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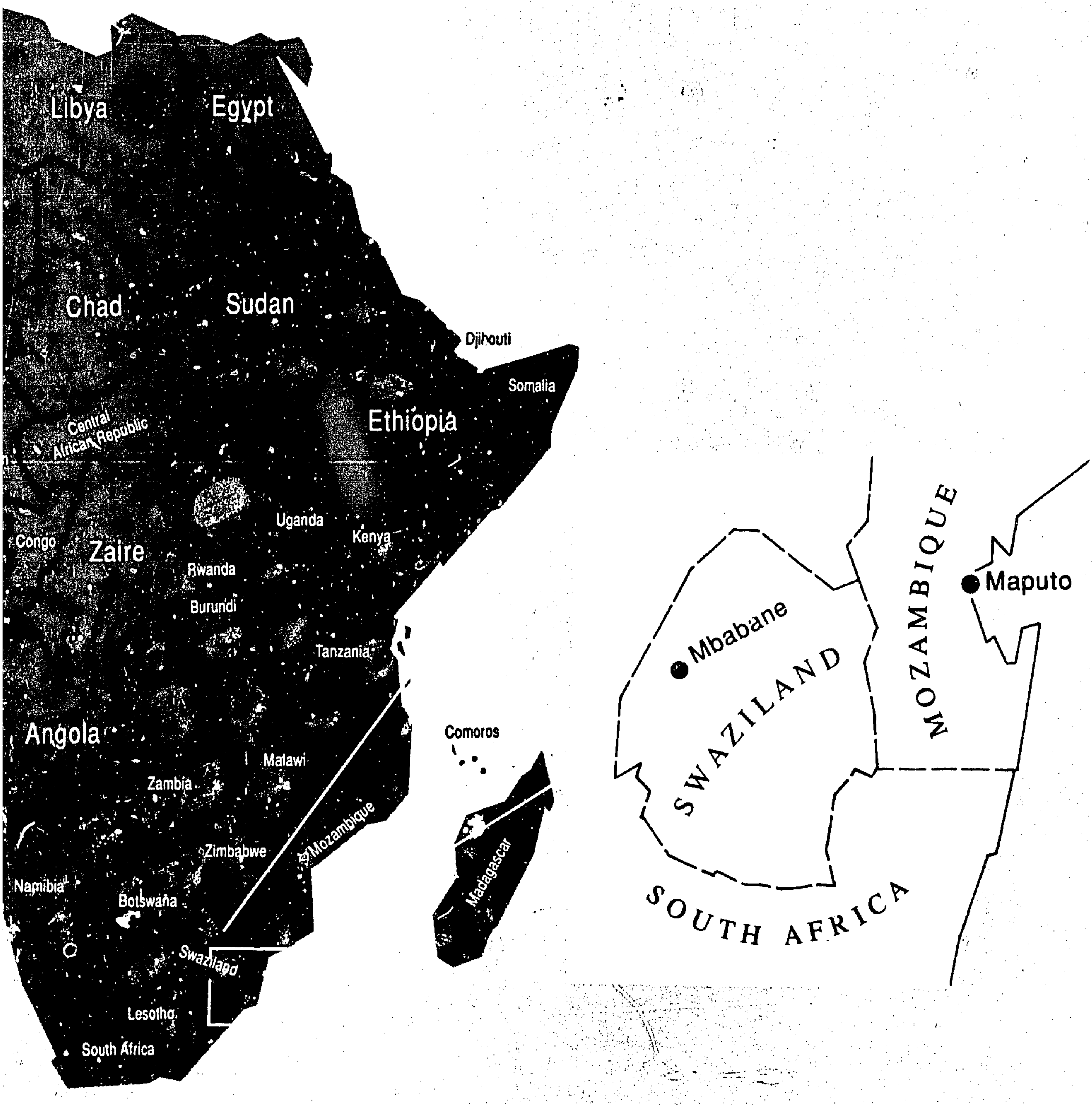
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Zimbabwe
Madagascar
Namibia
Botswana
Swaziland
Lesotho
South Africa
MOZAMBIQUE
Maputo
Mbabane
SWAZILAND
SOUTH AFRICA

THE AGENCY FOR INTERNATIONAL DEVELOPMENT
PRESENTS

Critical Issues
For American Investors in
Swaziland

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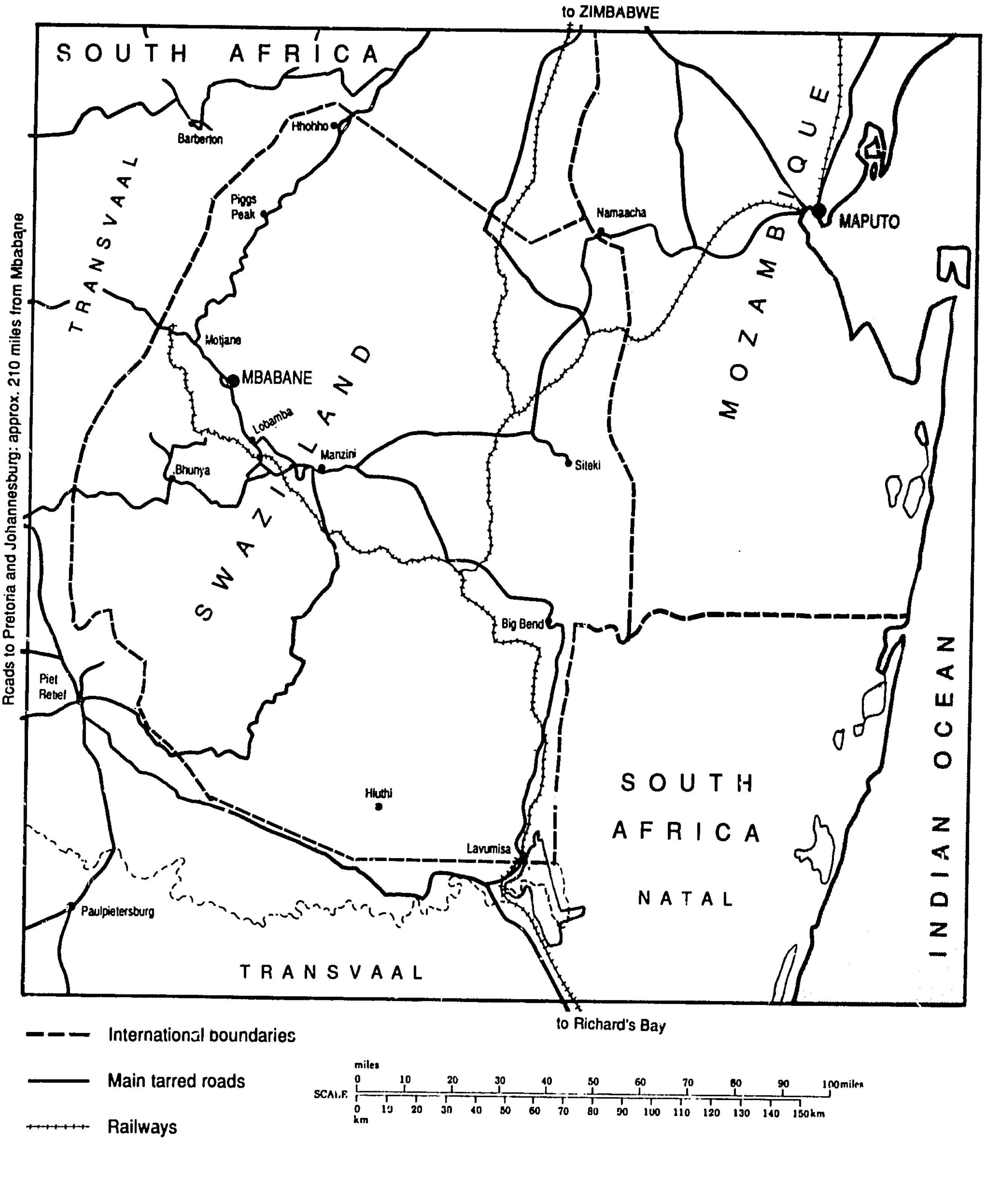
to ZIMBABWE
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Barberton
Hhohho
Piggs Peak
TRANSVAAL
Namaacha
MAPUTO
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MBABANE
Lobamba
Manzini
Siteki
Bhunya
SWAZILAND
Big Bend
Piet Retief
Hluthi
SOUTH AFRICA
NATAL
Lavumisa
Paulpietersburg
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Roads to Pretoria and Johannesburg: approx. 210 miles from Mbabane
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International boundaries
Main tarred roads
Railways
miles
0 10 20 30 40 50 60 70 80 90 100miles
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km

BASIC DATA: SWAZILAND

Land Area:	17,107 km^2
Population:	726,000 (1988 estimate)
Main Towns:	Mbabane 38,290 Greater Manzini 46,058 (1986)
Climate:	Sub-tropical

Weather at Mbabane (altitude 1,163 m):

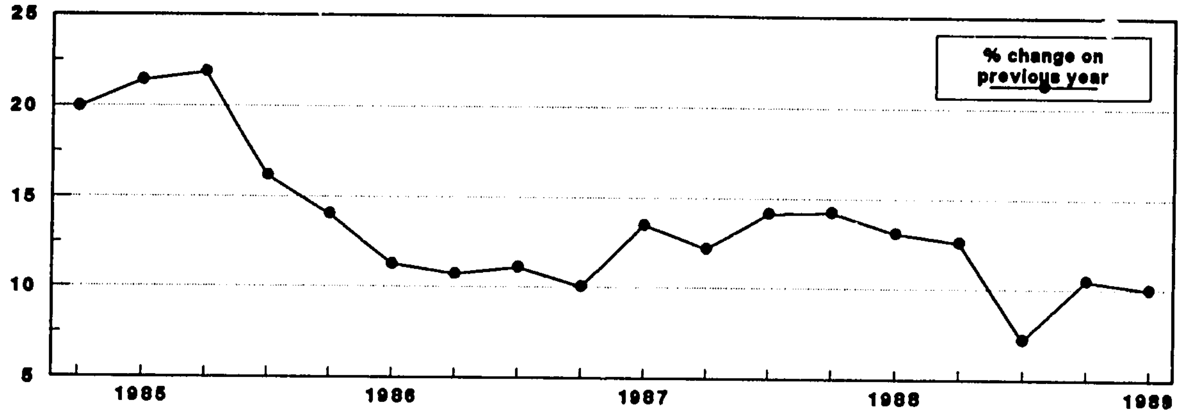
hottest months, January, February, 15-25°C; coldest month, June, 5-19°C; driest month, June, 18 mm average rainfall; wettest month, January, 252 mm

