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LIMITED COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1991

SWAZILAND

BEST AVAILABLE

AUGUST 1989

Agency for International Development
Washington, D.C. 20523

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August 7, 1989

Mr. Walter Bollinger
Acting Assistant Administrator
Bureau for Africa
Agency for International Development
Washington, DC 20520

Dear Mr. Bollinger:

It gives me considerable pleasure to endorse the Swaziland Country Development Strategy Statement for 1991 to 1995, a period which will be of particular importance for United States policy in Swaziland and the region in which this strategically located country has the potential for playing a modest but very significant role.

Swaziland is one of the very few countries in the region which has had the foresight to rely on its traditional values and philosophies in preparing itself to assume its place in the Free World. Strong human and natural resources and leadership which over many years has demonstrated a clear and consistent vision of its future and blended the best of what Swaziland and the West have had to offer, has resulted in the establishment of the basic groundwork of a modern democratic market economy. This foundation has been perhaps most clearly demonstrated by the dramatic increase in investment over the past few years by an international business community looking for an attractive environment for manufacturing in southern Africa.

As the CDSS correctly states, Swaziland is at a turning point in its history. Its recent economic successes are a manifestation of its potential to embark on a process of sustained industrialization. They have also demonstrated the risks and costs associated with such a process to a leadership that remains concerned about the preservation of Swazi values and traditions. The difficult decisions that lie ahead are of considerable interest to the United States, not the least because of the potential that Swaziland has to serve as a regional model of what can be accomplished by a country pursuing both democratic ideals and the principles of a free-market.

The attached CDSS will give the Country Team the tools required for us to maintain an effective policy dialogue with the Government of Swaziland as it examines its alternatives. It will help us play a critical, catalytic role in initiating activities by both the public and private sectors that will exploit the window of opportunity which Swaziland will be facing over the CDSS period. Time is of the essence and I recommend speedy approval of the CDSS with the modest increase in program levels requested. The unique opportunity we have to advance U.S. policy interest in the region should not be wasted.

Sincerely,

ArmaJane Karaer
Charge d'Affaires

USAID/SWAZILAND
COUNTRY DEVELOPMENT STRATEGY STATEMENT FY 1991-1995

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LIST OF ACRONYMS USED IN THIS DOCUMENT

AEPRP	Africa Economic Policy Reform Program
ADO	Agricutural Development Office
CAPM	Commercial Agricultural Production and Marketing
CARE	Cooperative for American Relief Everywhere
CCCD	Combatting Childhood Communicable Diseases
CDSS	Country Development Strategy Statement
CIDA	Canadian International Development Agency
CODEL	Coordination in Development
EC	European Community
EPMT	Educational Policy Management & Technology (Project)
FLAS	Family Life Association of Swaziland
GDP	Gross Domestic Product
GNP	Gross National Product
GOS	Government of Swaziland
HIV	Human Imunodeficiency Virus
HPN	Health Population and Nutrition (Office)
HR/GDO	Human Resources General Development Office
LTTA	Long-Term Technical Assistance
MAPS	Manual for Action in the Private Sector
MOAC	Ministry of Agriculture and Cooperatives
MITC	Manzini Industrial Training Center

MOE	Ministry of Education
MOH	Ministry of Health
NAMB	National Agricultural Marketing Board
NIC	Newly Industrializing Country
OPEXER	Operational Expert
OSARAC	Office of Southern Africa Regional Activities Coordination
PTA	Preferential Trade Area
PVO	Private Voluntary Organization
REDSO/ESA	Regional Economic Development Support Office/East and Southern Africa
RDSS	Regional Development Strategy Statement
RLA	Regional Legal Advisor
RSA	Republic of South Africa
RWSB	Rural Water Supply Board
SACU	Southern African Customs Union
SADCC	Southern African Development Coordination Conference
SEDCO	Small Enterprise Development Corporation
SIDC	Swaziland Industrial Development Corporation
SNL	Swazi Nation Land
SSE	Small Scale Entrepreneurs
STDs	Sexually Transmitted Diseases
SWAMDP	Swaziland Manpower Development Project
TA	Technical Assistance

TDL	Title Deed Land
TMA	Trilateral Monetary Agreement
UNDP	United Nations Development Program
UNISWA	University of Swaziland
USAID	United States Agency for International Development
USDH	U.S Direct Hire
VOCTIM	Vocational Training College in Matsapha
WID	Women in Development

USAID/SWAZILAND
COUNTRY DEVELOPMENT STRATEGY STATEMENT FY 1991-1995

I. EXECUTIVE SUMMARY

The Swaziland that is about to enter the last decade of the Twentieth Century is a very different place from the country described in the 1984 CDSS update. At that time a series of negative indicators led the Mission to caveat the 1982 CDSS assessment that Swaziland could achieve sustained, balanced economic growth by the end of the century, and determined that while that goal was still achievable, it would take longer than expected. While the empirical evidence of the time justified a more cautious perspective, the intervening years have demonstrated that the underlying strengths that lie behind Swaziland's consistent economic growth have remained in place. Further, the dynamic growth of the economy since 1986 has provided USAID/Swaziland with an exciting opportunity to revise its program strategy to assist Swaziland to meet the challenges of entering a phase of sustained economic growth by the year 2000, as originally projected in 1982. This CDSS builds upon the accomplishments of the USAID program to date, and maturing GOS capabilities which have been strengthened with USAID support.

When the last CDSS was written, the economy was troubled, the country had experienced a natural disaster and was recovering from it, and Swaziland had entered an interregnum with political uncertainty ahead of it. Today, the picture of Swaziland is much brighter. Political stability has been strengthened with the accession to the throne of King Mswati III and with the continuity of the foreign and domestic policies of King Sobhuza II, including a commitment to the principles of a free market, prudent fiscal management, and careful balancing of the often conflicting needs of the traditional and modern sectors of society. Overall economic growth has been between six and nine percent each year since 1986, much of it generated by an increase in private foreign investment. The economy is becoming increasingly diversified and mature, new jobs are being created, and the vulnerability of the economy to external shocks has been reduced. The Swazi economy is strongly private-sector-oriented and the investment environment is very attractive, providing the country with an opportunity to transform the surge of growth of the past 4 years into sustained economic growth and national development that will improve the standard of living for all Swazis.

There have been a number of accomplishments and lessons learned during the past CDSS period and they form a strong foundation for a revised Mission strategy. Much of what USAID has done to date has focussed on the institution-building side of human resources development. USAID-sponsored public sector participant training has played a significant part in staffing the key development institutions (e.g., Ministries of Health, Agriculture, Education) with Swazis who are well-qualified and prepared to manage government's work. Sector-specific

assistance projects in health, agriculture, and education have helped establish essential Swazi capacity in each of these areas. Building on this foundation of Swazi capability, it is USAID's experience that appropriate required policy changes supportive of development needs do take place, even if such policy changes may appear to evolve slowly. USAID recently examined more closely the private sector role in Swaziland through the Manual for Action in the Private Sector (MAPS) process. What emerged from the MAPS process is a clearer understanding of the potential for USAID support to the private sector in sustaining the growth of the Swazi economy.

Analysis of Swaziland's potential reveals key areas of constraint or risk which must be successfully overcome if the country is to achieve balanced, sustainable growth. USAID's revised CDSS deals with these problems: (1) The most serious threat is Swaziland's high rate of population growth (3.3 percent) which diverts scarce resources from activities supporting economic growth and exacerbates existing social problems. The high population growth rate contributes to the unemployment problem, strains social services, reduces the quality of life for individual Swazis, and aggravates problems related to urbanization. (2) The education system is not adapted to the needs of the economy. While Swaziland has achieved its objective of universal primary education, education and training institutions are not providing students with the appropriate level of skills in a variety of areas critical to economic growth. The education system is becoming more inefficient as the pupil population swells. These problems are related to the next issue, (3) insufficient Swazi participation in the economy. The Swazi economy is dualistic, with most of the modern, large-scale economic activity dominated by foreign investment. Lack of Swazi involvement in all aspects of economic activity inhibits broadening and diversification of the economic base and prevents many from sharing in the increased wealth that growth creates. (4) Lack of urban development and (5) insufficient maintenance and expansion of infrastructure will inhibit and constrain economic growth. Strained capacities will dampen new investments and affect productivity of on-going operations. (6) Tensions between the modern and traditional sectors affect the progress of national development. The private sector, particularly new investors, is sensitive to the uncertainties that can be a product of modern/traditional tensions. (7) the private sector needs greater support from public institutions particularly in key areas where policy formulation and administrative support are required to stimulate growth.
USAID's revised strategy is focussed on three key areas related to the fundamental risks/constraints identified: (1) reducing population growth through support for population initiatives and voluntary family planning; (2) improving the ability of Swazis to manage and participate in the economic growth process by developing manpower skills through investments in basic education and professional and technical training, support to the GOS in policy analysis and implementation, facilitating communication between the public and private sectors, and

integration of the traditional sector into the development process; and (3) accelerating employment generation through private sector growth by supporting private enterprise in the areas of agribusiness and small-scale enterprise, facilitating development of business organizations and private sector integration, and promoting labor-intensive foreign investment. This revised strategy builds upon but departs from the previous strategy in several ways: different types of projects from the institution-building approach will be a hallmark of the new strategy. This approach will involve less large long-term technical assistance teams and a greater focus on problem-solving through targeted short-term technical assistance. While USAID will continue to provide participant training and will emphasize human resources development, it will be primarily for the private sector or for those elements of the public sector that affect and are supportive of private sector needs. During this CDSS period, it is also anticipated that program assistance targeted at policies related to private sector needs will be a new assistance modality incorporated in USAID's program.

These modifications to USAID's CDSS have resource and Mission management implications. In order to respond to the requirements of a private-sector based strategy, bilateral program resources cannot be maintained straight-lined at $6 million/year. Required resources should be increased in 1991 to $8 million/year, to be supplemented beginning in 1991 by an additional $2 million/year in AEPRP-program funding to support policy objectives. Mission management changes will also support this new approach and will result in a more streamlined Mission structure. A reorganization will move the Mission from its current 3 sectoral/technical divisions (Human Resources, Agriculture, and Health) to two functional divisions: a General Development Office (incorporating population and human resources) and a Private Enterprise Office (incorporating Agri-business and private enterprise support).

II. OVERVIEW OF THE ENVIRONMENT FOR DEVELOPMENT

1. Swaziland: An Emerging African Success Story

At a time of great concern about the economic future of sub-Saharan Africa, the Kingdom of Swaziland is one bright light in a rather bleak picture. A small, land-locked country situated between ravaged, strife-torn Mozambique and a South Africa in political and economic turmoil, Swaziland has managed to achieve an economic growth rate that is 350 percent above the long term average for sub-Saharan Africa. Even during Southern Africa's difficult decade of the 1980's, Swaziland has maintained the fourth highest growth rate in Africa. Real growth in 1988 was 9 percent, further evidence of an emerging economic boom.

Much of Swaziland's success can be attributed to the conservative pragmatism of its political leaders in both foreign and domestic policies, commitment to the principles of a free market, prudent fiscal management, and careful balancing of the often conflicting needs of the traditional and modern sectors of society. Further, its stability and consistent policies have enabled donors to implement long term institution building programs that have provided the basic public sector underpinnings essential for private sector-led economic development and reinforced the country's free enterprise orientation.

Swaziland still faces some serious challenges. The most critical of these is reducing its high rate of population growth. Failure to limit population growth will bring on or aggravate a host of economic and social problems that will threaten much of what has been accomplished until now. The education system needs to be re-oriented to produce graduates whose skills match the needs of a growing economy. The base upon which growth and development takes place needs to be broadened and diversified with more Swazis participating as investors and entrepreneurs. The rapid rate of economic growth is straining infrastructure and increasing tensions between modern and traditional elements in the country.

Yet these issues are not overwhelming crises, but challenges facing a basically healthy, vibrant and growing nation. Swaziland, with some help from its friends, has a good chance of successfully tackling these challenges and achieving sustainable economic growth and development in the near future.

2. USAID Involvement in Swaziland

USAID has provided development assistance to Swaziland for a continuous twenty year period following the country's

independence. During this time, much has been accomplished and USAID has learned important lessons about what works in Swaziland.

The program has emphasized human resource development from the start. At the time of independence, the largest group of educated people in the country were primary school teachers, and most government offices were staffed at the professional level by expatriates. USAID has trained almost 500 Swazi participants, at least one third of whom now hold senior civil service posts with policy making responsibilities. In-country training for traditional leaders has increased their involvement in development efforts and enhanced their overall effectiveness, while management seminars for public sector managers, including upper level civil servants, have enhanced institutional capacity. Strengthening of critical training institutions such as the university and teacher training colleges has improved the quality of primary school teachers and the curriculum materials with which they work. These accomplishments build the country's capacity to develop its own human resources.

