Business Eswatini
Comprehensive Reaction to the 2023-24 Budget Minister of Finance on the 24th February 2023

Preamble:

After the budget speech by the minister of finance, Business Eswatini solicited views and comments from the business community. The responses were then painstakingly collated in order to arrive at an aggregate view which is encapsulated in the commentary here below.

Findings

- The consensus from members of Business Eswatini suggests that, on the main, the Minister of Finance was on point and seemed to have fully applied his mind on the 2023/24 national budget. However, it was not lost to BE members that the minister was this time around walking a tight rope on the one hand; while on the other, trying to make every effort to please 'everyone'. This can be gleaned from the many expenditure line items which cover almost every conceivable demographic in the country, ranging from the youth to the elderly and all the way to institutional bodies. This was not an easy feat to pull given the limited resources available in spite of the SACU windfall as well as a subdued economy after it had recorded its best performance of 7.9% at the end of 2021.

- The minister made an attempt to address, if only in part, a number of the issues which were of concern to the private sector. It is for this reason that Business Eswatini would like to congratulate the minister for putting together a national but that is both sensible and realistic. Furthermore, the endorsement of the speech by the business community was also on the sober-minded approach and commercial sensibility which seemed to pervade the minister's script throughout his presentation. As an example, and perhaps crucially, the temptation to raise all manner of taxes was always there, but the minister refused to yield to the temptation as it would have had a devastating effect on the country's fragile economy. Besides, there is a limit above which taxes cease to be a viable and sustainable source of revenue for government. Once the limit is breached, as this country is already very close to that threshold, taxes become a disincentive for companies to invest and people to seek gainful employment due to punitive taxes. To his credit, the minister carefully avoided that possible scenario. As a secretariat we can only encourage companies to take advantage of this reprieve in tax, however insignificant it may be, and reinvest their savings into productive assets and retool their businesses for the next phase of economic growth and expansion in this country. The tone and tenor of the budget speech suggest that government is now firmly poised to get this country back on its feet despite the many challenges in the way.

- It is on the basis of the foregoing, therefore, that the business community is of the view that the speech may not have been perfect as is the case with many national budgets across the region, but it was actually good based on the responses BE received. This has to be said as a qualification: Eswatini is in a peculiar position especially in the past two years, and this is exemplified by the many conflicting and sometimes inconsistent sounds playing in the background of this country which makes planning for the future the more difficult.

Fiscal Consolidation

BE noted that the budget did not spell out clearly the timelines for the repayment of debt, be it local or foreign. A delay in debt repayment by government puts a strain on business operations that in turn stifle business growth. It is for this reason that we request government to ingeniously find avenues through which they can settle government debt speedily, starting with the liabilities of the private sector. Debt is a two-edged sword which can destroy the creditor - even worse if said creditor is a business, but also can have disastrous consequences on the debtor as a result of punitive interest charges.

Local vs External Debt

It was also noted that government borrows more funds from local sources than she does from external sources. Domestic debt was reported to be at 23.35% whilst external debt was reported at 19.5% of GDP. We still encourage government to borrow in local currency or alternatively within the Common Monetary Area so as to avoid the forex risk inherent in foreign loans.

Inflation

When assessing the state of the economy the minister correctly pointed out that businesses had struggled to reach acceptable profitability levels as a result of a number of variables. One of the major causes cited for this scourge was, and still is, the erosion of disposable incomes of consumers as a result of inflation. There is an urgent need to protect disposable incomes of consumers through various policy levers which are not too painful to the intended beneficiaries. That is why business has welcomed the move to freeze increases in income tax. This move will not only protect the pockets of consumers but may enhance spending which the economy desperately needs. but it will prevent doing further harm. Government is urged to explore possible avenues to make certain commodities more affordable especially around this time where the economy is strained.

Fiscal Deficit

The fiscal deficit continues to grow marginally as a percentage of GDP and this is a major cause for concern to business. Pegged at around 2.2% of GDP currently, we hold the view that it should be reined in within manageable levels by growing the economy such that the deficit pales into insignificance relative to GDP. However, the business community has applauded the SACU stabilization fund as a positive and prudent initiative which we hope will cushion the country against the unpredictable revenue volatilities from the SACU pool. We trust that this, alongside efforts to expand trade, will lead to improved growth in business activity and ultimately, the economy.

SOE's and Government Ministries Streamlining

The minister stated that government has begun the process of streamlining state-owned enterprises to ensure that they are fit for purpose and relevant to the needs of the day. This conversation is not new and we feel the rationalization of SOE's is now long overdue. These institutions of state were designed to execute government policy on the ground, as effectively and efficiently as possible. For their trouble, they are allocated a subvention from government which they are expected to spend wisely and prudently in fulfilment of their mandate. As a business community, we believe these institutions were not designed to be a financial drain to the tax payer of which the private sector and its employees are major contributors. Furthermore, the intention was not for them to embark on pursuits outside the specific scope of their mandate. Neither were they created to stifle competition in the marketplace as a result of their powers derived from the legislation from which they came into existence.