Languages:	English and Siswati
Measures:	Metric system
Currency:	Lilangeni, plural emalangeni (E) = 100 cents. Formally delinked from the rand on July 1, 1986, but as of late 1989 still at par with it. Average exchange rate in 1989: E2.61 = $1
Time:	2 hours ahead of GMT

- b -

Key Economic Indicators

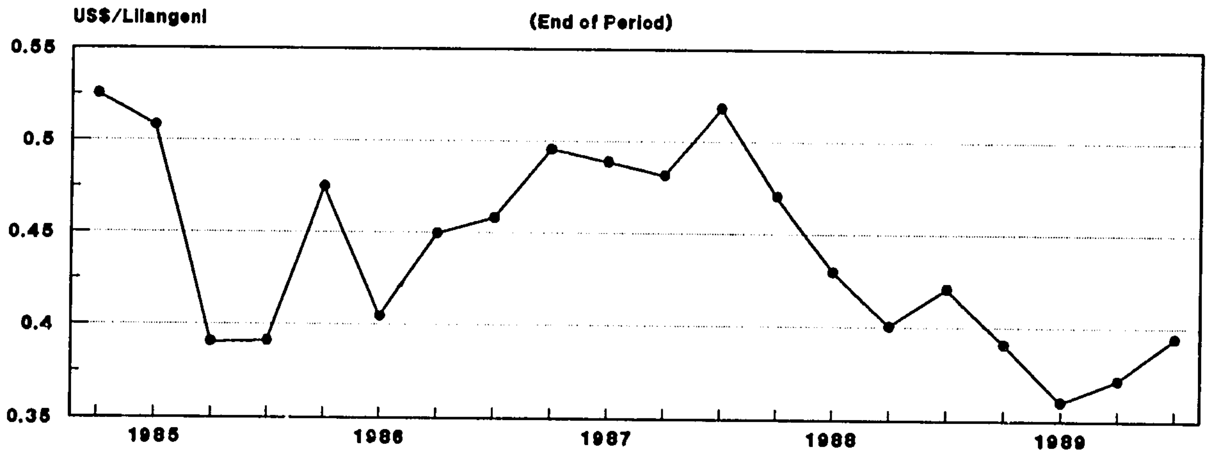
Consumer Prices



Source: International Financial Statistics

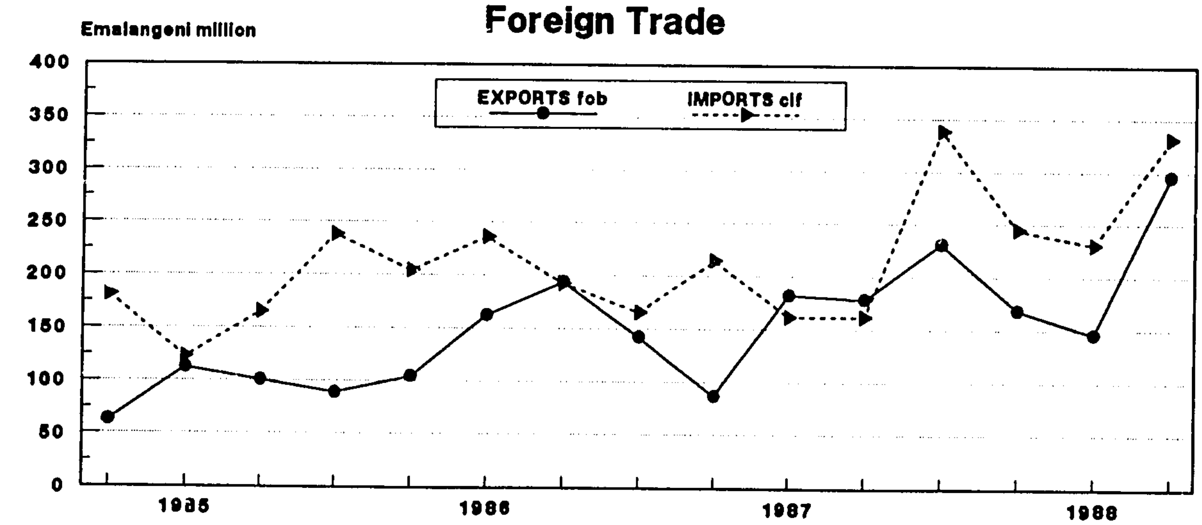
Exchange Rate

(End of Period)



Source: International Financial Statistics

Foreign Trade



Source: International Financial Statistics

Contents

Introduction

The Kingdom of Swaziland is situated in the south-eastern corner of Africa. It is entirely landlocked, bordering the South African province of the Transvaal and the Lubombo plateau of Mozambique. King Mswati III, or the Ingwenyama as he is officially known, rules over a kingdom of some 17,000square kilometres. The nearest port is at Maputo, Mozambique, 236 kilometres away from Swaziland's administrative capital Mbabane. Within the country can be found almost every feature of Africa's terrain, except desert.

The population of Swaziland is unusually homogenous for an African country in that most of the people share a common language, tradition and history. The two official languages are English and Siswati. The kingdom has one of the highest population growth rates in the world, estimated at 3.2% per annum. This means that the current population of nearly 800,000will double itself in 20 years. There is a youthful population structure. In 1986, it was estimated that 47% of the population was under the age of 15. Although Swaziland is one of the least urbanized countries in the third world, there is a high degree of rural/urban interaction.

A unique feature of the Swazi socio-political structure is a parallelism or dualism between the modern westernized system of government and the traditional tribal system. The monarch is Swaziland's head of state and rules twentieth century Swaziland through a prime minister, cabinet and parliament. At the same time as Ingwenyama, he is the embodiment of national pride and aspirations, endowed with sacred and mystical attributes. In this capacity, the king is advised by the Liqoqo or Council of State, which is responsible to the Swazi National Council. This council is made up of all adult Swazis. It advises the king on all matters regulated by and connected with Swazi traditional law and custom. There are about 200 chiefdoms in the kingdom which are gathered into "tinkhundla", traditional community councils.

Swaziland's attitude to business is unabashedly capitalist, its foreign policy conservative, and its ruling class closely associated with largely British and South African interests. Swaziland is blessed with the right natural ingredients; being conveniently located for export, scenic and having a mild climate. The economy is diversifying quickly and has undergone substantial structural improvements over the past decade. Political stability, cheap labor and the benefits of close integration with the South African economy, without the problems of apartheid, make Swaziland arguably one of the most attractive countries in the region in which to invest.

The private sector dominates almost all aspects of the monetary economy in Swaziland, accounting for 54.7% of GDP in 1986. Public enterprises accounted for almost 7% and central government accounted for 22%. Indirect participation by the crown and the government in the economy is substantial.

Swaziland's economic interests are advanced through Tibiyo Taka Ngwane, which was created in 1968 by royal charter to manage the nation's traditionally held land resources and mineral wealth, while the modern government managed the rest of the country's economic life. However, Tibiyo now commands approximately 14 % of GDP through its vast holdings. Tibiyo generally prefers to take minority interests in business ventures.

The Swaziland Industrial Development Company started operations in 1987 and acts as the kingdom's first point of contact with prospective investors. It is 37.5% owned by the government and was established to promote foreign investment and industrial development. The other shareholders are international financial institutions. The SIDC has interests in most sectors of the economy with investments being a mixture of equity, loans and provision of industrial premises.

There are 25 wholly-owned public enterprises operating in the agricultural, transport, industry, tourism, communications, infrastructure and service sectors. Most of the parastatals lose money. Some are candidates for privatization, although there is a problem with producing accurate financial records. The government also has minority equity stakes in other sectors such as banking.

Swazi law prohibits nationalization and expropriation. There is however some controversy over land tenure rights as a result of a recent royal decree giving the Minister of Justice power to intervene in any property transaction. Under this decree the minister may determine who may buy property and at what price. The government is now going to great lengths to reassure businessmen that the property market has not effectively been abolished. Nevertheless, the government has not yet revoked the decree.

Swazi investment policies have not been incorporated in any specific investment code or legislation. The government's basic strategy is to encourage development of resource-based, export-oriented, labor-intensive industries. Toward this end, it seeks to avoid disincentives to investment rather than to promote growth in a particular sector or industry by means of subsidies or special incentives.

All major investments must be reviewed by the government and by the King. The review process is generally cursory and royal approval is granted expeditiously for bone fide investments which serve Swazi national interests. Swaziland does not approve of investments that it suspects are intended to circumvent sanctions on South Africa. Swaziland requires investors to contribute a minimum of 25% local content in order to obtain a Swaziland certificate of origin. Forming a company in Swaziland is a relatively simple and straight forward process.

Swaziland has no rules of competition or defined standards for mergers and so on. The country is, however, greatly influenced by the competitive environment in South Africa, whose economy is dominated by cartels and industrial conglomerates.

Price controls in Swaziland are few. The government regulates the prices of some agricultural commodities but in general industrial and most commercial firms are not significantly affected by price controls. By African standards, most firms are free of government interference - one of the most attractive features of doing business in Swaziland.

Corporate income tax is 37.5% of net income, and slightly lower for mining companies. There is no domestic capital gains tax except in the case of mining, nor is there provision for deductions in respect of capital losses. Initial allowance of 50% are available for machinery, plant and buildings used for the first time in a manufacturing or hotel business.

Customs and sales duties are levied at the import or manufacturing level, and collected on a wide range of goods in conjunction with the other members of the South African Customs Union (SACU) which are South Africa, Lesotho and Botswana. The proceeds that are collected by SACU are pooled and are divided up by formula. These receipts represent almost 50% of Swazi government revenue.