In agriculture, another traditional focus of USAID's program, institutional strengthening of the Ministry of Agriculture and Cooperatives (MOAC) has progressed to the point that nearly all senior professional positions are occupied by Swazis. Swaziland's agricultural research capability has been firmly established at a research center directed and staffed by Swazis. Research on subsistence agricultural methods and extension of the results have been important factors in increasing crop yields. A new area of MOAC activity, agribusiness development, still requires institutional strengthening within the Ministry.

USAID has also been extensively involved in health activities, and more recently in family planning efforts. Accomplishments in the health sector include the establishment of a health institute at which the country trains many of its own health personnel, improved and expanded primary health care service delivery, and increased health awareness through a rural health motivator program. Health related work in rural water and sanitation has developed the capacity of the Rural Water Supply Board (RWSB) to coordinate provision of water and sanitation services. Finally, government support for USAID involvement with a local family planning organization represents an important breakthrough in leadership attitudes towards family planning.

The evolution of the Government of Swaziland (GOS) policy with respect to family planning illustrates one of the lessons of USAID experience in Swaziland: attitudes and policies change slowly, but they do change. Encouragement on the part of donors can facilitate the process, but forcing new ideas on an unreceptive audience has little chance of success.

USAID's approach of human resource development and institution building is paying off. USAID projects have helped develop a talented leadership cadre, and technical proficiency at middle levels of the government, so that donors are now able to work side-by-side with Government in a problem solving mode.

3. An Opportunity for AID

The GOS has demonstrated its commitment to private sector-led economic growth consistently over twenty years. This puts Swaziland a step ahead of most African countries, where reliance on market-led growth has been slower to take hold. Due to the strong working relationship which has been developed over the years between USAID and the GOS, we are confident that the new strategy proposed in this document can be implemented effectively in collaboration with both the public and private sectors to support further economic growth in Swaziland. Given these factors, the Mission believes that USAID now has a unique opportunity to assist Swaziland in achieving broad-based, sustainable economic growth and national development.

III. PROSPECTS FOR BALANCED GROWTH: DESCRIPTION AND ANALYSIS

A. Basic Indicators

1. Macroeconomic Overview: The overall economic picture in Swaziland has improved considerably since the last CDSS. Real economic growth has been between 6 and 9 percent each year since 1986. The economy is becoming increasingly diversified and mature, new jobs are being created, and the vulnerability of the economy to external shocks has been reduced. The government's budget is under control and is less dependent on a single revenue source, and foreign exchange reserves are high and growing.

1.1 Income The infrastructure as well as the attitudes toward private sector-led development, which were developed over the past decade, have recently begun to pay off. Real economic growth during 1986 and 1988 was nearly 9 percent. While overall real growth was barely positive in 1987, this decline was primarily because sugar production dropped 13 percent from its historical peak in 1986. Non-sugar production increased 6 percent. Through the first half of 1989 real growth has been 4 percent, but projections indicate an overall rate of 5.5 percent real economic growth in 1989.

This recent growth has several encouraging characteristics. While it has been led by new manufacturing investments, agricultural output has increased as well, especially on Swazi Nation Land where maize and cotton production are up and there is increasing commercialization. Secondly, the economy has become more diversified. Where previously it was vulnerable to changes in the prices or quantity that could be sold for a limited number of products, particularly sugar, rapid industrialization over the past three years has reduced this dependence and vulnerability. Manufacturing, for example, now accounts for over 26 percent of GDP, one of the highest percentages in the region.

While regional political developments were an important initial impetus for the recent high rates of growth, there is no reason to expect that growth will end soon. The increase in the number of new firms has led to wider awareness of Swaziland's favorable investment climate and greater interest in locating here. A recent study of firms located in the Matsapa Industrial Park indicated that three-quarters expected to expand their operations further within the next two years and not one expected to contract. There are sufficient building plans in the pipeline to assure continued economic growth through 1990. In addition, increases in bank loans for construction and business expansion implies that expansion will continue. Efforts by Government, however, to attract more new businesses and help existing businesses expand are necessary. Continued accelerated growth cannot be assumed without aggressive efforts to promote Swaziland by the GOS in partnership with the business community.

1.2 Trade The recent rapid economic growth has been export-based and has resulted in Swaziland's first positive trade balance since the 1950s. The overall balance of payments has also been positive with the result that net foreign assets have increased and the country has been able to move from having only two months of import cover in 1982 to over six months now.

Exports have become more diverse; the traditional exports of sugar, wood, citrus and asbestos accounted for two thirds of the value of exports in 1986, but were less than half the value of exports in the year ending June 1988. The primary reason for the change was an increase in the quantity and value of other exports. Export markets, on the other hand, have become somewhat less diverse, with the proportion of exports to South Africa increasing.

1.3 Inflation: Because of the close economic ties with South Africa, through the Southern African Customs Union (SACU), and because of the Trilateral Monetary Agreement (TMA), which permits the free flow of capital, there is no significant difference in rates of inflation between Swaziland and South Africa. Inflation in Swaziland continues to approximate South Africa's 10-15 percent and is likely to remain in this range. Inflation hits poor Swazis particularly hard because of dependence on food and clothing imported from RSA, but also makes it more difficult for exporters to maintain their competitiveness. At the same time, the sharp decline in the external value of the rand has pushed up the price of imported goods.

1.4 Government Budget and Debt: Large and increasing deficits in the 1980s led to significant public sector borrowing. In 1986/87, spending was 20 percent more than revenue. The Government was dependent on Customs Union receipts for almost half its revenue, and experience had indicated that South Africa would attempt to extract concessions in return for higher receipts. To reduce this dependency, a sales tax was introduced, as were strict controls over new hiring, wages and new activities. Increased revenue from the sales tax was partly offset by the necessity of helping certain parastatals meet their external debt obligations (due to the decline in the value of the lilangeni). Given these factors, the Government was successful in reducing its reliance on the SACU and gaining better control over the recurrent budget.

The Government has had continuing difficulty implementing its capital budget. This problem has become increasingly serious and is now impeding the achievement of development objectives. The capital budget has dropped from about 30 percent of total government expenditure in the mid 1980s to only 15 percent in 1988/89 in spite of the availability of Government financing. This management problem has reduced the ability of the Government to maintain infrastructure and cater to the needs of a rapidly growing population for education, health and housing services.

Both the 1987/88 and 1988/89 budgets had an overall surplus and thus the Government was able to reduce its debt (currently less than 8 percent of the value of exports). The current 1989/90 budget projects a deficit equal to 0.2 percent of revenue. Although the budget includes a 60 percent increase in capital spending, given the lack of implementation capacity, it is likely that this budget too will be in surplus.

1.5 Monetary Policy: Swaziland is a signator of the Trilateral Monetary Agreement (TMA) with South Africa and Lesotho. This agreement guarantees the free movement of capital between these countries. While Swaziland has officially de-linked the lilangeni from the rand, the Government unofficially continues this linkage and remains in the TMA. The decision to remain in the TMA implies that South Africa's high rate of inflation is passed on to Swaziland, and that the external value of the lilangeni continues to be determined by forces affecting South Africa. The recent large decline in the external value of the rand has revived discussions as to whether it is wise to continue this policy.

De-linking would permit the stronger lilangeni to have a higher external value, but it would still need to track the rand closely as 80% of the country's imports come from or through South Africa. An increase in the value of the lilangeni when most imports come from South Africa and most exports are denominated in US dollars might result in a decline in the profitability of firms in Swaziland, and thus could reduce business incentives to invest and expand here.

In the past two years, two new private banks were established which have increased competition in the financial sector. Loans by the banks had languished for many years and were limited mainly to overdrafts or for trade. Due to recent accelerated growth, loans to the private sector have increased 67 percent in the last three years; in the preceding three years there was no net change.

The Central Bank permits wide latitude of action for the private banks and has not attempted to direct credit, control interest rates or force changes in bank behavior. Like government policy towards the private sector, it is essentially non-interventionist.

1.6 Employment and Unemployment: There are no figures on unemployment in Swaziland and thus estimates of the size of the problem are inferred from other statistics. Approximately 8,700 people currently enter the formal sector seeking employment each year. This number will increase because of the high rate of population growth and the exceptionally young age of the population (47 percent under the age of 16 in 1986). Roughly 4,800 of these people find work through replacement, migration to the RSA or self-employment. Thus the economy needs to generate at least 3,900 new jobs annually. This figure too will rise as today's youth enter the labor force.

In 1988, 101,000 people were employed in the country, 88,000 in the formal sector and an estimated 13,000 in the informal sector. From 1980 to 1986 the formal sector was only able to increase employment by a total of 1,300 people, and an enormous backlog of discouraged job seekers developed. In 1987 the formal sector created an additional 6,300 jobs and in 1988 a further 5,100. Thus, these years were able to meet the needs of the growing economy and reduce, albeit slightly, the number of unemployed. Over three quarters of the jobs created since 1986 were in the private sector.

Creating jobs has become more difficult as the capital-labor ratio has shifted towards capital. Most new industries have tended to be more capital intensive. The GDP elasticity of labor has fallen from 1.0 in the 1970s to an estimated 0.71 by the mid '80s and around 0.6 now. This change implies that each one percentage point increase in GDP results in a 0.6 percent increase in the demand for labor. Unless the labor intensity changes, continued growth over 7 percent is necessary just to absorb the growing labor force. Efforts to attract more labor intensive industries are needed.

Employment of Swazis in South Africa, mainly at the gold mines, has increased slightly, but is less significant in the overall employment picture. In the early 1980s it accounted for nearly a third of modern sector jobs but represents only 17 percent now. There is growing concern, however, about a "brain drain" to South Africa, especially to the homelands. The lack of real growth in government wages has led to an exodus of people to the private sector and South Africa where wages are now 40 percent - 200 percent higher for professional, administrative and managerial personnel.

1.7 Income Inequality: While there is a sense of rising income inequality in the country, there is not adequate data to prove the hypothesis. The 1978 Rural Homestead Study showed the poorest 10 percent of rural homesteads earned under 1 percent of national income while the top 10 percent earned nearly half. The 1985 National Income and Expenditure Survey found that the top 10 percent of rural households accounted for 35 percent of national income while the poorest 10 percent accounted for less than 2 percent. Thus during this period there might have been some improvement in income distribution. Nearly every rural homestead has at least one person working in the modern sector and remitting money. The relatively poorest part of the country, the extreme south, is also where the largest number of workers for the South African mines are recruited.

The same survey reported that the median income of female-headed households, which comprise 39 percent of all households, is one third less than that of households headed by men. Explanations of the difference include male-female wage differentials and the fact that some male-headed families have two income earners.

2. Productive Sector

2.1 Agriculture: Agricultural production accounted for 24 percent of GDP in 1987 and a slightly lower percentage is projected for 1988. An additional contribution by the forestry sub-sector is less than 2 percent of GDP. Sugar represents about 50 percent of the agriculture sector GDP and 39 percent of total exports by value. Other major commercial crops are citrus, cotton, tobacco and pineapples.

In the commercial sector, expansion of sugar and citrus production is limited by lack of additional land and water for irrigation. Further, the sugar industry's dependence on quota access to U.S. and European markets exposes it to some risk, although sugar prices are expected to remain high due to high demand in the foreseeable future. Forestry is not expected to expand.

A few farmers have begun diversifying into high value crops (e.g. litchies, mangoes, flower bulbs and cut flowers, tumeric). Although further studies on high value crops are needed, there appears to be significant potential for profitable diversification both on the large sugar and citrus estates and for smallholders who want to supplement subsistence production with a cash crop.

Production, harvested area and yields of maize, the principal food crop, have all increased since the early 1980s. The 1988/89 harvest continues to reflect this trend. The bulk of maize is grown by small farmers on Swazi Nation Land (SNL) for subsistence consumption. Most of the subsistence maize production is not included in GDP. The country is not self sufficient in maize production, however, and imports some portion of its requirements each year (18 percent in 1988). Some observers argue that imports are due to trading channels and are largely offset by unofficial exports to "homeland" areas in South Africa or to Mozambique.

Agricultural production on SNL represents over 60 percent of the harvested area, but contributed only 5 percent of GDP in 1987, compared with 14 percent for production on Title Deed Land (TDL). Cotton is the major cash crop grown on SNL. Cotton production has remained fairly stable during the 1980s; significant increases are not expected as high labor costs and dependence on favorable weather makes cotton risky and less attractive to many smallholders.

Until recently, most donor efforts, including those of USAID, have focused on increasing the productivity of subsistence agriculture. These efforts have met with some success, as indicated by higher SNL yields starting in the mid 1980s.