We therefore hope the minister will muster the courage to execute the rationalization process as a matter of priority. In doing so, there will be hurdles along the way as some institutions and/or persons may wish for the status quo to remain even to the detriment of the national fiscus. It is for this reason that we commend the move by government as it is geared towards ensuring that these entities are consolidated and hopefully curtailed in number in order to reduce the fiscal burden to government. It is therefore our considered opinion that a reduction of these SEO's will not necessarily compromise the delivery of muchneeded services to the communities for which they were formed.

Infrastructure Development & Maintenance

Relevant and strong infrastructure underpins robust and sustainable business activity which is why it is encouraging that the budget speech mentioned infrastructure as one of the fundamental pillars that will be addressed. Infrastructure may entail a network of accessible roads, clean water harvesting and distribution, dams, health facilities, telecommunications, etc., all of which are critical to national development. Equally important is the upkeep and maintenance our infrastructure, and this country has been extremely poor at it and the evidence abounds everywhere one looks. The minister specifically prioritized infrastructure maintenance and we applaud him for stating that out loud.

There is no point in having state-of-the-art highways, which we arguably do, but which are full of overgrown vegetation due to poor upkeep and maintenance.

ICT

ICT forms the backbone of business and it is one of the key catalysts for innovation and, therefore, development.

Investment into relevant infrastructure and adoption of latest technologies is now not-longer an option but a necessity given the emergence of the new world work which will be predicated on digital solutions. Assess to and the cost of ICT services is a conversation that is now urgent given the rapid changes we see, not only in the world of work but also in the manner in which commerce is being conducted, Furthermore, Covid 19 has forced a process whereby education will increasingly migrate from traditional classrooms into digital platforms, which trend will be unstoppable going forward. No sector in the economy will be left unaffected by the digital wave going forward. Which is why preparedness will ensure that this country maintains its competitiveness in the transformed economic environment. It is for this reason that we are excited about the prospect of a new entrant in the ICT space, which we hope will augment the services by the current incumbents and other providers as oppose to disrupting them. Crucially, we hope the issue of the international gateway will become a topical conversation as is the matter of deregulation. This is more so because the cost of ICT services in this country remains extremely high and does not auger well for economic and social development in so far as the cost of doing business in this country is concerned.

Data integrity is becoming another crucial matter in this country and the security and interface protocols across regions are all matters that need to be discussed with urgency, hence we are encouraged to see the increased budget allocation to the ICT sector and hope that a good portion of it will be allocated to the acquisition of essential infrastructure geared towards improving government services and private sector development.

Energy

The issue of energy security and the urgency thereof cannot be overstated. It is a national problem which can no longer be ignored and we are one minded with the minister in his decision to set aside a sizeable budget to address this matter. The issue of the baseload cannot be outsourced any longer, it needs to be domesticated for reasons that go beyond geo-political implications. Furthermore, we are pleased that the minster has finally spelt out the energy mix of this country, with a target of at least 50% of renewable energy. As a private sector we are vigorously pushing green projects which we think will lend themselves to the minister’s pronouncements on energy. Equally, we hope this energy mix will be consistent with the national NDC’s (Nationally Determined Contribution) which the country promised under the Paris Accord to COP26 regarding the reduction of green house gases.

Whilst the matter of the Strategic Oil Reserve which the minister spoke about had not been understood by the private sector before, we are however pleased that after consultation with a wider network of stakeholders, ENPC in particular, we are now generally aligned. Given the sporadic and pervasive disruptions in fuel supply in this country experienced in the past two years, and the deleterious economic impact it had on business, we feel a fuel strategic reserve is tactically important. That being said, we are happy that we already have strong competent oil companies of international repute in the country.

Mining

Mining holds huge prospects for this country both from the point of view of employment creation and export opportunities, however, these prospects are undermined by the existing policy framework which is not attractive to both local and international investors.

Education

The alignment of skills with the needs of the market has become another conversation that can no longer be ignored. As we may all be aware, the world of work and skills requirements are rapidly changing hence the increasing need to re-align our education system such that it meets the present and evolving needs of industry. It is disheartening that right now we have an educated labour force that is both unemployed and unemployable because the qualifications they possess are not marketable.

We are therefore pleased to see the increase in budget allocation towards scholarship for the youth and do hope that those scholarships will be spent on skills that are in demand such as those in the ICT, specialized health practitioners, vocational and technical skills.

Agriculture

Agriculture is one of the critical sectors that drive this economy, and continued investment in it is wise. The pronouncement of the Agricultural Development Fund (ADF) will ensure that we further develop this sector and take advantage of the opportunities that lie within the value chains. The agri sector is private sector led and as such we feel it would be beneficial to have the private sector represented as a member of the committee charged over the fund.