The national currency, the lilangeni (plural emalangeni), is pegged at par with the South African rand. In 1986, the members of SACU except for Botswana, established the Common Monetary Area (CMA). The CMA provides for the free transfer of funds among members and common foreign exchange controls.

The formal banking sector in Swaziland is made up of the Central Bank, five commercial banks, the Swaziland Development and Savings Bank, and several quasi-official funding sources, the most important of whom are Tibiyo and the SIDC. Barclays Bank and Standard Chartered Bank dominate commercial banking. A small stock exchange is being developed, although it has attracted only limited interest to date.

Swazi monetary policy is effectively controlled by South Africa. As such, Swaziland suffers from South Africa's high rates of interest and inflation. However, access to local credit by foreign investors is not a major concern. Exchange controls are governed by the CMA. Dividends, capital returns, royalties, interest payments and principal payments are freely remittable subject to several non-resident taxes. The rules are interpreted as liberally as possible by the Swazi authorities.

Total cumulative private US investment in Swaziland is estimated at only US$10 million, representing less than 5% of total foreign investment. There is nevertheless a long list of foreign-owned firms in Swaziland. While there are no reliable figures available on the profitability of foreign investment, all indications are that real rates of return are high, particularly in the export sectors.

Opportunities for investment exist primarily in agriculture, forestry, agro-processing, assembly-related products and tourism. Swaziland continues to export many of its raw materials in unprocessed form, and there is potential for value-added processing in a number of areas. There is significant potential for export of labor-intensive consumer goods. The domestic market is small but offers a few limited opportunities.

Whether exporting regionally or internationally, many all Swazi businessmen believe that the country's trade agreements and preferential access to international markets are a major factor in the development of the private sector in Swaziland and a major plus for investors. As a member of SACU, Swaziland has duty-free access to the South African market. As a member of the Preferential Trade Area for East and Southern Africa (PTA), the country has access to an evolving common market of 16 African countries. Swaziland is a signatory of the Lome Convention under which the products of 66 developing countries of Africa, the Caribbean and the Pacific, are admitted into the EC free of tariffs and quotas. Swaziland also benefits from the General System of Preferences (GSP) whereby industrialized countries accord global preferential tariff treatment to products originating from developing countries.

The Swazi economy is in good shape. Growth rates since the mid-1980's have been high. Balance of payments projections covering the 1989-93 period are favorable. The rate of inflation has dropped from 20% to around 13%. The government is running a near balanced budget and external debt is at a manageable level. Despite this rosy outlook, the recent high levels of economic activity is straining the country's administrative and infrastructural capacities. The government needs to boost its ability to implement capital projects and tensions with organized labor need to be ironed out. Of course, the current situation in South Africa is uncertain and open to much speculation. It would appear, however, that under most scenarios Swaziland can only benefit.

Chapter 1

The Economy

During the period 1978-82, real GDP in Swaziland grew by an average of 5% per annum. the economy experienced an economic slowdown beginning in 1982, when real growth fell to 2.6%. From 1983 to 1987, real GDP growth averaged 3.4% per annum. At the same time, the Swazi population grew by an estimated 3.5% per annum for the period 1980-1987, causing a small decline in per capita income.

In 1986, the Swazi economy experienced an encouraging upswing. Government statistics indicate that in 1986 real GDP grew by 8.8%, mainly attributable to record sugar production, new industrial investments and improvements of Swaziland's terms of trade. The country suffered a sharp drop (-0.8%) in GDP growth in 1987 to due to reductions in traditional exports such as sugar and asbestos. However, economic growth recovered strongly in 1988, reaching 9% due to a good agricultural season and increased manufacturing output. Real growth for 1989 is estimated to be 5%.

A recent IMF mission to Swaziland is understood to have reported a favourable overall impression of the economic situation in the country, noting that the primary objective of economic policy in the medium term is for Swaziland to attract and retain investment for export-oriented activities. The prospects for investment and growth continue to be viewed optimistically in official, business and banking circles.

There are four major sectors in the Swazi economy: agriculture and forestry, manufacturing, mining, and tourism.

1.1 Agriculture

Despite recent gains in the manufacturing sector, Swaziland continues to be an agriculturally-based economy. The government's strategy is to attain self-sufficiency in food production and to transform the agricultural sector from subsistence to commercial farming. Agriculture contributes about 20% of GDP, provides employment for some 70% of indigenous wage earners and accounts for about 40% of exports.

The agricultural sector can be divided into two: a capital intensive, mainly foreign-owned and export-oriented subsector and a traditional subsector in which food is produced for local and often immediate consumption. The traditional subsector is characterised by non-cash activities which provide a livelihood at subsistence level for most of the population.

The modern subsector covers about 44% of rural land on which there are about 800 farms averaging 800 hectares. These farms are owned by freehold or concessionary title by individuals and companies. Farming practices are generally highly mechanized and market-oriented which has given rise to some important processing industries. Output per hectare is relatively high. The main crops include sugar cane, citrus fruits, pineapples, cotton and tobacco.

The remaining rural land is known as Swazi Nation Land (SNL) and is held by the king in trust for the Swazi nation. This land supports about 42,000 small-scale farmers on holdings of less than 3 hectares on which maize, livestock and mixed crop agriculture are the main activities. In many instances, the harvest is consumed almost immediately. Yields are low and formal marketing facilities for non-cash crops are not highly developed.

The main problem in SNL areas is over-grazing, which is fostered by traditional attitudes towards animal husbandry and range management. On SNL, the major constraint to increasing crop production is the relatively low financial returns obtained and the small size of the lands. USAID and domestic government agencies are working to improve support services, inputs credit availability and allocation and marketing.

1.1.1 Sugar

Sugar is Swaziland's major export and largest employer (15,000 people). A record 506,000 metric tons were produced in the 1986 season. Production for both the 1987 and 1988 seasons was approximately 437,000 tons. The decrease in production can be attributed to poor weather causing late harvesting and excessive flowering. However, higher world prices meant export values increased. Preliminary reports suggest that the 1989 harvest increased to 474,000 tons. Continuing US producer's problems indicate that prices could climb to an average of 14 cents/lb in 1990, up from 12.82 cents/lb in 1989.

About 95% of the Swazi sugar crop is exported, chiefly to Canada and the EC where Swaziland has special access under the Lome Convention. Local sugar sales are increasing because of higher demand from the food and beverage sectors. The Swaziland Sugar Association is responsible for all sugar sales, both in Swaziland and in world markets.

1.1.2 Cotton

Cotton is Swaziland's main dry land crop. It is grown under rain-fed conditions in the low veld as well as in a small area of the middle veld. Cotton is the most important cash crop with 7,000 small-scale farmers producing about 55% of total production.

Nearly 15,000 tons of cotton were produced during the 1986 season, some 25% less than the previous year. However, production then recovered and reached 26,000 tons in 1987. At present cotton is being sold at 1 lilangeni (38c) per kilogramme.

1.1.3 Citrus fruit

Grapefruit and oranges comprise the bulk of this crop as the climate is not suitable for lemons, mandarins or navel oranges. About 70% of the total crop is exported. The South African market and the cannery at Malkerns are useful outlets for fruit not up to export grade.

Oranges are exported mainly to the Middle East, while the major market for grapefruit is Europe. The production of citrus fruit has increased annually: in 1984 43,000 tons were produced, in 1986, 63,400 tons and in 1988 the yield was some 90,000 tons.

1.1.4 Pineapples

Land availability continues to be a major constraint on pineapple production although several schemes are under way to make better use of available land. In 1983 there was a bumper crop of 44,300 tons and in 1985 about 43,900 tons were produced. The crop declined to 34,000 tons in 1987 due to hail damage in the growing seasons. Despite this canned fruit production increased to 18,355 tons in 1987. In 1988 a bumper 28,000 tons of canned fruit were produced. The average f.o.b. priced of exported canned fruit was E1,187 (US$ 583) per ton during 1987.

1.1.5 Other crops

Rice, tobacco and vegetables are also produced in relatively small quantities. Vegetables are very expensive in Swaziland and commercial opportunities exist for the domestic and international markets as discussed in the section on investment opportunities.

1.1.6 Livestock

Swaziland has one of the highest cattle/land ratios in Africa: the possession of cattle is an indication of wealth to many Swazis in the rural areas and not necessarily a source of current income. Total livestock population in 1987 was 641,000.

1.1.7 Poultry

Attention is being given to the production of chicken meat and eggs with the intention of achieving self-sufficiency within 10 years.

1.1.8 Forestry

Forests, both natural and commercial, cover nearly 114,000 hectares, or nearly 7% of the total land area. Swazi pulp wood is harvested after an average of 16 years, compared with 40 years in northern Europe. Just two of the 100 or so plantations account for 71% of the man-made forest area: Peak Timbers Limited and Usutu Pulp Company Limited.

In general there has been great demand for pinewood and eucalyptus products. 175,000 tons of unbleached kraft pulp were produced in 1987 and slightly less in the following year.

1.2 Manufacturing

Swaziland has experienced major advances in manufacturing in recent years. Manufacturing constitutes approximately 25% of GDP, and its importance has grown over the past decade. Most manufacturing is in light industry with most new investments aimed at either processing raw materials readily available for export or for garment and footwear manufacture, also for export. Manufacturing operations are centered at Matsapha, where the nation's primary industrial site is located.

Processed agricultural commodities are estimated to account for roughly 92% of manufacturing's share of GDP.

Tibiyo Taka Ngwane, the SIDC and SWAKI group of companies account for most of domestic investment in manufacturing. Tibiyo and the SIDC are discussed extensively in chapter 6. SWAKI services and products touch the lives of every Swazi. The activities of the 27 company group include: maize milling, sorghum malt manufacture, fertilizer blending, agricultural and industrial chemicals, building materials, tractors, vehicles, plastic product manufacture, hire-purchase financing and leasing. The group is owned in equal shares by the SIDC and Kirsh Holdings.

Recent industrial developments by foreign investors are discussed in chapter 7.