USAID has supported agricultural research programs for many years, and Swaziland's main research station, now staffed and directed by Swazis, is doing research that directly addresses

the needs of subsistence farmers. The extension service, however, has been slow to develop an effective delivery mechanism for the research results. Major problems are lack of transport, poor motivation of extension agents, and an inappropriate approach to disseminating information. The Cropping Systems Research and Extension Training Project (645-0212) has been extended until 1991 to address some of these issues.

Through a combination of Swazi and donor efforts, the Ministry of Agriculture and Cooperatives (MOAC) has developed considerable institutional capacity to address issues in the agriculture sector. To date, its activities have been oriented toward rural development and increasing production on SNL, but it is now broadening its role to encompass all farming, agribusiness and marketing. The Ministry is able to identify problems and develop strategies for dealing with them, but outside expertise in unfamiliar areas such as agribusiness, marketing and policy reform is still needed. Knowledge of the needs of smaller agribusinesses operated by entrepreneurs is virtually nonexistent.

Lack of adequately defined and accessible markets and difficulty accessing credit are the major constraints to increased commercial activity on SNL. The existing National Agricultural Marketing Board (NAMB) has yet to create an acceptable marketing situation. The Board has little incentive to push local produce as its funding source is a levy on imported products. Local farmers supply produce on consignment, receiving payment only when and if it is sold. The uncertainties inherent in the arrangement discourage commercial production.

The evidence on the extent to which credit is a constraint is mixed. On the one hand, most families have at least one or two wage earners whose cash contribution can be saved towards a small capital investment. Cattle can be sold to raise money, but people are loathe to do this as cattle are their security. Small loans are available from the Swaziland Development and Savings Bank, a government parastatal which accepts cattle as collateral from SNL farmers, but larger loans are more problematic. Farmers have difficulty providing acceptable collateral if they don't have a proven track record or title to their land, and they often lack the business skills to prepare an acceptable loan proposal. The banks, in turn, are not prepared to offer flexible terms to accommodate the fact that it may be several growing seasons before the farmer will earn a return on the investment.

An agricultural marketing project funded by UNDP to develop the statistical and analytical capacity of relevant MOAC offices has laid some of the groundwork for further efforts to address constraints to commercialization of agriculture. Another area of GOS interest is privatization of a number of agriculturally

related activities including input supply, cooperatives, tractor hire schemes, seed multiplication, the National Maize Corporation, which is responsible for milling, and the National Dairy Board.

Given the land and water constraints faced by the large sugar and citrus estates, gains in agricultural production will have to come increasingly from commercialization of small scale agriculture. Because returns to labor in wage employment are so much higher than in subsistence agriculture, the only way to stimulate agricultural production is with the promise of the higher returns associated with commercial agriculture.

2.2 Commerce and Industry: Manufacturing grew at an average rate of 5.9 percent between 1979 and 1987, and overtook agriculture as the leading sector in 1987. In 1988, manufacturing contributed over 26 percent of Swaziland's GDP. Manufacturing is still closely linked to agriculture, with agro-industry, primarily sugar milling and woodpulp, comprising two thirds of manufacturing GDP. Potential for further development in agroprocessing is linked to agricultural output, however, which in turn is limited unless significant expansion in small scale production occurs, primarily on SNL land.

The sector has become increasingly diversified since the mid 1980s. Recent investment and growth has been primarily in non-agriculture related concerns. Textiles and footwear are the fastest growing areas of investment. A leading businessman recently announced plans to invest $400 million in an expansion of the textile industry in Swaziland. Thousands of new jobs could be created if this investment gets off the ground. One observed likened Swaziland's potential in textiles to the experience of Mauritius. The bulk of textiles and footwear are exported to markets where Swaziland has preferential access.

The strong performance of the manufacturing sector in the last few years can be attributed to increased investor interest in locating in Swaziland due to its favorable investment climate. Another factor was higher agricultural output (particularly sugar which boosted sugar processing). The international campaign of sanctions and disinvestment in South Africa spurred some of the initial investors, including the largest producer of beverage concentrate in southern Africa, but recent investment is primarily motivated by positive factors in Swaziland's environment rather than the negative factors across the border.

The Swaziland Industrial Development Company (SIDC), a joint venture between the GOS and various international finance institutions, has been set up to promote and facilitate private sector investment. SIDC provides equity and loan financing, factory space and promotional services. Since its establishment, SIDC has approved 19 projects with an investment value of E125 million (about $48 million at the current exchange rate).

Developments in the manufacturing sector have both spurred and been encouraged by an expanding array of financial and other services. Swaziland now has six commercial banks, two of which were established in 1988 and have introduced a competitive element into the banking sphere. Growth in financial services and the real estate sector is one measure of the increasing sophistication of the Swazi economy. Another is the plan to establish a Swazi stock exchange which, if implemented, would be an additional source of investment capital.

Tourism and construction have good growth potential but have not performed as well as might be expected given current economic conditions. In the case of tourism, more aggressive marketing is required to realize the country's potential.

2.3 Small Scale and Informal Enterprise: Swaziland has less small scale and informal enterprise activity than would be expected at this stage of development, primarily because people and businesses have ready access to goods and services from South Africa. Nevertheless, although data is sparse, it appears that the informal sector is becoming more important, at least as a source of employment. It is estimated that employment in the informal sector currently accounts for approximately 13 percent of monetary employment.

Preliminary results of a USAID-funded survey of small enterprise indicate general retailing is the most common type of activity, with approximately five times as many people engaged in retailing as in manufacturing or services. While ownership characteristics have not yet been compiled, informal activity such as peddling, beer brewing, selling produce and making handicrafts and school uniforms is known to be an important source of income for women.

USAID has supported research on the environment and constraints faced by small entrepreneurs. While the environment is generally supportive, factors that limit the growth of small scale enterprise (SSE) include cultural traits, a small domestic market, relatively easy access to imported goods, and regulatory practices that discourage expansion beyond a small, informal level. Entrepreneurs need better business skills to increase access to credit and manage their business more effectively. Access to markets, technology and raw materials are also constraints.

The Small Enterprise Development Company (SEDCO) is a parastatal set up to promote small businesses and employment. It offers business sites at seven estates around the country. SEDCO has not been very effective at helping entrepreneurs develop their businesses, and financial constraints have curtailed plans for building new estates. Business associations established to assist small entrepreneurs have not been effective either. There is currently interest on the part of large industry in facilitating the development of an indigenous service industry that would incorporate SSEs.

2.4 Mining: The importance of mining in the Swazi economy has declined substantially since independence; mining now accounts for approximately 2 percent of GDP but a larger portion of foreign exchange earnings. Mining is limited to asbestos, diamonds and coal, although there is investor interest in other minerals. The expansion of the current asbestos mine in 1989 will enable production to continue in the short-term.

3. Service Sector

3.1 Education and Training: The education system has developed remarkably since independence. The country reached near universal primary school enrollment a few years ago, with virtually equal rates for both sexes, and an adult literacy rate of 64 percent. It is now declining due to severe overcrowding and an inability to absorb the skyrocketing numbers of new entrants. Nevertheless, the educational profile of Swaziland's population is more advanced than that of most other African countries. Today, the country is confronting the challenge of adapting its education system to the demands of a modernizing society. The education system consists of two levels, the basic education system, pre-school through high school, and higher level vocational and academic institutions.

3.1.1 Basic Education: Swaziland's commitment to education is demonstrated by the rapid expansion of the system since independence and the high rate of investment in the education sector. The total number of primary students has risen from about 75,000 in 1970 to almost 180,000 in 1990. At the secondary level enrollments rose from 6,000 in 1968 to over 32,000 today. Gross primary enrollment was last estimated in 1985 at 105 percent and net enrollment at 82 percent.

Government outlays to education as a percentage of total recurrent expenditures rose from less than 20 percent at the time of independence to 28 percent in 1989. Significantly, a large portion of the cost of education is paid for by parents and communities. Up to 25 percent of recurrent costs are met with school fees, and most classrooms constructed since 1984 have been community funded.

The success in expanding some schooling to virtually all Swazi children has been bought at a cost of declining educational quality as marked by increasing numbers of repeaters and drop outs. Attrition rates have increased and student achievement scores have been declining for more than a decade, although the trend has reversed in the last two years. This declining efficiency limits graduates' prospects for participation in a modern economy, contributes to a shortage of entrepreneurs and skilled workers, and results in school leavers who, once they enter the workforce, require substantial remedial training, reducing productivity and raising costs.

In spite of Swaziland's strong commitment to the education sector, and a better than average performance, the efforts and accomplishments of the past 20 years are threatened by the pressures brought about by an ever increasing population. Without prompt remedial measures, the large numbers of school children will have severe consequences for Swaziland's budget, employment situation and economic development prospects. For example, while an average of 3,200 new students per year entered primary school between 1971 and 1980, and an average of 7,000 new students per year will have entered primary school between 1981 and 1990, conservative projections are that by 1994, this figure will reach 9,000. The problem for Swaziland's education system is to ensure that children do not simply attend school, but that they master the basic skills essential both to their own future participation in a modern economy and to the economy's continued expansion and diversification.

In 1985, the GOS convened a national commission to review the status of education. The commission's report, which is the basis for current education policy, made improving the quality of education the top priority. Specific objectives stated in the most recent development plan are to introduce a nine year basic education program (as opposed to seven years currently), diversify the curriculum to include practical skills and prevocational education, substitute the exam system with continuous assessment, use guidance and testing to diagnose learning problems and detect aptitudes, and generally improve the internal and external efficiency of the system.

3.1.2 Training for Further Skill Development: As with basic education, opportunities for further education have grown substantially since independence. A number of institutions of higher learning have been established including the University of Swaziland, the Institute for Health Sciences, a teacher training college and two vocational training centers. Currently there are 14 formal and nonformal training institutions with a total enrollment of 2,927 that annually graduate 965 students. This includes many semi-skilled graduates (eg: midwives, farmers) but does not include people who complete apprenticeships or other company sponsored training programs.

Despite the growth of further training opportunities there remains a severe shortage in two respects: first, the available places do not begin to satisfy the demand for further training. Of more direct consequence to the economy, the existing institutions do not turn out sufficient numbers of high quality professionals in areas of severe shortage such as finance, science, management and some technical fields.

While existing institutions can produce entry level personnel for some occupations, no local institutions have the capability to provide mid or high level skills. For example, the University offers no graduate degrees and the vocational

schools only train to a 3rd class Cities and Guilds Certificate. As the economy becomes more sophisticated and demands higher skill levels, this limitation will be more sorely felt.

Up to now, donors have filled the gap between the need for high level qualifications and the limitations of local training institutions. The role of the private sector in developing skilled labor, although substantial (all of the large companies have apprenticeship and other training programs), is not well understood. There may be potential for expanding the private sector's manpower development role, but only the largest firms currently have the resources or interest to make a contribution. Nonetheless, firms could offer as yet unexploited training venues or mechanisms and the use of training resources as an incentive to private sector growth and attracting foreign investment should be examined.

3.2 Health and Family Planning

3.2.1 Health: The most serious health problem in Swaziland has been and continues to be the high incidence of diarrheal diseases, leading to much higher infant and child mortality rates than in many other countries with comparable income levels. Swaziland is among the 26 sub-Saharan African countries with very high under 5 mortality, as defined by UNICEF, but among those same 26 countries, it has the second highest GNP/capita. The situation has, however, been improving. The infant mortality rate dropped 24 percent in ten years to 119 per 1000 live births in 1987, and it may be even less now but no data are available to confirm this. Under five mortality has improved more slowly, declining to 177 per 1000 live births in 1987.[1] Primarily as a result of this progress, life expectancy has increased from 49 years in 1983 to 57 in 1987. (UNICEF, State of the World's Children, 1989).

Malnutrition, while not an acute problem in Swaziland, does interact with and aggravate other conditions. A 1983 survey found 30 percent of children under 5 in rural areas and 23 percent in peri-urban areas had chronic malnutrition in the form of stunting (HPN Sector Assessment). A more recent study in selected Rural Development Areas measured a 47 percent rate of stunting amongst children (Nutritional Aspects of Agricultural Change, Cropping Systems Research Project, 1987, Rebecca Huss-Ashmore).

AIDS does not yet appear to be a serious problem in Swaziland, but there is potential for it to become one. As of July 1989, 113 people tested positive for HIV, giving a prevalence rate of less than one percent (Times of Swaziland 7/31/89; MOH, Three Year Medium Term Plan for the Prevention and Control of AIDS, 1989). But the Ministry of Health's AIDS plan acknowledges

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[1] This statistic cannot be compared with the one cited in the previous CDSS due to a change in UNICEF's definition.

that the AIDS picture in Swaziland is incomplete and that the high incidence of STDs, the "mobile nature of Swazi society," and rapid urban growth are factors which suggest a much higher prevalence rate. Health services are provided by government, church and private clinics, but about 30 percent of the population lacks reasonable access to service. Private expenditures on health are substantial but include payment for the services of traditional healers, who play an important role in Swazi culture.

