verge of controlling external travel. He said the control should not only be for civil servants but should apply to everybody, including the king's delegation.

2.5 PRESENTATION BY PROFESSOR F.OJO

UNISWA

Professor Ojo in his presentation highlighted:

- Global and regional developments
- Domestic developments,
- Fiscal situation,
- Budget outturns
- Budget estimates.

In Global and regional developments he expressed the vulnerability of the Swazi economy to the RSA market saying it is exposed to external shocks and influences. He then discussed the major global and regional developments. They include:

- Regional intergration
- AGOA
- RSA-EU Free Trade Agreement
- NEPAD

Furthermore, he summarised domestic developments. They include

- HIV/AIDS pandemic

- Employment generation
- Poverty alleviation
- Food Security

The fiscal situation, budget outturns and budget estimates were also briefly highlighted. (See annexure 2)

2.6 PRESENTATION BY MR. MNDZEBELE

CANGO

Introducing his presentation, Mr Mndzebele stated that the ‘civil society in review of the budget is not sophisticated but concerned largely with issues that impact on the grassroots. He said that the striking features in the 2003/04 budget include the following:

- The stinginess in providing budgetary amounts in the different areas characterised as priority for the financial year.
- Failure to locate amount allocated for HIV other than the pledge mentioned, that will come from the Global Fund for HIV/AIDS, Malaria and TB.
- The disappearing of the budget line for newly established Children’s Unit in the Ministry of Health
- Failure to notice resources that have been reserved by the state to address the food shortage faced by the over 230 000 people and investment for exploring and promoting alternative crops.
- The ever-growing budget for the Public order, Safety and Defence.

(See annexure 3)

In conclusion Mr. Mndzebele said that civil society continues to call for a more participatory budget development to bring into perspectives the views of the people, not just the bureaucrats. He also urged government and parliament to revisit the estimates and harness them to address the concerns of food security, HIV/AIDS, Poverty and employment creation.

3.COMMENTS

Minister of Finance, Mr. Majozi Sithole

The minister made comments after the presentations. He made clarifications on concerns raised by panellists. Below are the Ministers comments directed to the three panellist.

In response to Mr. Hlophe's presentation he said:

- Constitutional review would address issues of good governance.
- Gave clarification that government had a well-balanced team looking at fiscal restructuring. This means that government will not increase taxes but will be effective in collecting taxes and monitoring tax policies.
- The jet was not recommended by the central agencies, hence no reason to discuss the issue.
- The Prime Minister's office justifies delegation during official travel. It was proposed that a committee be established to manage external travels.
- Royal trips need to be coordinated by one ministry and that will help in managing the budget.

In response to professor Ojo's presentation the minister said:

- More needs to be done to realise the vision 2022.
- With regards the economics of irrigating maize , he felt returns are higher in sugar cane and that the maize market is too narrow.
- On food security there is two sides of the situation. Produce what you can and that which you want.

In response to Mr. Mndzebele's presentation the minister:

- Apologised for not having specific figures saying programmes to accommodate the priority areas are scattered all over
- Concured that there is a need to control expenditure strengthening social sectors than defence.
- Said the participation in development of budget is at its pilot stage. Through the mid- term expenditure framework which would be months before being finalised, input from all stakeholders in the country, would be situated.

4. OPEN DISCUSSION

At the end of the presentations attendants engaged in an open discussion. They made comments and asked questions from government

officials responsible for the budget as the minister could not be present for the session. The officials however could only respond to a few questions due to time constraint. Below are some of the questions from the floor and responses from government as well as comments.

a) Millennium projects

On capital projects and poverty and alleviation, it was asked whether the airport to be constructed at Sikhuphe is an economic need or millennium command?

b) Priorities on capital investments.

Participants wanted to know how capital projects were prioritised. The example made was the fact that Shiselweni is hard hit by poverty and underdevelopment yet construction of dams to stimulate economic growth are targeted in better off regions.

Officials said the airport is a Millennium Plan. They said government through the local media houses is presently educating the public on what it is doing with regards the millennium projects. Furthermore more studies on the projects are conducted to justify the investment. On the dam issue, officials said dam construction is under the ministry of agriculture and is based on a program, which its resources are included in the budget. They gave an assurance that the program would reach the Shiselweni region.

c) Education System

Another concern raised was that of the education system in the country. It was asked if taxpayers were getting value for their money on the quality of education considering that temporary teachers go for months without payment. Officials said that there is a need to redirect resources to primary education as compared to tertiary education. In this regard a policy is still to be developed.

Other comments and questions that were not responded to include:

- The issue of government trips applying to all civil servants.
- The national lottery being run by government.
- The commonly used phrase 'pockets of poverty' being discontinued as it downplays the situation
- What is governments policy regarding wealth distribution?
- Are factory shells contributing in a diverse way?
- What could be done to ensure that other sources yield enough to support SACU.
- Why is there no privatisation policy?
- How long will the country continue deficit financing?

4. CLOSING REMARKS

Mr. Jabulani Dlamini – Central Bank

Mr. Dlamini in his closing remarks thanked CANGO for partnering with ECAS towards hosting the event. He thanked participants for their openness and provocative ideas. He urged participants to support the Forum so that it could be able to host similar events.

5.CRITICAL ISSUES THAT EMERGED

- Sustainable economic growth in order for the country to meet the Millennium Development Goals
- Participation of civil society in the budgeting process
- Fiscal discipline
- Clear prioritisation on capital investments
- Broadening the tax base without creating pressure for the poor
- Hosting of events such as the double celebrations in light of the budgetary constraints.
- The need for a Poverty Reduction Strategy which would make it easy to track resources earmarked for poverty reduction
- The constraint of the dual system on governance
- The government commitment on the respect for the rule of law and good governance.
- The need to investigate the impact of regional integration on the Swazi Economy.

ANNEXES

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