1.3 Mining

The contribution of the mining sector to the economy is relatively small, although there are indications of change for the better in the next two to three years judging from the recent upsurge of interest in mining by foreign companies. Swaziland currently mines three minerals -asbestos, coal and diamonds. While asbestos production has declined in the last few years, coal production has remained relatively constant at 170,000 tons per year; diamond production has skyrocketed. The diamond mine began operations in 1983, with sales that year of less than E1 million (US$ 0.9mn). Sales for 1988 are estimated at E15 million (US$ 6.6 mn). Almost all mineral production is for export.

1.4 Tourism

Tourism plays an important role in Swaziland. Receipts from tourism reached E38 million in 1987, up 22% from the year before. Most tourists come from South Africa to enjoy

Swaziland's natural beauty, casinos and golf. Government statistics for the period 1987-1986 show that between 68% and 74% of tourists staying in hotels were permanently resident in South Africa.

1.5 The macroeconomy

Balance of payments projections covering the period 1989-93reflect a favourable outlook, with inflows of direct investment offsetting both a small current account deficit and modest outflows of debt capital. The amount of direct investment is projected to increase at 5% per annum, including reinvestment by foreign owned companies. Gross international reserves are estimated to be maintained at the equivalent of three months imports while the debt service ratio is forecast to fall to below 5% of GDP.

Table 1.1

Macroeconomic indicators

	1985	1986	1987	1988	1989
GDP at market prices E mn	743	956	1102	-	-
Real GDP growth %	2.4	8.8	-0.8	9.0	5.0
Consumer price inflation[a] %	19.9	11.5	12.6	11.7	-
Population[b] mn	0.66	0.68	0.70	0.73	0.75
Exports fob[c] $mn	179	284	406	418	437[e]
Imports cif $mn	323	352	435	516	55[illegible][e]
Current account $mn	-24	24	45	71	38[e]
Reserves excl. gold $mn	83.4	96.5	127.2	140.0	214.9
Public external debt $mn	185	219	273	-	-
Public debt service ratio %	8.5	6.7	5.8	6.2[e]	-
Sugar production [f] '000tons	375	506	437	437	474
Exchange rate E per US$ 12 March 1990 2.6036	2.191	2.269	2.035	2.261	2.616

a: low income index for Mbabane and Manzini, b:estimates, c:includes re-exports, d: provisional, e:estimate, f:crop years (May-April) beginning in calendar years

Source: EIU

The rate of inflation, which is determined by movements in the costs of imports from South Africa, has moderated during 1986-88, falling from about 20% in 1985 to an average of less than 13%. The outlook for inflation is that it will remain moderate at around current levels. This projection is based on three factors in the South African economy. First, commodity prices remain weak. Second, there has been no substantial pick-up in wage pressures over the past year. Third, the core rate of producer price inflation (excluding food and energy) increased at an annualized rate of 3.6% in the last quarter of 1989.

1.6 Government Expenditure

Swaziland's latest development plan does not include a set of specific goals for the next three years, nor a review of achievements under the previous plan. Instead there is a projected public finance framework together with details of the scheduled capital expenditure programme.

The development plan's budget projections begin with the near balanced budget presented in February, 1989 and includes modest deficits of less than 1% of GDP for the next two years. Projected public investment is focused on transport and communications, with projects in this sector accounting for one third of the value of the identified projects over the plan period. The three largest of these all involve the upgrading of the road network. A USAID funded technical assistance and training programme in agribusiness and marketing dominates investment in the agricultural sector, which will absorb 18% of the capital budget. The figures in table 1.2 show the low level of capital expenditure. In 1987 capital spending, as a percentage of the total government budget, was 6.5%. The average for Sub-Saharan Africa in 1987 was 27%.

Table 1.2

Government budget summary
(E 000s)

	1990/91 estimate	1989/90 estimate	1988/89 outturn
Revenue	642,560	425,190	422,636
Grants	25,290	24,021	5,522
Total	667,850	449,211	428,188
Statutory expenditure	44,920	35,973	72,351
Appropriated recurrent exp.	373,453	314,038	231,358
Capital expenditure	245,833	100,223	65,264
Total expenditure	664,206	450,234	368,973
Net budget surplus (deficit)	3,644	(1,023)	59,215

Chapter 2

Foreign Trade

2.1 Trade Performance

Trade is of key importance to Swaziland's open economy. The country's most important trading partner is South Africa. Over 85% of imports come from or go through South Africa and about one third of its exports go to South Africa. The other major destination for Swazi goods is the UK which accounts for about one-quarter of the total value of exports.

With the exception of 1981, the overall balance of trade deteriorated consistently from a record E28 million surplus in 1974 until 1986, when the deficit has halved to E163 million (US$ 72mn). The most important factor here, of course, was the rise in domestic exports spawned by the record sugar crop that year. However, since the introduction of a sales tax in 1984 there has been an incentive for importers to under invoice and the authorities recognize that this has tended to depress recorded import levels. Another successful year for sugar and the opening of the Coca Cola concentrate plant helped reduce the deficit to E41 million in 1987, its lowest level in a decade. Data for 1988 indicates a slight widening of the deficit to E221 million (US$ 98mn) with imports increasing from E876 million to E1167 million (US$ 516mn). Exports rose slightly from E826 million in 1987 to E945 million (US$ 418mn) in 1988. The fastest growing import categories in 1988 were chemicals and machinery and transport equipment, reflecting higher levels of investment and economic activity. The increase in export earnings in 1988 occurred ahead of the decline in the value of the currency during the first nine months. Among exports, a strong world market for wood pulp raised earnings sharply. Sugar sales were stagnant in real terms while the rapid growth in export receipts, driven by the new Coca Cola plant in 1987, levelled off.

Recent investments in the kingdom have reduced the economy's reliance on sugar and woodpulp. Over 1983-86 these two commodities accounted for 52-58 % of all merchandise exports; in 1987 their share fell to 46%. The fob/cif trade deficit grew an estimated E140 million, reflecting an 18% rise in imports. This was the first substantial increase in imports in real terms for several years, and may reflect in part renewed efforts to clamp-down on widespread under-invoicing.

Table 2.1
External Trade
(Emn)

	1985	1986	1987	1988[a]	% change 88/87
Exports[b] fob	392.9	643.9	826.2	945.6	14.4
of which					
sugar	139.6	245.3	272.8	295.3	8.2
woodpulp	88.7	108.7	129.6	163.5	26.2
other	164.6	289.9	423.8	486.8	14.9
Imports cif	707.1	798.9	885.8	1167.6	31.8
Trade balance	-314.3	-155.0	-59.5	-221.1	

a: preliminary, b:including re-exports
Source: EIU

Table 2.2
Main commodities traded
(E mn)

Exports	1982	1987	Imports	1982	1987
Sugar	109.2	272.8	Foodstuffs	48.2	101.2
Woodpulp	46.5	129.6	Mineral fuels	82.7	131.4
Edible concentrates	-	93.8	Chemicals	86.0	67.6
Canned & fresh fruit	33.6	71.2	Machinery &		
Mineral products	17.3	42.1	transport equip't	123.0	135.4
Meat & products	5.3	13.3	Other manuf's	108.4	202.4
Total incl. others	331.9	759.2	Total incl others	569.3	876.5

Source: EIU

Whether exporting regionally or internationally, many Swazi business executives believe that the country's international trade regulations and agreements with SACU, PTA, Lome and the GSP are a major factor in the development of the private sector in Swaziland and a major plus for investors.

2.2 The South African Customs Union

Swaziland is a member of SACU which enables Swazi traders to export and import goods duty free to and from South Africa, Lesotho and Botswana.

Customs duties and excise taxes are paid on imports from outside the SACU on the basis of those enforced by South Africa. Such an arrangement means that Swazi businesses and consumers frequently pay more than the international free market price for those products protected by South Africa. Imports can be subject to extremely high tariffs, over 100% in some cases, which protected mainly South African businesses. However, membership of the SACU is felt to be of great importance for gaining access to markets beyond the small domestic economy.

One significant aspect of the SACU is that customs and excise duties collected by SACU members are paid into a common pool and then redistributed on a the basis of a formula which gives Botswana, Lesotho and Swaziland a share 42% larger than their share in total SACU imports. These customs receipts are substantial. Swaziland's share accounted for around 50% of total government revenue in 1988. Receipts are expected to increase in 1989 and 1990.

Some commentators in Swaziland have expressed the belief that membership in the SACU has worked against the development of Swazi industry because of the lack of protection from South African producers. It is conceivable that SACU has been more important in facilitating supplies from South Africa than creating a market for final products. Dominated by South Africa, the irony of the SACU is that it is overtly designed to achieve political aims quite contrary to those of SADCC to which the BLS (Swaziland, Lesotho and Swaziland) states also belong.

2.3 Southern African Development and Coordination Conference

In 1980 the independent states of Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe established the SADCC. As outlined in the founding Lusaka declaration, the goals of the organization are: the reduction of economic dependence on apartheid South Africa; building genuine regional integration; mobilizing support for national and regional projects; and acting in concert to win international backing for these goals.

By mid-1988 SADCC had approved 589 projects valued at $7.4 billion, and many had been completed, especially in the transport and communications sectors, with the backing of foreign donors. By mid-1988 this support amounted to a total of $3.7 billion disbursed, committed or under negotiation - exactly half the total of all projects. SADCC's prospects are bright, especially as the step-by-step approach to project-specific schemes has proved to be effective.

The organization has a small secretariat, based in Gaborone, Botswana, while each of the states has responsibility for coordination of projects in a specific sector. Its transport secretariat, based in Maputo, Mozambique, has assumed special importance due to the launching of major railway and port rehabilitation projects, to lessen SADCC members' dependence on trade routes through South Africa.

2.4 Preferential Trade Area for East and Southern Africa

The PTA, which was originally intended to embrace all the countries in East, Central and Southern Africa, includes Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Mozambique joined in April 1989. The PTA aims to liberalize trade, encourage cooperation in industry, agriculture, transport and communications, and create a regional common market.