A number of donors provide assistance to the Ministry of Health (MOH). USAID, the largest donor in recent years, has supported improvement and expansion of primary health care services, in part through decentralization of the MOH, and has addressed high infant and under 5 mortality rates through diarrheal disease control and immunization programs, targeting of high risk pregnancies, promotion of breastfeeding and proper nutrition, and increased access to clean water and proper sanitation.

The MOH has made progress addressing Swaziland's health problems and has increased its budget for preventive services. It is hampered, however, by an historical emphasis on curative, facility-based services and a thin layer of managerial and technical competence at middle and upper levels. Development of alternate health care financing mechanisms must be addressed in the near future if progress is to be sustained.

3.2.2 Family Planning:

Rapid population growth is the greatest long term threat to Swaziland's development. The 1986 Census reported a growth rate of 3.3 percent, but recent evidence suggests that the rate may be dropping. A USAID-supported national Family Health Survey indicates that the total fertility rate has dropped from an estimated 6.9 in 1976 to 5.0 in 1988. The same survey found that the contraceptive use rate was 17 percent, a fourfold increase over the previous estimate (World Bank, Population and Health Sector Review, 1985; Swaziland Family Health Survey, 1988). Not surprisingly, the survey also documented that increasing urbanization and rising female education levels are linked to higher contraceptive use and lower fertility.

Family planning services are available at all government, private and industry clinics, giving about 70 percent of the population access to services. Government clinics, however, do not actively promote family planning. Clients usually have to take the initiative in requesting services, and clinic staff are often ill-trained to provide information and counselling.

A critical shift in the attitudes of the Swazi leadership towards family planning took place in 1988. Prior to that time, the leadership had been reluctant to discuss the issues of population growth and family planning, but a new, more

positive environment emerged with the appointment of a new Minister of Health, who is a strong advocate of family planning, and the election of a new Parliament in November 1987. The newly elected MPs articulated their commitment to reduced population growth and family planning at a USAID-sponsored workshop in July 1988. Following the workshop, USAID signed a new grant with the Family Life Association of Swaziland (FLAS), the country's only family planning organization, to improve its own three-clinic operation and catalyze the expansion of family planning services through private industry. The Pathfinder Fund is assisting FLAS in complementing this grant.

3.3 Urban Development: In 1986, almost one quarter of the Swazi population was living in urban areas and the urban growth rate was estimated at more than 7 percent annually. In the major urban area, the Mbabane-Manzini corridor, the population increased 61 percent between 1976 and 1986. Assuming a similar growth rate, the population in the corridor will be one and a half times its present size (100,000) in twenty years. The influx into the corridor has largely been fueled by employment opportunities, and with the large increases in formal sector jobs registered since 1986, the growth rate has probably been even more rapid in the last few years.

Most urban growth has been unplanned, unserviced and uncontrolled. Close to two thirds of the corridor's residents live in informal settlements without proper access to potable water and sanitation or other services such as roads and garbage collection. Existing water and sewerage systems are at or beyond capacity, and inadequate sewage treatment, polluted water supplies and overburdened abbatoirs present clear health threats. As informal settlement densities increase, living conditions may become substantially worse than in rural areas.

Land has not been a constraint to settlement until recently. The majority of the urban population resides on SNL or government (Crown) land; in contrast to many Third World cities, few are actually squatters since they obtain permission from the town councils or chiefs. Despite this, housing is often rudimentary because permission to live on a site is not permanent.

Almost all of the Government's housing resources are devoted to building civil service housing, and there are no current plans for constructing low income housing. The private sector is unwilling to invest in low income housing because the middle and upper income market is strong, and a lengthy approval process and expensive building codes make low income housing unprofitable. In the near future, most of the urban growth with respect to low income housing will continue to be in unserviced areas.

The primary cause of "urbanization without development" in Swaziland is institutional in nature. Urbanization is a new phenomenon which the Government is not equipped to deal with. Responsibility for providing basic urban services is fractionated and public sector structures are inadequate for coordinated planning and capital investment programming. Existing public services and facilities are operated on an uneconomic basis and thus require direct subsidies from very limited local government revenues. Local governments lack the authority to force provision of critical services and infrastructure. For example, the Mbabane and Manzini town councils are required to provide services to peri-urban areas outside their jurisdiction from which they cannot collect revenue. To make matters worse, decisions about construction of water and sewerage systems, roads and electricity are made by national entities over which the town councils have no authority.

In sum, the GOS does not have a clear plan to deal with rapid urbanization or with the institutional and policy reforms needed to meet this challenge. The Ministry of Natural Resources, Land Utilisation and Energy has taken the lead on urban development and has developed a good series of project proposals, but this type of activity must be accompanied by comprehensive institutional rearrangements.

3.4 Infrastructure and Energy: By African standards, Swaziland's infrastructure is well developed, but the recent high level of economic activity is straining its capacity.

The transport network includes all weather roads linking production centers with main towns, road and rail links to ports at Maputo, Richards Bay and Durban, and an international airport serving major southern African cities and Nairobi. 700 kilometers of road are already paved, and there is progress on paving several new portions.

The roads require continual maintenance and upgrading, and the recent upsurge in economic activity has increased traffic, particularly heavy traffic, causing roads to deteriorate more quickly. Maintenance jobs often have to be repeated due to poor workmanship. Transport policy is also weak, with user fees bearing little relation to the costs incurred.

Both the railway and the airline are managed by parastatals, Swaziland Railway and Royal Swazi National Airways, respectively. The financial position of the railway was adversely affected by the substantial damage caused by Cyclone Domoina in 1984. It has experienced sizable losses in the last few years, in part due to the increase in the value of its foreign currency debt as a result of the depreciating lilangeni and to severe management problems. An important component of the Southern Africa Regional Program's Regional Rail Systems Project (690-0247) is aimed at improving the management of Swaziland Railway.

Communications are the responsibility of a parastatal under the Ministry of Works and Communications. As with other aspects of infrastructure, the services have been unable to keep up with rapidly growing demand. Almost the entire country is covered by automatic telephone exchanges and the quality of telephone service is generally good but erratic. Telex and fax services are also available. The country has both a radio and television station; most Swazis have radios but few have access to television.

Serviced factory shells are located at the main industrial estate at Matsapha and in Nhlangano and Ngwenya. SEDCO provides sites for small scale industries in seven major towns, as noted above. Despite this coverage, there is a severe shortage of both large and small factory sites. The Matsapha complex is nearly full and slated for expansion, but implementation has been slow. Existing facilities also need upgrading.

Biomass residues and fuelwood are Swaziland's largest domestic energy sources. The sugar industry, the nation's largest consumer of energy, generates most of its requirements from bagasse. Additional energy is available from this source if the industry is given an incentive to generate for outside consumption. Almost three quarters of household energy consumption, primarily that of rural households, is in the form of fuelwood (see III.B.5).

Hydropower is the principal source of domestic electricity. The Swaziland Electricity Board, a parastatal, manages hydropower generation (capacity 50 MW) and supplies the balance of the country's electricity needs (40 percent on average) through purchases from South Africa. Industry and irrigated estates consumed 70 percent of the electricity sold in 1988. Existing transmission line capacities need to be increased and the reliability of supply improved to support continued industrial development.

The major constraint to improving infrastructure is government's difficulty in implementing its capital program. Lack of professionally qualified engineers and planners, and an inability to coordinate inputs from various departments are at the core of the problem. Existing facilities have deteriorated due to inadequate maintenance, increasing the magnitude of the task.

Swaziland is today dependent on South Africa for a substantial portion of its electrical supply and for transport links to ports. The relatively low price of South African electricity discourages further development of domestic sources, and hydropower on a large scale is infeasible because of restrictions on damming rivers that flow across international borders. The traditional port which in the past handled most of Swaziland's traffic is Maputo, closer and less costly than

any alternative in the RSA. While use of Maputo is increasing again, slowness in clearing traffic and lack of security at the dock and on the rail line are uncertainties which prolong Swaziland's reliance on South African transportation links.

B. The Environment for Growth

Swaziland's ability to turn in the development performance described in the previous section, during a period when the region as a whole has been severely destabilized and many of its neighbors have experienced dramatic economic declines, is a remarkable accomplishment. Recognition and understanding of the factors that shaped the environment in which this accomplishment took place are critical to the development and successful implementation of the Mission's CDSS.

1. The Political and Social Environment: A singular aspect of Swaziland's history (one shared with Botswana and Lesotho) is that its colonial status was a product of the long Anglo-Boer struggle in southern Africa and resulted in its boundaries being established on a "tribal" basis rather than the usual mixture of economic exploitation and 19th century European imperial visions. As a culturally homogenous nation state, Swaziland has escaped the ethnic struggles that have plagued many of Africa's emerging nations. Equally important, its ability to maintain its social and political traditions to a greater extent than most nations in the region has aided not only in bringing a sense of balance to the growth process, but has resulted in eschewal of the often disastrous political and social experiments popular with many new leadership elites.

A critical factor in Swaziland's development which both strengthened the maintenance of traditions and resulted in a healthy tension between tradition and the forces of modernization was the fact that the country was led for over sixty years (until 1982) by King Sobhuza II, perhaps one of the most astute political leaders the continent has produced this century. The pragmatic political philosophies and free-market oriented economic policies which he established and institutionalized reinforced stability and encouraged growth. On a number of occasions the new King, Mswati III, has reaffirmed his commitment to continue the policies and philosophy of his father.

Swaziland has a modern government structure with a bicameral elected Parliament and a Cabinet selected from the Members of Parliament running the day to day affairs of government. Parallel to this are the traditional debating forces which have a real impact on policy and government. There is considerable interplay between the two systems with effective power swinging to and fro. Ultimately, all legislative, administrative and judicial powers are vested in the King, who in turn is influenced by his own advisors and, particularly, the Queen Mother.

While this dualistic system provides valuable checks and balances, it can also be disruptive to administration. For example, a recent "land decree" issued by the King (the decree empowers the Minister of Justice to intervene in any land transaction) was not vetted on the modern Government, and caused great concern in the private sector, particularly in banking circles, which read into the decree the possibility that land titles could be rendered null and void. The King has attempted to address these concerns by giving reassurances, but the decree has not been rescinded.

The dualistic nature of the society is reflected in the land tenure system as well. Approximately 44 percent of the land is Title Deed Land, while the remainder is Swazi Nation Land. This land is held by the King in trust for the nation and administered by chiefs. Each Swazi male who pledges allegiance to a chief has a right to fields for farming, the use of communal grazing land, and land on which to build a home for his extended family. About three quarters of the working age population supports itself by subsistence farming on SNL, but most families also have at least one member working in a modern sector job either in the country or in South Africa. While the land tenure system presents some challenges to commercialization of agriculture on SNL, it also provides valuable social security in the sense that Swazis know they always have a place to live and a means of survival.

The phenomenon of urbanization is changing the social organization of Swazi families and speeding the breakdown of traditional values, with both positive and negative consequences. On the negative side, a diminished sense of community and the breakup of extended families in urban areas have reduced individual and communal senses of respect for authority and responsibility for others. This phenomenon manifests itself in the abandonment of wives and children and increased crime levels. On the positive side, peoples' attitudes and ability to function in modern society are improving. Some of the traditional roles for women are less important in towns, and opportunities for monetary employment give women greater freedom (most new jobs in the modern sector have gone to women).

2. External Environment: Swaziland's ability to effect a metamorphosis in its economy without serious disruption of its stable society, despite its location in a troubled region, is a remarkable accomplishment. The country is sandwiched between two large and antagonistic neighbors - South Africa and Mozambique. Rather than align itself with one or the other, Swaziland has simultaneously maintained correct relations with apartheid South Africa and close ties with socialist Mozambique. At the same time, the country has taken advantage of economic opportunities created by international pressure on South Africa.

Swaziland's proximity to South Africa has a direct impact on its economic growth. Politically, Swaziland needs to maintain a delicate balancing act between its abhorrence of the racial policies of the current South African Government, and its reliance on the South African economy, an exercise which has far reaching implications for its international image. For example, while it is quite happy to serve as an alternate location for international companies that are unwilling to be based in south Africa, it cannot afford to be perceived, however incorrectly, as an accomplice in South Africa's efforts to circumvent political pressure and, by implication, be associated with South African "homelands". The extent of its success in these efforts is reflected in its economic achievements and growing interest by reputable international firms with long term investment perspectives.

The overall economic implications of the proximity to South Africa are mixed. Swaziland's macroeconomic policies are constrained by membership in the SACU and TMA. Given these ties and Swaziland's open economy, the economic consequences of South Africa's political policies, particularly those of inflation and the external value of the rand, are necessarily transferred to Swaziland. On the other hand, access to South Africa's well developed infrastructure and industry has been important to Swaziland's own industrialization. Progress is being made in developing other economic links, both in the region with the Southern African Development Coordinating Conference (SADCC), through the Preferential Trade Areas (PTA) and internationally, particularly with EC countries.