The progressive liberalization of inter-PTA trade commenced on July, 1984, with the adoption of a common list comprising 209 items. A Multilateral Clearing Facility, established in Harare, began operations on February 4, 1984. A PTA monetary unit of account (Uapta), equivalent to the IMF's SDR, is used to settle inter-state debts every two months, the balances payable in dollars. Uapta travellers' cheques were introduced in September, 1988. According to the PTA secretariat US$178 million worth of trade passed through the clearing house between January and November 1988 and was settled on Uapta. A slightly larger amount was settled in hard currency. Detailed information on how the PTA works in contained in Appendix One.

The practical effect of the PTA has been constrained by the "rules of origin" which stipulate that preferential treatment can only be accorded goods produced by companies managed by and in which 51% of the equity is held by, nationals of the member states. Kenya and Zimbabwe argued particularly vehemently against this rule, and in May 1986 the organization agreed to a sliding scale of tariff reductions, to be applied over a five year grace period. Companies which are 40-50% locally owned now qualify for a 60% tariff reduction and those 30-40% locally owned for a 30% reduction. This concession means that many export-oriented firms in Kenya and Zimbabwe would qualify for such treatment.

The agreed schedule for removing customs barriers has been frequently revised. The PTA summit in Kampala in December 1987 approved a new timetable of 10% reductions in tariffs every two years form October 1988 to October 1996, with the balance to be eliminated in two steps of 20% and 30% respectively in 1998 and the year 2000. By the time of the December 1988 summit only Mauritius, Zambia and Zimbabwe had met the October 1988 deadline. The remaining countries had the deadline postponed until July 1989 and Lesotho and Swaziland were exempted until 1992.

Swaziland cannot give tariff concessions to PTA countries without the consent of SACU members and such consent is highly unlikely from South Africa for political reasons, and because of the dangers of undermining SACU. On the other hand it seems unlikely the other PTA members will continue to give Swaziland trade concessions without reciprocity. It is not clear at this stage what Swaziland's commitment to the PTA will be. At present the kingdom's trade with the PTA is small. However, it should be noted that the PTA remains a drawing card for South African and other foreign investors seeking access to African markets.

2.5 Lome Convention

Swaziland is a signatory to the Lome Convention under which the products and manufactures of 66 developing countries of the ACP (African, Caribbean, and Pacific) are admitted into the member states of the European Community free of tariffs and quotas, except in the case of certain commodities that fall under the EC's Common Agricultural Policy. All sub-Saharan African countries are members with the exception of South Africa.

The Convention, the fourth of which has recently been negotiated, is also an aid agreement with funds being channelled through the European Development Fund and the European Development Bank. There is a scheme for the stabilization of export earnings (Stabex) which covers the losses of earnings caused by a drop in prices or production of the main ACP agricultural exports. A total of about 50 products are on the Stabex list. There is a similar facility called Sysmin for mineral exports. More information on the Lome Convention is in Appendix One.

2.6 General System of Preferences

The GSP are schemes whereby industrialized countries (preference-giving countries) accord global preferential tariff treatment to products originating from developing countries. There are at present 16 schemes of preferences.

Swaziland exporters can benefit from the GSP schemes by way of tariff rate cuts below a general rate or the Most Favoured Nation rate applied by a particular industrialized country.

More information on the GSP schemes of Australia, Canada, Japan, New Zealand, the European Free Trade Area, and the US, can be found in Appendix One.

2.7 General Agreement on Tariffs and Trade (GATT)

Swaziland is not a signatory of the GATT but in general the country abides by its guidelines. The country has never been accused of violating GATT norms. The US government categorizes Swaziland as a country who abides by the legislation.

2.8 Other Trade Information

Swaziland has no free ports or export processing zones. Export credit insurance and clearing systems are operated by commercial banks based in Swaziland.

Chapter 3

Labor

3.1 Employment and Unemployment

There are no figures on unemployment in Swaziland and thus an estimate of the size of the problem can only be inferred from other statistics. However the figure is estimated to be high, particularly in the traditional sector. Approximately 8,700 people are currently entering 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% under the age of 16 in 1986). Roughly 4,800 of these people find work through replacement, migration to South Africa 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. 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.

Table 3.1

Estimated number of paid employees 1985-1988

Sector	1985	1986	1987*	1988*
Formal employment				
private sector	50,533	52,970	56,629	61,751
public sector	22,351	23,425	25,608	26,137
Informal employment	12,341	12,546	12,800	13,100
Total	85,225	88,951	95,037	100,988
Growth rate %	-4.5	4.4	6.8	6.3

* provisional

Source: Barclay's Business Guide to Swaziland

Table 3.2

Number of paid employees by industry group, private and public sectors

Industry group	1982	1984	1986
Agriculture & forestry	24,657	26,432	23,072
Mining & quarrying	2,492	2,335	2,445
Manufacturing	11,708	6,939	10,944
Electricity & water	1,091	1,332	1,426
Construction	7,426	5,925	5,210
Distribution	6,923	6,967	7,479
Transport & communic's	4,187	4,976	5,643
Finance	2,233	3,918	3,469
Social services	16,631	15,882	16,707
Total	77,357	15,397	16,707

Source: Barclay's Business Guide to Swaziland

Creating jobs has become more difficult as the capital-labor ratio has shifted towards capital. Most new industries are capital intensive. The GDP elasticity of labor has fallen from approximately 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 in GDP results in a 0.6 % increase in the demand for labor. Unless the labor intensity changes, continued GDP growth of over 7% is necessary just to absorb the growing labor force. Efforts to attract 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 picture. In the early 1980s it accounted for a third of modern sector jobs but represents only 17% to 22% now. The longer term trend is to increasing migration which runs counter to other countries in the region who have supplied a shrinking number of workers especially for the mines. By contrast, Swaziland has made explicit provision for migrant labor in its current development plan.

There is growing concern 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 significantly (40% to 200%) higher for professional, administrative and managerial personnel. South Africa has shortages of skilled workers, technicians and managers. There are real incentives for skilled Swazis to migrate.

3.2 Trade Unions

A large surplus on the labor market has led to low wages and poor working conditions for Swaziland's working population. This is particularly true of unskilled workers, leading to government attempts to intervene in the field of labor relations through such laws as the Industrial Relations Act and the Employment Act of 1980. The Industrial Relations Act was based on the establishment of Industrial Court with exclusive jurisdiction over labor relations. The legislation formed the basis of new collective bargaining machinery and also allowed for the resurrection of the Swaziland Federation of Trade Unions (SFTU), which was formed in 1971 but which had remained dormant since the suspension of the constitution in 1973.

Despite a tradition of worker militancy dating to the national strikes of 1963, the resuscitated SFTU has been committed to the "continued accommodation" between capital and labor. However, in 1989 renewed militancy emerged after a period of improved average growth rates and budgetary surpluses that had not been reflected in earnings. As of the end of 1989 the authorities were facing an increasingly hostile work force and a proliferation of strikes. Leading business figures have dismissed worker unrest as "teething problems" in the labor movement.

The recent conflict with the nation's teachers was only part of wider labor unrest. In mid-November 1989 some 500 employees of Swaziland Plantations went on strike briefly over bonus payments. A negotiated settlement was reached without incident after police were called in. Striking workers at Swaziland Brewers' plant in Matsapha were dismissed and the case has been referred to the Industrial Court. Rioting at the Havelock Asbestos mine left one man dead and caused about E1mn of damage: the dispute has now been settled. The prime minister called for a "year of labour peace" in his New Year message to the nation.

State policy towards trade unions has been conservative. Unions have to be registered, and can only do so if they can prove a 40% membership in an industry or firm. They are still relatively weak in Swaziland, and the relatively peaceful industrial relations compared with South Africa are another reason for greater investor interest in recent years. Some observers in Swaziland believe that the government will tolerate unions as long as they confine their activities to internal (company) labor issues. The government will therefore need to strike a fine balance between satisfying worker grievances and not jeopardizing Swaziland's comparative advantage in labor costs. The industrial relations outlook is uncertain for 1990 is uncertain for some sectors.

Curr nt minimum wage levels by occupational skill are listed in Appendix Two.

3.3 Employment of Foreign Nationals: localization policy

At the time of independence comparatively few Swazi had received an education which prepared them for skilled posts in the private sector. Those Swazi who had received a good education were employed in the government sectoı. It was clear that such a situation would not be acceptable to the government of an independent country, and accordingly a policy of localization was announced. In this sense, Swaziland is no different to other African countries.

In brief, the policy is that posts should be localised and that expatriates should only be recruited if it can be demonstrated that there skills are not available locally. A company wishing to employ an expatriate has their application in turn processed by the Police, Immigration and Localization Committee. If an application is rejected, an appeal may be lodged with an appeals board. If it is successful, a Temporary Residence Permit (TRP) is issued; until 1987 it was granted for a period of two years only, but now is available for a five year period.

Overall, the localization rate is 96.5%. A detailed breakdown of private sector employment by citizenship and skill level between 1981 and 1987 is as follows:

Table 3.3

Private sector employment, by citizenship and level of skill, 1981 and 1987

	1981	1987
Swazi citizens		
Professional/technical	710	1018
Administrative/managerial	838	1252
Clerical	3965	4348
Skilled	1581	2031
Semi-skilled	6300	6530
Unskilled	41509	40868
Total	54903	56047
Non-citizens		
Professional/technical	669	624
Administrative/managerial	632	567
Clerical	135	80
Skilled	479	407
Semi-skilled	152	133
Unskilled	273	455
Total	2340	2266

Swazi citizens %		
Professional/technical	51.5	62.0
Administrative/managerial	57.0	68.8
Clerical	96.7	98.2
Skilled	76.7	83.3
Semi-skilled	97.6	98.0
Unskilled	99.3	98.9
Total	95.9	96.1

Source: Employment in Swaziland, USAID, 1989

The main reason for the continued employment of expatriates is the shortage of suitable skilled and experienced Swazi. The shortage is particularly acute when it comes to filling middle and top-level posts. The key areas of shortage include accountancy and middle management, although there is a shortage in any post from skilled artisan upwards. Paradoxically, however, there is both a shortage and a brain drain of skilled Swazi to South Africa.

There is a commonly held view in the public sector that large companies are top heavy with expatriates and there is doubt as to whether so called 'key' positions are really key and also whether expatriates appointed actually had more experience than local applicants. Some large companies are regarded as merely paying lip service to localization and providing insufficient in-house training schemes.

From the company perspective, enterprises in the Lowveld appear to suffer a particular problem in that they find it difficult, despite excellent fringe benefits, to retain qualified Swazi personnel. The pull of the Mbabane-Manzini region is overwhelmingly powerful because of the lifestyle offered there and there is thus a high turnover of top level Swazi staff. Artisans prefer to be at Matsapha, the industrial estate, where it is easy to move from one company to another on promotion, and graduates prefer the Mbabane area to life on the estates.

It has also become increasingly difficult to attract expatriates, mainly because of openings available in South Africa. Salary packages have to be matched and there is the additional hassle of obtaining TRPs. A further difficulty in attracting expatriates is that their spouses are not allowed to work whilst in Swaziland. For some married couples today, it is essential for both husband and wife to earn an income.

3.4 Issuing of Permits

Work permits are a controversial issue for investors. The major criticism of government is related to the long period taken to issue TRPs which involves uncertainty and inconvenience. Instead of having a clearly defined and smooth process for considering applications, companies can wait up to two years before being notified of a decision. However, most companies find that the time taken averages between 4-6 months. Delays in these decisions are a negative factor in the Swazi business environment.

Apart from the common complaint about the time taken, not all companies regard TRPs as a crucial problem. The keys to success are for personnel managers to get to know government officials in Mbabane, to see them regularly, to make honest plans for training and promotion of local staff, and to make sure that any resistance to the issuance of a permit is not really based on some other problem related to your company.

Chapter 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.

Most of Swaziland's population lives in the rural areas although there is much integration with the urban centers. The two main towns are Mbabane and Manzini. Mbabane is the administrative capital of the country and has a population of about 45,000 people. Manzini is the commercial hub of the country and greater Manzini has a population of about 55,000 people. Between the two towns lies Matsapha where the international airport is located along with the country's major industrial estate. Nearby is the King's residence and the country's legislature.

4.1 Transport

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. There are 700 kilometres of paved road 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, 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 airline are managed by parastatals, Swaziland Railway and the Royal Swazi National Airways, respectively. The railway only carries goods traffic and is generally considered to be adequate although there are security risks in moving goods through Mozambique.

The main airport is situated close to the industrial estate of Matsapha. Plans are in place to expand and improve the airport to bring it up to international standards. The national airline is mainly a passenger service with only limited freight capacity. It is not difficult to make arrangements through the freight companies operating in Swaziland to provide freight facilities.

Most imports arrive by truck or rail from South Africa. Exports of most fruits and other perishable products are transported by air cargo to international markets. Due to the continued disruption of rail links with Mozambique, as discussed later in this report, most other exports travel by road to South African markets or by rail to Richards Bay and

Durban for international markets. The distance from Manzini to the port of Maputo in Mozambique is 196 kilometres. The distance to Richards Bay is ?03 kilometres and the distance to Durban is 595 kilometres. A secure and well-operated rail link to Maputo would be a significant plus for Swaziland although it is unlikely to materialize in the near future.

4.2 Communications

Communications are the responsibility of the parastatal Posts & Telecommunications. As with other aspects of infrastructure, the services have not been able to keep pace with rapidly growing demand. Almost the entire country is covered by automatic telephone exchanges and the quality of telephone service is generally good but, at times, erratic. Telex and fax services are also available. The country has both a radio and television station, although few Swazis 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. Despite this coverage, there is 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.

4.3 Energy

Biomass residues and fuelwood are Swaziland' 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 is in the form of fuelwood.

Hydropower is the principal source of domestic electricity. The Swaziland Electricity Board manages hydropower generation (capacity 50 mW) and supplies the balance of the country's electricity needs (40% on average) through purchases from South Africa. Industry and irrigated estates consumed 70% 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 in improving infrastructure is the government's difficulty in implementing its capital programme. 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, thus increasing the magnitude of the task.

Insufficient maintenance and expansion of infrastructure in Swaziland is an issue for international investors. Specific requirements should, therefore, be evaluated against existing capacities in order to avoid any post-investment problems.

4.4 Expatriate Living Conditions

Swaziland has a very pleasant environment in which to live. It is pleasing scenically; the climate is moderate and healthy; the people are friendly; and there is generally sufficient entertainment

A comprehensive range of medical facilities is available throughout the kingdom including two referral and four general hospitals. However, on occasion specialist treatment might only be available in neighbouring South Africa.

There is a shortage of housing for expatriate staff and there is no good international school. The only local school which would be attractive for the expatriate community is Waterford/Kamhlaba, but the fees are beyond the reach of most businessmen. Expatriate families might need to incur the costs of sending children to boarding school in South Africa.

Chapter 5

Political Background

5.1 The Domestic Situation

A major factor attracting foreign business to Swaziland is its political stability. The Kingdom of Swaziland is one of the three remaining monarchies in Africa - Lesotho and Morocco are the other two. The Swazis are an homogeneous people heavily steeped in tradition. This may account for its political. A power struggle occurred during the period of regency between the death of King Sobhuza II in 1982 and the coronation of King Mswati III in 1986. The new King is now consolidating his position by establishing his own power base. Although he has the ultimate decision-making power, he rules by consensus.

The Swazi monarchy is a dual monarchy in which the King rules the country in conjunction with the Queen Mother. In any interregnum the Queen Mother, known as the Indlovukati, automatically becomes Queen Regent and Head of State, until such time as a heir to the throne is installed. Otherwise, although an important national figure, she is subordinate to the King.

The country is divided up into some 200 chiefdoms. The chiefdoms have councils, the members of which have significant advisory roles in socio-political affairs. The chiefdoms are grouped into 40 regional administrative units called Tinkhundla, which provides a system for information dissemination and collection, and decentralization of administrative authority.

Parallel to this traditional tribal system exists a modern westernized government, with the King as Head of State, a cabinet and a bi-cameral parliament. In reality, cabinet and parliament act as rubber-stamps for decisions taken by the monarch in consultation with a small circle of elders and advisors. As may be observed, the Swazi political structure is complicated, but it works well and provides the necessary checks and balances. Bribery is not considered to be a major problem in Swaziland.

In general, the business community believes the political situation is stable now that the new King has the strong support of the country, and that the King favours a free enterprise system. King Mswati III has, in fact, called upon the government to give all necessary support to attracting foreign private investment. This stability of the kingdom and its policies toward private enterprise is considered a major factor in encouraging further development of the private sector. The only cloud on the horizon is the continuing labor unrest discussed in the section on the Labor Market.

5.2 The South African Situation

There exists an uncomfortable community of interests between Swaziland's royal elite and the South African government. In large measure this is due to the dominant role of South African capital in the kingdom's economy. Swaziland's warm relations with South Africa have been viewed with some disfavour elsewhere on the continent. However, political instability within South Africa is unlikely to impact significantly on Swaziland's internal stability - South Africa has nothing to gain by destabilizing Swaziland's government.

There is substantial discussion and uncertainty about the impact of post-Apartheid South Africa on Swaziland. On one hand, lack of political reform in South Africa, resulting from failed negotiations between the main interest groups could lead to significant unrest and possibly large-scale violence. This would make the entire region less attractive to investors, hurting Swaziland in the process. The timetable for negotiations, according to Nelson Mandela, is five years although significant steps should be taken within two years. In the meantime, Swaziland will stay an attractive option for investors wanting to hedge their bets.

On the other hand, with successful internal negotiations,the lifting of sanctions and trade restrictions on South Africa might reduce the attraction of Swaziland for some investors although it appears unlikely that existing investors will switch their plants to South Africa in the short-run. Corporate tax rates in South Africa are already 13% higher than in Swaziland and are projected to increase under a black majority regime in Pretoria. As well, subsidies to the homelands will either decline or be disbanded altogether if the homelands are reincorporated into South Africa. This would reduce competition for investment and slow the Swazi brain drain. Furthermore, a post-apartheid South African economy is projected to grow more rapidly than at present, potentially presenting new market opportunities for Swazi producers.

If slow growth in the South African economy continues and foreign trade sanctions apply, the rand is likely to fall further in value. In this case, Swaziland could well decide to delink its currency but because most imports come from South Africa (and these would become increasingly cheap), the rand would be an important component of a basket of currencies against which the lilangeni would fluctuate. Swaziland's exports might be slightly more expensive as the lilangeni is slightly undervalued at present (a rare situation for a developing country currency), although it is unlikely that the government would want the exchange rate to diverge much from present levels.

5.3 Relations with Mozambique

Swazi-Mozambican relations are good. Mozambique provides transport services, materials, and skilled labor to Swaziland, and in turn is able to obtain food and other materials directly from Swaziland or from South Africa through Swaziland. There are also close clan relations existing on either side of the Swazi-Mozambique border.

Swaziland has been affected by the military confrontation between rebels of the Mozambique National Resistance, known as the MNR or Renamo, and Mozambican government forces. This has seen growing numbers of refugees crossing into Swaziland and creating food shortages in the Lomahasha border area. Swaziland's rail link with Mozambique has also frequently been attacked, thus disrupting the flow of Swazi exports to Maputo port.

The Swazi authorities have linked the influx of refugees to an upsurge of armed crime in the country. This has led to a crackdown by police on Mozambican refugees, but by late 1988 there were 34,000 officially recorded Mozambicans in Swazi camps and the interior ministry has put the figure as high as 134,000.

Improvements in the Mozambican internal situation are unlikely in the near future. Although South Africa claims it is no longer supporting the MNR, it is still receiving private assistance from within the region and overseas and appears to be able to harass the government and civilian population for some time to come.

Chapter 6

The State in the Economy

6.1 Overview

The private sector dominates almost all aspects of the monetary economy in Swaziland, accounting for 54.7% of GDP in 1986. Parastatals accounted for almost 7% and central government accounted for 22%. Tibiyo (see below) commanded approximately 14% of GDP in 1986 though its holdings in the private sector.

Direct government participation in the economy is fairly small at 7% and the public sector budget as a percentage of GDP - on average about 35% - has traditionally been one of the lowest in the region.