The situation in Mozambique, Swaziland's neighbor to the east, has been unstable but now appears to be improving. Investors are already reported to be exploring possibilities in Maputo. An increasing market orientation to Mozambique's economics, and the possibility of a cessation of hostilities will create competition with Swaziland for investors. On the other hand, Mozambique still has a long way to go, and established businesses in Swaziland may be able to exploit new markets there.

Past and present activity by anti-government rebels in Mozambique has spurred an influx of refugees to Swaziland. 16,000 Mozambicans are officially registered with the United Nations High Commissioner for Refugees and are settled in the border area and in two refugee camps. There are probably several thousand more along the border, plus an undetermined number of illegal immigrants scattered throughout the country. The perception among Swazis is that the Mozambicans are competing for jobs and exacerbating unemployment.

3. The Public Sector: Twenty-one years after Swazi independence, the basic requirements of a comprehensive modern government structure appropriate for nation building are in place. Although some expatriate civil servants remain, most

key positions at upper and middle levels are staffed by trained and able Swazis, although the attraction of more remunerative private sector employment is a growing problem. Key ministries are being guided by increasingly sophisticated leadership, and many institutions have reached the stage where continued growth and maturation are being generated internally. Institution building has progressed further in the social sectors which have received the bulk of donor assistance; the Government's ability to formulate policy and provide administrative support is, however, still weak in a number of areas critical to the private sector and economic growth.

The Government has a laissez-faire attitude towards the private sector, and creates a generally conducive investment climate as evidenced by continued investor interest. The Government has taken steps to encourage investment through tax and other incentives. In addition, Swaziland's free market policies, well-managed budget, adequate foreign exchange, and a policy allowing repatriation of imported foreign capital and dividends are important inducements.

4. The Private Sector: The private sector plays a dominant role in Swaziland's economy. It produces 71 percent of GDP (1986), provides 69 percent of wage employment (1987) and generates 80 percent of all new investment. The private sector is becoming increasingly diversified, with most growth in manufacturing. (Manual for Action in the Private Sector (MAPS), May 1989).

The private sector is characterized by two distinct groups - the large foreign-owned companies and small and medium sized businesses primarily owned by Swazis. There are few linkages between the two groups, and their needs and concerns are very different.

The large firms view Swaziland's business environment favorably. Preferential access to markets in SACU, the Preferential Trade Area (PTA), the European Community (EC), the U.S. and Japan, a pool of inexpensive and trainable labor, free market orientation, political stability and a pleasant living environment are positive aspects of the investment climate. A shortage of local skilled labor, poor quality of public sector utilities and services, and at times uncertainty about government policies are considered disadvantages of the current environment.

The favorable investment climate is not well known outside the region. The recent influx of businesses should help attract additional investors, but the private sector needs to development more external contacts and actively promote Swaziland as an investment alternative.

The small and medium sized enterprises produce primarily for the local market, although some produce for export. A USAID-funded study of small entrepreneurs suggests access to credit and markets are major constraints, as are access to raw materials and transport. Poor business skills also inhibit small business development.

5. Natural Resource Base Despite its small size, Swaziland is blessed with a diversity of natural resources, although this resource base is being rapidly depleted. The Kingdom has good agricultural land, as the extent of commercial agriculture indicates. About 10 percent of the total land area is cropland and two thirds is permanent pasture ("A Description of the Private Sector in Swaziland", Capricorn Africa, USAID, 1989). There are concerns, however, about increasing soil erosion and declining fertility on SNL; a forthcoming FAO land use and soil survey will provide more data on these issues.

Range degradation due to overgrazing is an acknowledged problem. Data on the extent and severity of degradation is limited, but one piece of evidence is that certain types of grasses associated with degraded range are becoming more prevalent. Livestock, particularly cattle, have an important role in Swazi culture and are still the primary store of wealth. Efforts to reduce the size of the national herd have not been very effective. The government is currently phasing out subsidies of supplies for cattle dipping and immunizations so that owners will bear an increasing portion of the costs associated with keeping cattle.

Indigenous and planted forests cover 10 percent of the country. A well-established forest industry operates plantations that account for 60 percent of the total forest. Because of commercial planting, forest cover has increased since the mid-1960's.

The rural population uses the indigenous forest for building materials and fuelwood. Excessive fuelwood demand is already shrinking the indigenous forests. Even allowing for development of additional woodlots planned by the Forestry Section, it is estimated that indigenous forests could be reduced by 40 percent by the year 2000 (World Bank, Swaziland: Issues and Options in the Energy Sector, 1987).

Deforestation is not as critical as in many other countries, but official concern was demonstrated when the King recently told the nation to stop cutting down trees. Increasing urbanization will reduce pressure on the forests, as will shifts to alternate fuels by people experiencing localized wood shortages.

Swaziland has relatively abundant water resources, many of which have not yet been exploited. Plans to develop the Komati river basin with a series of dams to provide water for irrigation are underway; one dam is ready for construction and will provide enough water to irrigate 5000 hectares. The potential for irrigating 55,000 hectares in the middleveld and lowveld from other river sources has been identified, but economic feasibility has not yet been investigated.

The country's diversity and scenic beauty offer tourist potential that has yet to be fully developed. For a small country, Swaziland has a remarkable number of ecological zones with a corresponding diversity of plant and animal species. Roughly 1/40th the size of Botswana, Swaziland has an equal or greater number of species, some found nowhere else in the world. However, some wildlife and indigenous plants have disappeared as they are unable to compete with human activities and livestock.

Preservation of biological diversity is not a high priority, but awareness is growing. The recent admonition by King Mswati that people should not hunt wild game indicated his great concern. Five nature reserves have been established, two of them privately owned, with at least one in each of the major geographic zones of highveld, middleveld, lowveld, and Lubombo Plateau. The country is a signatory to the African Convention for the Conservation and Management of Wildlife.

Absence of coherent data on species and habitats and difficulty in coordinating the efforts of different government departments thwart conservation efforts. A donor-funded study of indigenous tree and plant species is scheduled to begin soon, and there are discussions about setting up a seed bank for indigenous species.

Swaziland's relatively pristine environment is already threatened by settlement and industrial activity. There are several well known polluters among the industries operating in the country, but government is either unwilling or unable to do anything about them. Environmental laws are on the books, but they lack clarity and may even be contradictory in some cases. Regulatory agencies have little enforcement capability; they are ill equipped, understaffed and lack appropriate training to carry out monitoring and enforcement tasks. At present, environmental impact assessments are not used, but the Ministry of Natural Resources is exploring the possibility of requiring them.

C. The Opportunity for Growth

Swaziland is at a turning point in its national development. A tradition of pragmatic free market policies and sustained development efforts since independence have put it in a unique situation to exploit circumstances dramatically changed in southern Africa. Since the mid 1980s, and for at least the next few years, it has one of the most attractive investment climates in the region, to which the remarkable private foreign investment-generated growth of the past three years attests.

While growth has been stimulated in part by exogenous factors, in particular the sanctions and disinvestment pressure on South Africa, it has been sustained by the inherent qualities of the country itself. At the present time Swaziland compares favorably in many ways with the newly industrializing countries (NICs) at the time they were entering their periods of high growth. This comparison is particularly true in terms of social and economic stability, cheap labor, access to trade preferences, savings rates and sound macroeconomic policies (Hood, "Industrialization prospects for Swaziland and the experience of Newly Industrialized Countries," 1989). There is clear potential for significant, sustained export led growth, particularly through export of labor-intensive consumer goods. Of all the SADCC countries at present, Swaziland has the best prospect of developing into a sound, reasonably diversified free-enterprise economy.

At the same time, however, recent rapid growth has highlighted a range of negative factors which will impede if not deny the achievement of broad based economic development that private sector led growth can bring unless they are successfully addressed. Further, achievement of accelerated economic growth is not just an opportunity for Swaziland; it is an essential goal if the impact of the dramatic increase in the working age population is not to erase the gains that have been achieved since independence. While continued attention to employment generation in areas such as the informal sector and commercialization of agriculture will be important, the increase in jobs that will be required for equitable growth will require substantial foreign investment.

Complicating the issue is the presence of what can be termed a "window of opportunity". Swaziland's current comparative advantage is a significant one. Nevertheless, as political stability in the region begins to increase and South Africa resolves its problems, competition for investment will be heightened and Swaziland could well lose its attractiveness if it does not create a sufficiently large manufacturing industry that can compete against other industrial areas in the region over time. Thus a continued and improved environment for private investment, both foreign and domestic, is a crucial short-term factor in Swaziland's development. If the country does not make the most of its present opportunity, it may well miss the boat on a long-term basis.

Although seizing the opportunity for growth will take considerable political will and enlightened and sensitive national leadership, none of the challenges facing Swaziland appear to be insurmountable. Given its success to date, it seems that, with some judicious help from the donor community, Swaziland has an excellent chance to successfully address the constraints and risks it faces and achieve balanced, sustainable growth in the near future.

D. Constraints and Risks Threatening Sustainable Growth

1. Rapid Population Growth

The single most serious threat to economic growth and overall national development is Swaziland's high rate of population growth (3.3 percent in 1986). The rapidly growing population diverts scarce resources from activities supporting economic growth and exacerbates existing social problems.

One obvious problem on the horizon is unemployment. By the beginning of the next century, almost half the current population will join the ranks of the working-age population. Employing all of them productively, whether in the modern or traditional sector, will be difficult, even with continuing economic growth throughout the next decade.

Rapid population growth forces the government to spend more just to maintain current levels of education, health and other services with little scope for raising the quantity or quality of these services. For example, a larger adult population makes concentrating health resources on priority areas such as maternal and child health more difficult.

The same dynamic is at work at the household level. With larger families, expenditures per child for food, health care and education are necessarily lower. The continued poor health statistics in Swaziland, particularly for infants and young children, are to some extent a result of high population growth. Shorter birth intervals increase the mortality of mothers, newborns and young children who receive less attention after the arrival of a newborn. At the same time, low child survival rates are a factor in continued high population growth, given the frequently observed correlation between high fertility and high infant and child mortality.

The urbanization trend and problems associated with urbanization are also aggravated by high population growth. Increasing pressure on the land will encourage more people to search for formal employment in urban areas. Crowding in towns may increase the prevalence of communicable diseases, and poor basic services endanger the health of the urban population.

2. Education System Not Adapted to Needs of Economy

With the increasing sophistication of Swaziland's economic environment, an educated population is required to ensure broad participation in modernization. While the education system is good relative to most other African countries, it does not impart the attitudes and skills people need to adjust to and participate in this rapidly changing society. Employers find that while worker productivity is high in comparison to other countries in Southern Africa, entry level skills are poor and workers require extensive training. Many graduates, especially those at the primary level, will have to support themselves through farming or other self-employment, pursuits for which the current system prepares them poorly.

Furthermore, education and training institutions are not graduating students with the appropriate level of professional skills in a variety of areas critical to economic growth. Businesses have difficulty finding qualified Swazis for middle and upper level management, professional and technical positions. In 1986, only 60 percent of the professional and technical employees in the private sector were Swazis, and a slightly larger percentage held managerial and administrative posts. The public sector too requires more skilled and talented people to guide and support the development process.

Finally, the education system itself is becoming more inefficient as the pupil population swells. High repeat and dropout rates need to be reduced and overall management of the system improved in order to maintain and expand access to basic and higher education and training.

3. Insufficient Swazi Participation in the Modern Economy

As a result, in part, of the inadequacies of the education system, Swazis do not play a strong management role in the modern economy. As might be expected, large companies are foreign-owned, and recent studies show that small Swazi-owned enterprises are not growing vertically -- that is, small Swazi firms are not expanding into medium to large scale firms. Investment and growth in the modern economy is occurring because of the injection of foreign capital and management expertise. The indigenous environment is dormant, and over the long term that factor will inhibit the broadening and diversification of the economic base. Greater Swazi participation is essential to avoid the social and political tensions which will increase if Swazi participation is not assured. Today, that issue is best summed up by the growing debate over "localization" -- i.e. the degree to which companies have qualified Swazis rather than import labor and talent from outside the Kingdom.

In the area of commercial agriculture, access to both capital or credit and markets are constraints for Swazi farmers. The first requirement for commercialization is that a ready market

exist for the product, and this is not always the case in Swaziland. Uncertainties regarding ability to sell and at what price discourage farmers from experimenting with commercialization. Farmers have difficulty obtaining credit due to lack of appropriate collateral, and the banks are not set up to accommodate the special circumstances of farmers. (See III.A.2.1 for further discussion of credit and market constraints).