Indirect participation in the economy by government and the crown (king) is fairly substantial. Tibiyo's substantial holdings are discussed below. The government participates in private sector activity through the Swaziland Industrial Development Company (SIDC) also discussed below. The government also holds shares in SWAKI, one of the largest holding companies in Swaziland, via its holding in the SIDC.

As discussed elsewhere in this report, to fully understand the role of the "state" in Swazi affairs, one must make a distinction between the crown and the government. The crown as manifested by King Mswati III, the Ingwenyama of Swaziland, represents the Swazi Nation. The Swazi Nation refers to ethnic Swazi living primarily in the rural areas, engaged in subsistence agriculture and maintaining traditional cultural practices, and is distinguished from the government of Swaziland which refers to the modern administrative institutions of state. The Swazi Nation's economic interests are advanced through Tibiyo Taka Ngwane.

6.2 Tibiyo Taka Ngwane

Tibiyo was created by the late King Sobhuza in 1968 by royal charter to manage the Swazi Nation's financial assets. This has led to a dual administration of the country's finances and resources. Ideally, Tibiyo was intended to manage the nation's traditionally held land resources - Swazi Nation Land (SNL) - and the country's mineral wealth, while the modern government managed the rest of the country's economic life. But increasingly the activities of Tibiyo and the government have overlapped, as the former has extended its domain through its shareholdings in ventures undertaken in all the major sectors of the economy. Tibiyo remains unaccountable to Parliament, and it has often backed development initiatives in open competition with government sponsored projects.

Until 1975 Tibiyo received mineral royalties which it was able to invest. It was then decided that Tibiyo could continue to grow with the funds generated from existing investments and accordingly a new fund - Tisuka Taka Ngwane - was established to deal with revenues from mineral royalties.

Tibiyo entered the mining and industrial sectors through negotiations with new and existing ventures. The company often obtained interests in these ventures through a formula, whereby future dividends on mining leases or land rights were used to acquire the shares.

In 1983 Tibiyo was certified as a development agency by the government. This gave it access to loans from the African Development Bank, although it has not taken up this option.

New investments are made in one of two ways. The projects may be initiated by Tibiyo who prepares the proposals and then sometimes invites local or foreign investors to form joint ventures. Alternatively, Tibiyo may be approached by investors; it welcomes these approaches. Tibiyo has no hard and fast rules about distribution of equity. It generally prefers a minority interest so as to spread its interests widely. It also does not have the ability to manage projects although it regards training of Swazis as very necessary. Tibiyo's investments are listed by sector in the following table. As can be seen, not all the projects are joint ventures as there are a number which are 100 % owned by Tibiyo. The major Tibiyo investments are valued at E54.7 million (US$ 21 mn).

Table 6.1

Tibiyo Taka Ngwane Investments

Sector	Holding %	Activity
Agriculture/Agribusiness		
Ubombo Ranches Ltd	40	Sugar
Sivunga Estate	100	
Mhlume (SWD) Sugar Co Ltd*	50	Sugar growing & milling
Sihoye Estate	100	Sugar
Royal Swaziland Sugar Corp. Ltd*	32	Sugar growing & milling
Tibiyo Dairy Project	100	Dairy farming Malkerns
Tibiyo Maize Project	100	Maize cultivation
Tibiyo Rice Project	100	Rice cultivation
Tibiyo Cattle Project	100	Cattle rearing
Sivandze Shiselweni	100	
Inyoni Yami Swaziland Irrigation Scheme	50	Irrigated agriculture
Tibiyo Forests	100	Forestry

Tibiyo National Milling Co.(Pty) Ltd	80	Milling
Tibiyo Granaries	100	Grain Storage
Swaziland Meat Industries*	40	Slaughter & processing
Mining		
Havelock Asbestos Mine (Swd) Ltd	40	Mining of asbestos
Manufacturing		
Swaziland Breweries Ltd	40	Production & bottling of beer
Langa National Brickwork	40	Manufacture of clay bricks
Jubilee Printing & Publishing Co (Pty) Ltd	100	Commercial printing
Swazi Observer (Pty) Ltd	100	Production & distrib'n of newspaper
Construction		
Roberts Construction (Swd) Ltd	50	Building**
Wholesale/retail		
Simunye Plaza	25	Shopping complex
Tibiyo Frasers (Pty) Ltd	50	Retail & wholesale
Hotels		
Swazi Spa Holdings Ltd	39	Hotel & casino complex
Transport & communications		
Tibiyo workshop	100	Repair of Tibiyo vehicles
Tibiyo Manica Freight	50	Shipping and removal
Swaziland United Transport	40	Transport of goods
Royal Swazi National Airways Corp. Ltd.	50	Air travel
Banking & Insurance		
Bank of Credit & Commerce Int'l (Swd)(Pty) Ltd	45	Commercial banking
Tibiyo Insurance Brokers (Pty) Ltd	53	Insurance

* involved in more than one sector
**Roberts Construction is reported to be withdrawing from Swaziland due to lack of work. Tibiyo's interest will therefore cease.

As mentioned above, the Tisuka Taka Ngwane fund was established to receive mineral revenues that had previously gone to Tibiyo. Tisuka has concentrated on investment in property mainly in or near urban centers. Housing has been built for low, middle and high-income groups and commercial buildings have been constructed.

Tibiyo and Tisuka are bodies that are unique to Swaziland. Both were established to meet the needs of the traditional groups in the modern westernized economy. Tibiyo is a significant factor in the Swazi economy and should be treated as such. Its strength is undoubtably its ability to avoid lengthy procedures and to facilitate investment and development, while its weakness is the lack of accountability to parliament. As a joint venture partner, Tibiyo can play an important role in helping foreign investors get a new venture off to a successful start.

6.3 Swaziland Industrial Development Company Limited (SIDC)

The SIDC started operations in October 1987. Although it is not a parastatal, it is 37.5% owned by the government and was established by the government to promote foreign investment and industrial development. It has total capital resources of E50 million (US$19mn) of which E13 million (US$5mn) is equity capital. The other shareholders are various international development bodies, such as the International Finance Corporation and the Commonwealth Development Corporation, and Barclays Bank.

The SIDC has interests in most sectors of the economy with investments being a mixture of equity, loans and provision of industrial premises. It only participates in projects that are technically viable, financially and economically feasible and soundly managed. It gives priority to projects which will:

provide permanent employment
generate foreign exchange
utilize local resources
encourage linkages with existing industries
transfer human resource skills
transfer appropriate technology

The SIDC also acts as the kingdom's first point of contact with prospective investors. It offers prospective foreign investors advice and information on the local investment climate; assists with marketing surveys and feasibility studies; identifies specific needs and arranges meetings with government ministers and departments, banks, accountants and other bodies.

Over the past two years the SIDC has invested E35 million (US$13 mn)in 22 new projects. In all these projects represent total investment of E131 million (US$ 50 mn) and an estimated 2000 new jobs. The SIDC has played an important role in the recent investment boom in the kingdom; E131 million is equivalent to about a fifth of national gross fixed capital formation over the two years. As of October, 1989, the company had additional projects amounting to a total investment of E290 million (US$111 mn) under active consideration.

From the financial aspect, SIDC is able to provide equity and loan finance. Its overall financial involvement in a project will not, however, exceed 50% of the enterprise's financial requirements. The maximum SIDC participation in any single venture is currently E3 million. The company does not participate in the management of an enterprise. It should be noted that the financial services offered by the SIDC are only available to locally incorporated firms. To access SIDC's financial resources, the foreign investor must submit a formal project proposal which should include the following details:

1. GENERAL

   Brief description of project and prospective investor.

2. APPLICANT

   Background information on the company including ownership, directors and management as well as relevant financial references.

3. INVESTMENT ITEMS

   Land area required and preferred location;
   Building requirements;
   Description of production process;
   List of machinery requirements;
   Working capital requirements.

4. FINANCING

   Cost of investment;
   Proposed equity and debt financing.

5. MANAGEMENT AND LABOUR

   Managerial, skilled and unskilled labour requirements;
   Proposed wages and salaries;
   Number of expatriate staff proposed.

6. PRODUCTION AND MARKETING

   Source and cost of raw materials;
   Water, sewerage and electricity requirements;
   Price, quantity and quality of manufactured output;
   Market location, size and expected growth;
   Marketing and distribution considerations.

7. FINANCIAL PROJECTIONS

Detailed profit and loss and cash flow projections; Internal rate of return and break-even analysis.

6.4 Public Enterprises and Parastatals

There are 25 wholly government-owned public enterprises, or parastatals, known as Category A public enterprises. Where the government has only a partial interest, such as in the SIDC, the public enterprise is known as Category B. There are 9 Category B enterprises which includes the major banks, the SIDC, the town councils of Manzini and Mbabane and the Royal Swazi Sugar Corporation. The government's minority interest in the banks does not translate into any management or policy control.

The Category A enterprises are by sector:

a) Agriculture:

The **Swaziland Dairy Board** (SDB) was formed in 1971 and has developed from being a regulatory body to becoming a primary producer and distributer of dairy products in Swaziland. It also runs dairy farms and produces feed for livestock.

The **Swaziland Cotton Board** (SCB) began in 1968 and realises its income from a levy on cotton. The SCB purchases cotton in competition with the private sector. A Special Levy Fund was recently established to stabilize and subsidize the cotton price.

The **Central Co-operative Union** (CCU) was established in 1971 to unite all the cooperatives in Swaziland. It has 18 depots throughout Swaziland and is a major supplier of agricultural inputs.

The **National Maize Corporation** (NMC) was incorporated in 1985 to coordinate the processing of milled maize in Swaziland.

The **National Agricultural Marketing Board** (NAMB) was established in 1986 to encourage a market for locally grown agricultural produce and to act as a catalyst for encouraging local production. The NAMB has a wholesale depot near the industrial park of Matsapha and fourteen smaller collection points have been established throughout the country.

b) Transport

The **Royal Swazi National Airways Corporation** (RSNAC) was established in 1978 and is jointly owned by Tibiyo and the government. The airline offers regional services and has suffered losses over the past few years.