Small entrepreneurs have difficulty obtaining credit, too. Collateral can be a problem, particularly for married women, since they cannot get a loan without their husband's approval. Business skills are weak, and may affect an entrepreneur's ability to prepare an acceptable loan proposal. Local entrepreneurs face additional constraints relating to markets and marketing.

4. Lack of Urban Development

Despite the rapid rate of urbanization during the 1980s, little has been done to address either the physical or social infrastructure needs of the urban population. Poor roads, lack of permanent housing and essential services such as water, sanitation, electricity and refuse collection have a negative impact on the health of the urban residents. The erosion of traditional values in urban areas is creating new social problems, but welfare and other support services are virtually non-existent.

The Government has not yet made a serious attempt to address the issues associated with urbanization. A recent World Bank proposal for a large urban development loan was turned down because the GOS did not want to add to its debt burden. The lack of planning for all aspects of urban growth is primarily attributable to institutional constraints; agencies whose areas of responsibility are inconsistent with their areas of authority are a serious institutional problem.

5. Insufficient Maintenance and Expansion of Infrastructure

Swaziland inherited a good basic infrastructure at independence, and the base has been expanded since then. As already noted, maintenance has not been adequate, and the Government has serious difficulty implementing planned capital projects.

The present level of economic growth is straining existing infrastructure. For example, serviced industrial sites for both large and small businesses are in short supply. Improved roads and rail facilities, increased electrical supply capacity, and expanded communications systems are necessary to continue attracting new investment and to maintain the productivity of on-going operations. Infrastructure development, particularly in transportation, communication and power, is important not only for supporting business but as a means of reducing Swaziland's dependence on South Africa.

6. Tensions Between the Modern and Traditional Sectors

Economic change often brings with it social and political conflict. In Swaziland, there is a growing sense that the rapid rate of economic growth is increasing tensions between the modern and traditional sectors, and there is a possibility that the modernization process will be challenged by the traditional leadership. These tensions are not always bad, since in many respects it is the balance between traditional and modern forces which is the source of Swazi stability and gives this society its unique character.

The private sector, and particularly new investors, are sensitive to uncertainty in the policy environment. Differences between modern and traditional leaders that produce mixed signals raise the level of uncertainty. Large companies operating in the rural and semi-rural areas are even more directly affected by the traditional sector. They have complex links with the local communities, and their productivity often depends directly on a good relationship with local leaders.

The dualism in Swazi society affects the progress of national development. Traditional values are breaking down; this means that restrictive attitudes towards women and work are relaxing. Changes in community and family structure that lead to a decreased sense of responsibility and accountability and loss of respect for authority, however, are matters of social concern. To the extent that people feel torn between modern and traditional values, the development process may be slower and more erratic.

7. Insufficient Government Understanding and Support of Private Sector

The Government's attitude towards the private sector has been to more or less leave it alone. To promote the development of the private sector, the Government must first understand and then respond to the needs of the private sector. This is particularly true in the areas of policy formulation and administrative support. Government leadership is required in key policy areas and in mobilizing resources to deal with issues that adversely affect the private sector. While investment promotion is primarily a function for the private sector, the government should also play a role. (Manual for Action in the Private Sector (MAPS), May 1989).

8. Insufficient Private Sector Integration

The private sector as a whole is relatively unorganized, and is poorly integrated both within Swaziland and with the world economy. Largely ineffective representation by business organizations hinders communication with the Government and between groups within the private sector. Beneficial linkages between large and small firms, with a consequent reduction in dependence on South African businesses for support services,

could be developed if the private sector was better organized. The private sector also needs to improve its ability to take advantage of external market opportunities and to effectively promote the favorable investment climate and attract additional investment. (Manual for Action in the Private Sector (MAPS), 1989).

9. Limited Natural Resource Base

One of Swaziland's main natural resources is land. Agricultural production and agri-processing represent a significant portion of economic activity. Potential for expansion of large commercial agricultural operations, however, is limited. While greater commercialization on smaller farms is possible, the growing population, urbanization and industrialization will claim more and more land. Various forms of land degradation and industrial pollution are a clear danger. Because of the limited supply of land and other natural resources, future economic growth will be more dependent on industrialization that utilizes Swaziland's human as well as natural resources.

IV. STRATEGY

Many African countries are now coming to the realization that a free market economy offers a better opportunity for economic development and growth to occur than does a centrally managed economy. In Swaziland, we see the results of twenty years of consistent adherence to a free market oriented economy. As a result of this early recognition of the validity of market forces and the importance of an independent private sector, Swaziland is now in the position to be able to achieve broad based sustained economic growth without an insuperable effort. For example, public sector institutions are now in place to manage the country and are run and staffed by Swazis. The level of sophistication of these institutions is far from perfect, but they are capable now of engaging in problem solving in order to fine tune policies to undertake a more vigorous growth effort. The same process is now underway in the private sector although, as mentioned earlier, here the Swazis are further behind.

Encouraging and supporting the private sector as the engine of growth in developing economies has been a cornerstone of USAID policy since the early 1980s. During this past year, Swaziland was chosen by USAID as one of seven countries of emphasis for development of a private sector strategy in 1989. In collaboration with AFR/MDI, we have completed the first two phases of analysis and private sector strategy development for Swaziland. We now have a unique opportunity to implement such a strategy in a positive environment where there is a commitment on the part of the Government, to encourage free-market forces. Given the sound policies which have been pursued by the Government of Swaziland over the years since independence, and the fact that the country seems to be in the early stages of a more accelerated economic growth path,

emphasizing the development of manufacturing and light industries on the model of the NICs, USAID/Swaziland believes that we are well positioned to carry out a comprehensive new strategy for Swaziland in the early 1990s.

The Strategy can be carried out with only a modest increase in resources, but with a shift in the emphasis of where our resources are applied. It is our view that if the industrialization process now under way in Swaziland continues at the current rate, and if there is appropriately applied short and long term technical assistance, together with a modest level of program assistance to back up policy reforms, by the mid 1990s Swaziland should be in a position to gradually reduce its dependence on foreign economic assistance. We believe that by the year 2000 there is a very good chance that Swaziland will be one of Africa's first foreign assistance graduates, and well on the way to managing its own economic growth process without significant levels of grant aid from the donor community.

A. A Strategy for Supporting Sustainable Development

The proposed USAID strategy in Swaziland for the FY 1991-1995 period is designed to address those constraints to sustainable growth identified in the previous section in which USAID has a comparative advantage through its specific experience in Swaziland, and general experience and orientation worldwide. The goal of the strategy, which reflects the opportunity presented by current positive trends in the country, is:

> to assist Swaziland to expand its accelerating economic growth into a process of equitable and sustainable development that enhances the quality of life of all Swazis.

USAID has a unique opportunity to assist Swaziland in capitalizing on a growth process that has already begun and has good potential for continuing, if certain constraints and risks are addressed. The goal will be accomplished by focusing on three strategic objectives:

1) <u>Reducing population growth</u> through support for population initiatives and voluntary family planning;

2) <u>Improving the ability of Swazis to manage and participate in the economic growth process</u> by developing manpower skills through investments in basic education and professional and technical training, support to the GOS in policy analysis and implementation, facilitating communication between the public and private sectors and integration of the traditional sector into the development process;

3) <u>Accelerating employment generation through private sector growth</u> by supporting private enterprise in the areas of agribusiness and small scale enterprise, facilitating development of business organizations and private sector integration, and promoting foreign investment.

USAID/Swaziland believes that these three strategic objectives are closely inter-related. It is vitally important that Swaziland reduces its 3.3 percent population growth rate. A continued high rate of population growth will undermine efforts to improve the quality of education and skills training, and will make it even more difficult for the economy to create sufficient employment and wealth to raise the standard of living for all Swazis.

The other two strategic concerns, Swazi management and participation in economic growth and private sector development must both be encouraged in order to generate employment. While Swaziland's education and training system has been institutionalized over the past twenty years, it now must strive to meet the needs of the economy by improving manpower skills. Similarly, the process of economic growth must create a wide variety of opportunities in order to accommodate the growing population. To a large degree, the way in which the Swazis cope with the interface between these three strategic areas in an environment of accelerated growth and change will determine whether the society can continue to improve the quality of life for all Swazis. In selecting these strategic objectives, the Mission is placing the USAID program at the center of this process.

The focus on these three areas is intended to maximize the impact of USAID's assistance to Swaziland, highlight the importance of working with both the private and public sectors to foster economic growth and development, and further the Development Fund for Africa goal of "economic growth which is broad-based, market-oriented, and sustainable." The choice of these particular strategic objectives was determined by the relative severity of the constraints that need to be addressed and the extent to which USAID can make a contribution. The Mission's rationale is discussed below.

1. Reducing Population Growth

The high rate of population growth has been identified as the single most serious threat to long-term development in Swaziland. USAID has been instrumental in eliciting support for family planning among national leaders and there is a growing recognition of the importance of this effort. While leadership attitudes are much improved, more still needs to be done in this area. Previous USAID-GOS dialogue on the population issue and the quality of USAID's present relationship with the Government provides a firm foundation for future progress.

To further the goal of reducing population growth, USAID will encourage development of a national population policy and will support new and existing family planning initiatives in the public and private sectors. These initiatives focus on stimulating demand for family planning services and expanding the availability of these services.

2. Improving the Ability of Swazis to Manage and Participate in the Economic Growth Process

To create broad-based and sustainable growth with the benefits distributed equitably throughout the society, greater Swazi participation in all aspects of economic growth is essential. Creating a capacity for broad participation requires development of an appropriate knowledge base, skills and attitudes through a variety of human resource development approaches. USAID interventions to improve the quality and relevance of basic education and to assist in developing professional and technical capabilities will engender broader participation and build on previous USAID experience and success in both these areas.

A supportive environment is crucial to continued economic growth, and the growth process must be guided so that it contributes to national development objectives. USAID has worked successfully with the GOS to strengthen its performance in a variety of areas, and proposes to continue doing so. Specifically, USAID will help to improve GOS policy analysis capability and administrative performance in areas constraining economic growth or supporting the private sector. In addition, better communication between the private, public and traditional sectors will be encouraged, so that concerns and constraints relating to private sector-led development can be shared and addressed.

3. Accelerating Employment Generation Through Private Sector Development

Productive employment, either in the formal or informal sector, is essential to improving the quality of life in Swaziland and maintaining the social and political stability the country enjoys. Because of rapid population growth, almost half the population will be entering the workforce within a short period of time. The country must start preparing now to ensure that productive employment is available for these young people.

Swazis are eager for wage employment opportunities. USAID can work with the Government and the private sector to create new employment opportunities by improving the climate for foreign investment in labor intensive industrial enterprises, promoting foreign investment and assisting private sector development and integration. Even with continued rapid economic expansion, however, growth in wage employment cannot keep up with the number of people entering the workforce.

A majority of the population will need to support themselves either through a combination of commercial and subsistence agriculture or with self-employment in micro and small scale enterprises. To this end, USAID will support efforts to reduce constraints to the commercialization of agriculture, particularly among small farmers, and expansion of indigenous small enterprises.

B. Plan of Action

The plan of action relates directly to the three strategic objectives and is built around three areas of program concentration: 1) population and family planning initiatives; 2) manpower skill development; and 3) private sector initiatives. The Mission is in the process of streamlining the USAID/Swaziland program so that all management units (projects) directly address the three strategic objectives. During the next five years, the program will be comprised of eight management units (two of which are components of regional projects). One of these management units will support population reduction through family planning initiatives, three will improve Swazi management and participation in economic growth through manpower development, and four will support employment generation through private sector initiatives.

Of these management units, three are already designed and in the implementation stage, one will be authorized in August 1989, and an additional manpower development project will be designed and implementation started during FY 1990. At that point, projects will be underway in each of the three program areas.

In FY 1991, design and implementation of a private enterprise support activity will begin and a policy reform support activity will begin in FY 1991. These two, together with the Southern Africa Regional Export Project, in which the Mission anticipates sizable USAID/Swaziland participation, will complete the design effort for the third program area. At that point, all eight management units will be in place to implement this strategy through the five year planning period.

The following section discusses the activities to be undertaken in each of the three program areas through the vehicle of eight management units. It is important to note that USAID/ Swaziland, as part of its streamlining process, is terminating a number of projects in order to concentrate resources on these new activities. Between FY 1988 and FY 1995, the Mission will have terminated nine projects.

1. Support Population and Family Planning Initiatives

The long term objective of USAID's population program in Swaziland is to achieve a reduction in the population growth rate through lower fertility rates, and to improve maternal and child health through child spacing. This objective can be accomplished by encouraging national and traditional leaders to support family planning, changing the behavior of selected target groups with respect to family planning/child spacing and ensuring wider access to effective family planning services.

The population program's short term objectives are to stimulate demand for family planning services, expand their availability and encourage the Swazi leadership to develop a national

population policy. Increasing access will initially involve working with private sector clinics, including company clinics, to provide family planning information and services. Reaching the close to one third of Swazis who live far from modern health services will require the use of rural health motivators or other extension workers. This will be a major undertaking that must be coordinated with the delivery of other services to remote areas.

The Family Health Services Project (645-0228) is designed to stimulate demand for family planning services and increase the role of private clinics as providers. To the extent possible, the project also supports education and dialogue with leaders regarding population issues. This process is changing leadership thinking on the population issue and may ultimately result in a national population policy. The primary beneficiaries of family planning and population support activities are women. As a result of population initiatives, the rate of contraceptive use among women is expected to rise (the rate of contraceptive use among males could also rise, although male contraception is not very popular in Swaziland), and the fertility rate is expected to decline. Increased use of family planning services and information on the benefits of child spacing can be measured by the number of service delivery channels, contraceptive use rates, and the incorporation of information on child spacing into all family health promotion programs. The development of a national population policy is itself an indicator of success in changing the attitudes of Swazi leadership.

The Family Health Services Project is being implemented by a U.S. PVO and provides support for a local private voluntary agency, FLAS. This support is coordinated with general program support to FLAS by an international family planning PVO. Other donor assistance in the population area is limited to provision of contraceptives and support of a smaller local PVO.

2. Improve Manpower Skills Needed to Support Economic Growth

The aim of USAID's human resource development program is to help develop a Swazi population capable of participating in and directing the modernization process.

2.1 Basic Education Development

With a rapidly growing population and the increasingly sophisticated demands of the economy, improving the quality, relevance and efficiency of the education system is essential in order to contain costs, maintain current enrollments and improve the match between the system's output and economic realities. USAID will accomplish this task by making selective investments to improve management, policy planning and implementation and the teaching of English and practical skills in the school system.

Activities proposed under the Educational Policy, Management and Technology Project (645-0230) include restructuring and decentralizing the Ministry of Education (MOE); new assessment,

testing and guidance procedures to encourage the study of practical skills and redirect demand for academic education, improving schools management; and testing use of interactive radio programs to boost English skills.

The ultimate beneficiaries of this project are the large numbers of young Swazis moving through the school system. They will finish their education in a shorter time, reducing family education costs, and will be better prepared for productive employment in either the formal or informal sector. Women in particular will benefit from higher quality basic education as education is the most important means for them to overcome cultural barriers and attain equality in Swazi society. Education is one area where the traditional bias against women is minimized, so there is a unique opportunity to advance female interests through educational improvements.

Other donor support to basic education is primarily in the form of advisors to the MOE in specialized areas, such as English and long-term training. The EEC provides some commodities to the primary teacher training colleges. None of the other donor activities are designed to address system-wide issues.

2.2 Manpower Development for Economic Growth: The economy has critical manpower shortages in specific technical and professional areas, and in the public sector there are shortages of management and technical expertise in areas where the Government has a role in reducing constraints to economic growth. USAID's long-term objective is to increase the country's capacity to develop its own manpower. A more immediate goal is to train people to satisfy current needs of the private and public sectors, thereby relieving some of the constraints to further growth and development.

A new manpower project (645-0231) will be designed during FY 1990 with these goals in mind. Priority needs will be addressed through selective investments to develop specialized skills. Probable activities include: a competitive scholarship program to prepare future leaders; a targeted scholarship program to develop faculty for institutions of higher learning; in-country training to strengthen management skills of public and private sector participants; and the promotion of local post-graduate degree programs.

An innovative in-country training program to increase awareness and participation of Swaziland's traditional leaders in the development process will be expanded to facilitate dialogue between traditional and modern sector leaders on matters relating to private sector growth. To improve Swazi capacity to manage the economic growth process, assistance will be provided to GOS policy makers and other officials in policy analysis and implementation in specific areas where constraints to growth have been identified. Examples of these are urban development, natural resource policy, tax and customs administration, commercial regulations and privatization.

The SADCC Regional Rail Project (690-0247) is also targeted at manpower development, specifically, improving the capacity of Swaziland Railway to manage the country's rail system. As better transport facilities are important for private sector development, the project fits well with the Mission's bilateral strategy.

3. Support Private Enterprise Initiatives: Support for continued development of the private sector's role in economic growth will be a key aspect of USAID's strategy. During the FY 1991-1995 period, the Mission anticipates support for private enterprise to be implemented through four principle activities: 1) development of agribusiness through the Commercial Agricultural Production and Marketing Project; 2) technical assistance to the private sector through both a Private Enterprise Support Program and the 3) Regional Export and Enterprise Support Project; the fourth activity will be non-project assistance for policy reform in areas constraining private sector expansion.

3.1 Agribusiness Development: Promotion of commercial agriculture and related agribusiness will be an important means of increasing Swazi participation in the economy and expanding alternatives for productive employment. USAID's long-term objective is to move progressive SNL farmers from subsistence to commercial agricultural production. The near term objective is to create an environment conducive to commercial agriculture. This can be accomplished by developing markets that are a stimulus to commercial activity, and through policy reform in marketing, credit and privatization of certain agriculture support activities.

The Commercial Agricultural Production and Marketing Project (645-0229) builds on two decades of support to SNL development by assisting the GOS and the private sector to work together in encouraging SNL farmers to move into full commercial production. It will assist the GOS in policy and program analysis and development to support expansion of commercial agriculture, work with the private sector to identify, analyze and develop opportunities for new and expanded private sector activities to stimulate agribusiness, and strengthen government and private sector institutional capacity to identify and effectively deal with constraints and take advantage of business opportunities. Other donors are supporting complementary activities in areas such as marketing and cooperative development.

3.2 Private Enterprise Support: As a result of the Swaziland MAPS exercise USAID has gained a clear picture of constraints to increased private enterprise that can best be addressed through direct intervention in the sector. In 1990 the Mission will use the MAPS process to continue its dialogue with the private sector to develop a specific program of assistance.

Drawing also on preliminary work done in cooperation with US and local PVOs, one component of the program will address the needs of the small enterprise sector through PVO implemented technical assistance, particularly in the areas of access to credit and business management skills.

The second, and major component of the program will be to help the private sector itself address constraints by building the capacity of private sector institutions such as the Chamber of Commerce, commodity associations and other special interest groups to meet the needs of their members. This will be accomplished through grants designed to build institutional capacity by helping organizations initiate support activities in areas such as market information, policy dialogue with government, and export promotion. A particularly important activity will be development of linkages between the large corporations and smaller Swazi entrepreneurs. This process has already begun through small activity between the International Executive Service Corps in the Chamber of Commerce.

The third component will stimulate employment generation, by facilitating communication and linkages between Swazi firms and entrepreneurs, and potential overseas markets and investors, another critical need identified by the MAPS. As part of this process, we will attempt to maximize the participation of the US private sectors in Swaziland's economic growth.

3.3 Regional Export and Enterprise Support: Swaziland's participation in this regional project will be in many of the same areas discussed above to the extent that they meet the export and regional criteria of that project. Given the extent to which the Swazi economy is based on exports, we anticipate a significant level of participation.

3.4 Non-Project Assistance: Some of the major, multi-sectoral policy constraints, such as insufficient urban and infrastructure development, may require substantial policy development and reform. Continued failure to improve communication, transportation and other services and to remove the barriers to construction of serviced housing for industrial workers will seriously hamper efforts to attract new investment. Program support may be required to spur Government action on these urgent but complex and highly politicized issues.

The policy support program (AEPRP) would be designed to involve both the GOS and private sector institutions in appropriate areas. While the Government is responsible for policy development, the private sector can play a role in implementation. Cooperation of this nature in urban development might be a model for public-private cooperation in other mutually beneficial activities.

4. How The Strategy Addresses Women in Development

A separate WID action plan is being submitted by USAID/Swaziland simultaneously with this CDSS. The plan was developed as an integral part of our strategy recognizing that economic growth that creates opportunities for female employment is perhaps the most powerful way of elevating the status of women. With the ability to earn income, women become less dependent and are able to break out of confining or undesirable roles. Access to education and training is a necessary precursor to being able to take advantage of opportunities. Teenage pregnancies and large families often prevent women from continuing their education and training and make it more difficult for them to escape their traditional roles. Women are therefore the prime beneficiaries of lower population growth rates. In Swaziland, women tend to be more interested in entrepreneurial activities than men in part because they have fewer options than men, and USAID's emphasis on removing constraints to micro and small enterprise can be expected to benefit more women than men, especially since these constraints are often more severe for women.

C. Swaziland in a SADCC context

Although Swaziland is the smallest of the SADCC countries in terms of both area and population, various economic and social indicators demonstrate that Swaziland has performed more successfully than most SADCC countries (see Table I). In fifteen out of nineteen indicators Swaziland ranks in the top three, most often with Botswana and Zimbabwe. Botswana at present has the strongest economy in the region. It is, however, highly dependent on mineral resources, specifically diamond production which accounts for 88 per cent of exports by value. Zimbabwe has the most diversified economy in the region but has experienced a severe foreign exchange shortage since independence. In contrast, Swaziland has no particular foreign exchange problems nor is it as dependent on a single export commodity as most other SADCC countries (sugar accounts for 39 percent of exports by value) and its open encouragement of foreign private investment has resulted in the highest growth rate in manufacturing over the past few years.

Initially the commonality of objectives between the Swaziland program and the Southern Africa Regional Program (SARP) were not strong, and project activity was principally represented by modest support to the Regional Training Secretariat located in Swaziland. As the Swaziland program began to relate more directly to the economic growth potential and performance record of the country, and the regional program began to focus more closely on private sector led growth, the correlation between the strategies has increased. All four of the areas of concentration in the present RDSS have direct implications for Swaziland.

Swaziland's participation in the regional rail project has significant implications for our CDSS objective, as transport has been identified by the private sector as one of the key infrastructural constraints to growth. Road and rail policies are closely intertwined and participation in this activity provides a clear picture of both the policy constraints and how it might be possible to address them in continuing dialogue with the GOS.

The RDSS's increased emphasis on the development of agricultural entrepreneurs and marketing issues is directly in line with USAID/ Swaziland's agricultural commercialization activity, the first growth oriented project.

It is the area of export oriented trade and entrepreneurship where the strategies are in closest harmony. As this CDSS indicates, growth in the small, open Swaziland economy depends largely on exports, and creation of employment in export oriented industries, both large and small, is central to the CDSS.

SWAZILAND'S RANKING AMONG SADCC COUNTRIES BY VARIOUS ECONOMIC AND SOCIAL INDICATORS

Indicator	Rank	Comment
Economic		
GNP per capita (1985)	2	jointly with Zimbabwe at (US $650) after Botswana
Growth of real GDP 1973-85	3	After Botswana and Lesotho
Manufacturing as % of GDP	2	After Zimbabwe
Ratio of central government current revenue to expenditure	2[a]	After Botswana
Ratio of budget surplus/deficit to GDP	3	After Botswana & Tanzania
Ratio of exports to imports (1987)	5[a]	After Botswana, Zimbabwe, Zambia and Malawi
Least dependence of single export commodity	3	After Lesotho & Zimbabwe
Lowest debt service ratio	3[a]	After Lesotho & Botswana
Lowest % development aid/GNP (1985)	3	After Angola & Zimbabwe
Index of per capita food production (1985)	1	
Calorie supply per capita per day (1981-83)	1	
Passenger cars/1000 population	2	After Zimbabwe
Social		
Adult literacy	5	After Zimbabwe, Botswana, Lesotho & Zambia
Radios/100 population	1	
Population/medical doctor	2	After Zimbabwe
Population/hospital bed	2	After Zambia
Life expectancy at birth (1985)	3	Jointly with Lesotho, after Zimbabwe & Botswana

Note: [a] Angola and Mozambique excluded because of lack of information

Sources: Country Profiles 1988-89, Economist Intelligence Unit; Africa Insight, 17(4), 1987

The fourth area of the RDSS, investigation and analysis of strategies for future regional growth, is of interest to USAID/Swaziland. This Mission believes that Swaziland has the potential to serve as a model for the role of market-forces and the importance of a market economy in the achievement of balanced, self-sustaining economic growth. It may be useful to seek ways to increase understanding of the dynamics of Swaziland's economy in a region that at times has been too quick to assume that it was simply an adjunct of the South African economy.

In sum, there is a growing need for coordination and communication between USAID/Swaziland and SARP as the Mission moves into the implementation phase of the new strategy.

V. Resources and Other Donors

A. Other Donors

Swaziland receives consistent support from a core group of donors, both bilateral and multilateral. While the number of donors is not large, the assistance has been significant, close to $30 million/year, and has helped Swaziland deal with various aspects of its development priorities. Table II summarizes the current profile of donor support in the basic sectors of involvement. Analysis of Table II leads to a number of conclusions regarding donor assistance:

1. While USAID assistance in the health, population, nutrition, and rural water sector has been significant, there is also broad other donor interest in the sector. As USAID reduces the level of its assistance in the health area, compared to the recent past, there should be sufficient other donor interest in supporting health programs to avoid serious resource gaps. Since the type of current other donor support in health is broad and varied, coordination will be necessary to assure that any gaps are addressed.

2. There are several donors active in the education sector, although not in the area of basic education where USAID will remain active. The Canadian Government provides extensive assistance to the University. Germany and the EC are providing critical support for vocational education, which will help address the need for certain technical skills.

3. There is also substantial donor interest in and involvement with the agriculture sector. A number of donors are supporting small-scale agricultural production projects, including small-scale farmer credit programs and technical support related to specific crops. As USAID gets into the implementation of the CAPM project and the development of a follow-on program, coordination with other donors in the agriculture sector will be stressed.

4. Except for the FRG and the EC, donor involvement in the area of private sector support is much more limited. USAID's strategy places particular program emphasis in this area. In order to assure that other donors become aware of the opportunities to support the expansion of sustainable economic growth and development in Swaziland through the private sector, USAID will encourage other donors to consider programming support to this important sector. This will include not only investment promotion, industrialization, and trade support, but also support for small-scale enterprise development (an area where PVOs can be particularly effective).

5. Better donor coordination is needed. The main donors who are resident in Swaziland are the EC, the UK, UNDP, and USAID. Canadian (CIDA) representatives visit Swaziland regularly. Aid coordination in Swaziland on the GOS side is undertaken by the

Department of Economic Planning and Statistics. The UNDP Resident Representative chairs monthly meetings of donor representatives based in Swaziland which are also attended by visiting donor representatives. With the level of donor assistance in the variety of sectors as described above, it is necessary to assure that coordination and cooperation among and between the donors and the GOS takes place. The World Bank and UNDP have recently followed up on a National Technical Cooperation Assessment and Program undertaken in 1986 by arranging for a four-year UNDP/World Bank Technical Cooperation advisor who will be attached to the Department of Economic Planning and Statistics to strengthen it in fulfilling its donor coordination functions.

B. PVOs

Swaziland has a growing number of PVOs both local and external, operating in a number of sectors. There are approximately 70 PVOs, half managed by Swazi nationals and half by expatriates. The PVOs are active in agriculture, health, employment/income generation, manpower development, and social welfare/relief support. Most of the PVOs are involved in social service activities, and approximately half receive financial support from the GOS, particularly those involved in health or education. Swaziland is small enough that most people in the PVO community are aware of each other and some prominent members of the PVO community sit on several PVO boards or executive committees. USAID has 11 grants or cooperative agreements to 10 PVOs (5 Swazi and 5 US PVOs). USAID expects to continue support through PVOs, particularly in small-scale enterprise development.

C. US Resources

1. Program Budget Levels: Table III shows a summary of bilateral program resources from 1990-1995, aggregated by the basic sectors of health, population, manpower development, and private enterprise support. (Program Development and Support and Small Project Assistance Projects round out bilateral levels). It is clear that 1990 represents the final year of significant health sector funding with the Primary Health Care Project being fully funded. No further specific health projects are envisaged, although there may be some targeted health sector problem-solving assistance through OPEXer support or training provided under the manpower development projects. 1991 and 1992 population obligations represent final funding for the Family Health Service Project, implemented through US and Swazi PVOs. Population funding in 1993 and 1994 is for a follow-on activity, building on the private sector work done through Family Health Services but likely to include support for Ministry of Health family planning service delivery as the public environment to support population activities becomes increasingly more favorable.

The manpower development levels from 1990-1995 reflect both participant training and support for basic education. SWAMDP's follow-on Project shifts USAID's training resources from the institution-building approach for public sector management undertaken by SWAMDP to greater support for training that meets

private sector needs. The placement of operational experts (OPEXers) initiated under SWAMDP will only be used on a limited basis in critical, high-level positions to support problem-solving activities. Funding in this sector continues support for basic education through 1994 under the Educational Policy Management and Technology Project (645-0230) the final phase of specific USAID support to basic education which builds on the successes of the earlier Primary Curriculum and Teacher Training Projects.

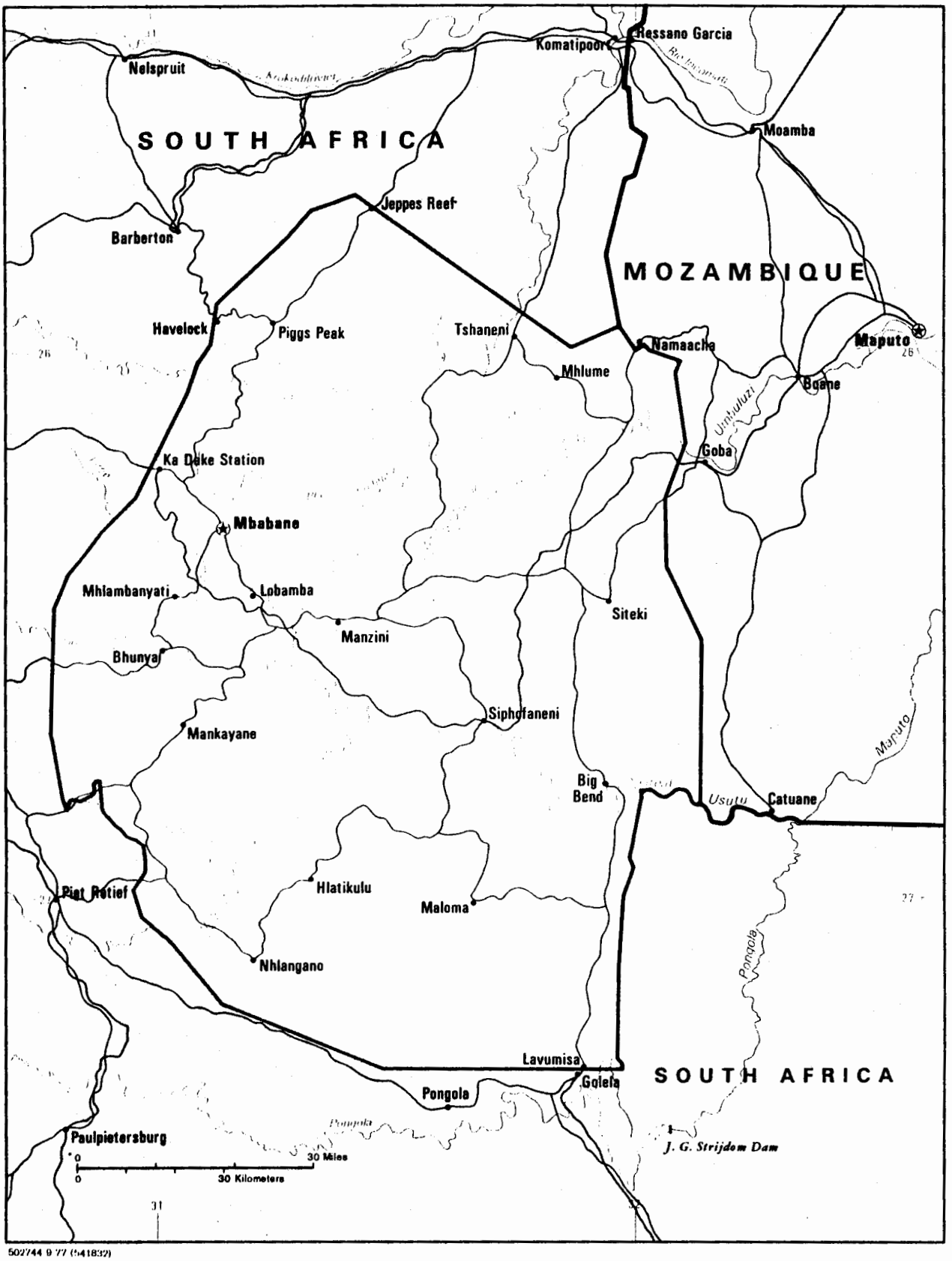
The private enterprise support sector expands from 1990 funding of PVO activities involving small scale enterprise development to significant levels in 1994 in support of the fundamental strategy elements outlined in this CDSS. Within this sector is funding for the Commercial Agricultural Production and Marketing Project (645-0229) and a follow-on activity in 1994 and 1995 which will help further expand small-scale commercial agricultural production.

Also shown in Table III is the 1991 start of AEPRP program support, outside the bilateral OYB, but building on the gains made in 1990 and 1991 in private enterprise support. By consolidating USAID's approach to the private sector (addressing private sector training requirements through the manpower development projects and collaborating with the private and public sectors to solve problems affecting private sector growth) a base will be established by 1991 to allow the effective use of AEPRP program resources to support policy changes affecting the private sector base of the economy. The addition of AEPRP program funding in 1991 will increase the Swaziland country total from $6 million in 1990 to $10 million in 1991, at which program requirements should remain level through the end of this CDSS period.

2. Mission Staffing: The USAID Mission in Swaziland is unique in that it has been assigned both bilateral and regional support responsibilities. Included in regional support are legal, contracting, executive and technical services and a regional financial management office. Of the 15 full time US Direct Hires, 8 have regional responsibilities in addition to their bilateral responsibilities. It is therefore inappropriate to relate the direct hire ceiling to program size. Support to other missions is discussed further below.

In terms of the bilateral program, the Mission is presently going through a reorganization to reallocate the management units so that they are reflective of the revised strategy. Towards this end, the Mission will be moving from three technical offices (HPN, ADO and HR/GDO) to two technical offices - an office of Private Enterprise and a General Development Office. This will allow the Mission to better concentrate its resources and provide for better direct hire coverage of the portfolio - a weakness in the present organization. The Private Enterprise office will spearhead the private sector initiative, and will include the Agricultural portfolio in addition to the private sector projects. The General Development Office will consist of a Manpower Development Division (participant training and education) and a Population and Health Division.

Swaziland



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Staffing requirements under the reorganization remain at 15 USDH. The Mission has previously recommended that one of the RLA positions be reassigned to South Africa where it would be better suited to meet that Mission's requirements, presently exceeding one half man-year per annum and projected to increase. Cuts beyond the one RLA slot are not recommended, at least until the revised strategy/organization are in place. After FY 1991, a reduction to 13 USDH is possible provided the other Missions in the region have been fully staffed.

Support for Other Missions: USAID/Swaziland was initially established in the early 1970s as a regional Mission (Office of Southern Africa Regional Activities Coordination - OSARAC) responsible for activities in the five newly independent southern African countries. In the late seventies, as the USAID presence in Africa began to grow, five bilateral offices were established and regional responsibilities were terminated, except for the presence of an RLA and limited regional health support. With the establishment of programs in South Africa and Mozambique (in both countries a minimal USDH presence was desired), the Mission began again assuming regional responsibilities on an ad hoc and sometimes unique basis (e.g., the Regional Executive Office). Further, as the Southern Africa workload of REDSO/ESA increased, USAID/Swaziland began picking up some of their responsibilities in the region, including financial management and contracting. This process continued to the present in which half of the USDH positions in the Mission are regional.

Over the past year the growth of Southern Africa programs has become less hectic as the capacity and experience of the new Missions in Mozambique and South Africa have increased. It is now time to examine the regional support responsibilities of USAID/Swaziland, in the context of the current situation in the other Missions and in REDSO/ESA, to ensure the most efficient personnel configuration. At present, USAID/Swaziland has interlocking support arrangements of one kind or another with six other Missions, including REDSO/ESA. While a significant support role for USAID/Swaziland will continue, some rationalization is in order, particularly with regard to non-traditional activities and positions which are little more than an administrative base for essentially full time positions elsewhere.

Normalization of the management of regional responsibilities during a period of continual change took some time. Now that they are regularized, there are potential ways to streamline regional support activities and reduce costs. For example, the TDY travel budget for regional support could be transferred to the receiving Missions (a practice that the REDSOs might also consider). This step would increase the attention that receiving Missions give to the scheduling process and should reduce costs considerably.

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TABLE III

PROGRAM BUDGET SUMMARY

AREA/SECTOR	1990	1991	1992	1993	1994	1995	TOTALS 1991-95
HEALTH	588	-	-	-	-	-	-
POPULATION	-	500	500	1000	500	-	2500
MANPOWER DEV'T	3962	4650	3400	3500	3350	2631	17531
PRIV ENTERPRISE SUPPORT	1250	2600	3800	3250	3900	5100	18650
PDS/SPA	200	250	300	250	250	269	1049
BILATERAL TOTALS	6000	8000	8000	8000	8000	8000	39730
+ AEPRP	-	2000	2000	2000	2000	2000	8000
COUNTRY TOTAL	6000	10000	10000	10000	10000	10000	46730

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