The **Swaziland Railway** (SR) was constructed in the early 1960's to transport iron ore from Ngwenya to Mozambique. The SR also has links to the ports of Durban and Richards Bay in South Africa, a northern link to South Africa completed in 1986 and a recently completed north-south axis in Swaziland.

Central Transport Administration (CTA)

c) Industry and Commerce

National Industrial Development Corporation (NIDCS)
Small Enterprises Development Company (SEDC)
Commercial Board (CB)
Pigg's Peak hotel (PPH)
Swaziland Tourist Development Company (STDC)
Swaziland Trade Fair Company (STFC)

d) Communications

Posts and Telecommunications Corporation (P&T)

e) Infrastructure

The **Swaziland Electricity Board** (SEB) was formed as a statutory body in 1962 with a loan from the World Bank to build and operate the Edwaleni hydroelectric project and began selling electricity the next year.

The **National Housing Board** (NHB) was established in 1988 when it took over the assets and liabilities of the Industrial Housing Company. The NHB is the project implementing arm of government, guided by the Human Settlement Authority and serves as a developer for the delivery of housing on a self-financing basis. The current emphasis is on site-and-service development.

Water and Sewerage board (WSB)

f) Services and Others

The **Television Authority** (TVA) was established in 1983as a combined broadcasting and rental operation. The TVA exists to provide a national broadcasting service and rent television sets as the sole licensed supplier. There are less than 5000 television sets in Swaziland.

Swaziland Development and Savings Bank (SDSB)
Swaziland National Provident Fund (NPF)
Swaziland Royal Insurance Corporation (SRIC)
University of Swaziland (UNISWA)
Sebanta National Institute (SNI)
Swaziland National Trust Commission (SNTC)

In general, public enterprises in Swaziland, have either been or have the potential to be moderately successful, or else they have been constant drains on the public purse. In some cases the logic behind the establishment of the institution seems unusual. The National Agricultural Marketing Board is a case in point. It is difficult to believe that institution charged with promoting local agriculture could depend on a surcharge on imports for its income. While the government has not indicated a desire to privatize the NAMB, its poor management and potential as a profitable enterprise mean that it might be put up for sale in the medium term.

In other cases, it seems that the parastatal is destined to remain a loss maker for the foreseeable future, but its continued existence will be regarded as being in the national interest, an example is the Royal Swazi National Airways Corporation.

Some parastatals, for example the Swaziland Electricity Board, have incurred losses due to extraneous factors: a cyclone and a dramatic fall in the value of the currency. They are potentially profitable and their problems should be regarded as temporary.

Table 6.2
Parastatal profit/loss accounts

(E 000)	1985	1986	1987	1988
Swaziland Dairy Board				
Sales	4657	7016	6809	7427
Net profit/(loss)	(11)	(398)	(335)	(276)
Swaziland Post & Telecomm's				
Revenue	16505	20331	26422	30985
Profit/(loss)	1835	2095	4363	6037
Swaziland Television Auth.				
Turnover	1375	1885	2057	2021
Profit/(loss)				
before subvention	(211)	(911)	(1529)	(1048)
after subvention	-	-	(107)	213
Swaziland Electricity Board				
Revenue	22155	27592	37636	44503
Profit/loss	4263	(2000)	137	1499
Swaziland Railway				
Revenue	9742	11152	25495	40212
Profit/loss	(3849)	(5797)	(9525)	(8748)

6.5 Privatization

There are a number of parastatals which are operating in areas the private sector could occupy. The government has established a Public Enterprise Unit in the Ministry of Finance to improve management efficiency and to prepare candidates for privatization. Some of the candidates for privatization include:

Swaziland Railways,
Post & Telecommunications Corporation,
Swaziland Television Authority,
Swaziland Dairy Board,
Swaziland Electricity Board,
Pigg's Peak Hotel.

Most of these parastatals are based in the Mbabane-Manzini corridor. A key problem in selling off these state assets is that their financial and corporate records are in such poor shape that only general and unreliable information is available to prospective investors. According to one Ministry of Finance official it will take up to five years before the information required to put out proper prospectuses is available. However, the government is willing to talk to anyone interested in buying, including foreign investors. No rules have been established yet on the proportion of equity that can be held by a private owner in a state enterprise. Discussions with government officials indicate that up to 100% private ownership is being contemplated.

6.6 Nationalization and Expropriation Policy

Expropriation and nationalization are forbidden by law. The government has never nationalized an industry or company except the Television Authority which was losing money badly and needed to be bailed out.

Government and crown policy is oriented to encouraging foreign investment and the "state" attaches great importance to avoiding measures that increase the risk level of foreign companies operating in Swaziland. Government intervention takes the form of participation as a partner or investor in new initiatives and ventures.

6.7 The Land Question

Land in Swaziland is divided into two categories: Swazi Nation Land (SNL) and Title Deed Land (TDL). The ownership of SNL rests with the King who holds it in trust for the Nation. Land is divided into chiefdoms and each chief allocates land for homesteads and arable farming, the balance being for communal grazing. Land is allocated for the lifetime of the head of the household, although in practice widows and sons may retain the allocation. In theory there is no security of tenure. However ,it is important to note that all Swazis as a matter of birthright are entitled to an allocation of land. This counterbalances the lack of tenure.

TDL as the name suggests is held in perpetuity and may be inherited, bought, sold or given away. Non-Swazis may own land, but transactions must be approved by the Land Control Board which was established in 1972. In general, land was not regarded as a problem for private sector development until September 1989 when a royal decree was published.

The 1989 decree effectively gives the Minister of Justice power to intervene in any property transaction. The Minister may determine who may buy property and at what price. It was reported that there was immediate concern in the business community: banks argued that all property they held as collateral was valueless; businessmen and farmers feared for their security; and even ordinary homeowners wondered where they were left. It was felt by some that the property market was effectively abolished.

The King has since announced " that the misunderstanding which has resulted form the recent decree...has been taken care of". The Prime Minister office also later issued a statement that "His Majesty's government is fully aware of the importance attached to the security of land title by investors and financial institutions."It went on to reaffirm "... Swaziland's declared economic policy of private enterprise and the encouragement of industrial development". The established business community was mollified by these statements to some extent.

Potential investors are likely to want more than assurances; it would be preferable if the decree was revoked. There is still reluctance by some existing businessmen to commit money for expansion while the decree remains on the statute book. The Swaziland government faces a challenge to convince the business community and investors that land-holdings are secure. In the meantime investors might consider leasing land rather than purchasing it until the situation is more settled.

Chapter 7

Foreign Investment

7.1 Existing foreign investment

There is no published estimate available on the total value of foreign direct investment in Swaziland. A gross estimate of foreign investment is around US$ 800 million. About half of this would be the replacement value of established companies owned by British firms. Most of the balance would be investment made by South African-owned firms. Total cumulative private US investment as of 1988 is estimated at only US$10 million, representing less than 5% of total foreign investment. This is perhaps because British and South African interests have dominated the economy and because US investors have not been aware of Swaziland's potential.

More aggressive marketing of Swazi business opportunities in recent years, combined with an increasing desire on the part of investors to avoid or diversify out of South Africa, has resulted in an unprecedented increase in foreign private investment in Swaziland during the past three years. Most new investors cite Swaziland's attractive investment climate, geographic location and preferential access to export markets as reasons for establishing operations in Swaziland as opposed to elsewhere in the region..

The major foreign-owned firms in Swaziland and the names of their parent companies are listed below.

Table 7.1

Foreign-owned firms in Swaziland

NAME OF COMPANY	FOREIGN OWNER (COUNTRY)
*AMI Swaziland	Agnec Maritime Int'l (Belgium)
*Atlantis Swaziland	Tipp-Ex (West Germany)
Bank of Credit and Commerce Int'l	BCCI (Kuwait)
Barclays Bank	Barclays (UK)
Beral Swaziland (brake linings)	Turner and Newall (UK)
Big Bend Sugar Corporation Ubombo Ranches	Lonrho (UK)
*Bromor Foods (beverages)	Cadbury-Schweppes (UK)
*Clicks (retailing)	Clicks Stores (R.S.A.)
Crookes Plantations (citrus farming)	Crookes (R.S.A.)

*CONCO (Coca Cola)	Coca Cola Export Co. (USA)
Dokolwayo Diamonds (mining)	Trans-Hex Co. (R.S.A.)
EDESA (Development Bank)	Rubert Family (R.S.A.)
Edgars, Jet Stores, Sales House (retailing)	Edgars (R.S.A.)
Ezulwini Sun Cabanas	
Lugogo Sun Cabanas	
Nhlangano Sun Hotel	
Royal Swazi Sun Casino	Sun International (R.S.A.)
Farm Chemicals	Trifed (R.S.A.) (majority is Swazi-owned)
*Ferris Swaziland (pressure gauges)	Ferris Instrumentation (R.S.A.)
Frasers Supermarkets	D. and D.H. Frasers (R.S.A.)
George Wimpy International	George Wimpy Group (UK)
*Hartwood Industries (furniture)	Anglo-American (R.S.A.)
Havelock Asbestos	Gencor (R.S.A.)
*Interboard	Interboard Int'l (Netherlands)
*Injobo (garments)	Eastbrook Inc. (USA)
*Langa National Brickworks	Murray and Roberts (R.S.A.) Commonwealth Development Corporation (UK)
Leyland Swaziland	British Leyland (UK)
*Makoti Manufacturing (Metalware)	Johannesburg Consolidated Investments (R.S.A.)
*Mass Measuring Swaziland (scales)	Private partnership (Netherlands)
Mhlume Sugar Company	Commonwealth Development Corporation (UK)
Metro (retailing)	Metro Corporation (R.S.A.)
*More Industries (textiles)	Private partnership (Taiwan)
*National Textile Corporation	Commonwealth Development Corporation (UK) (majority Swazi-owned)
Neopac (packaging)	National Containers (R.S.A.) Commonwealth Development Corporation (UK)
Ngonini Citrus Estates	United Plantations (Denmark)
Tambuti Citrus Estate	ditto
OK Bazaars Supermarket	OK Bazaars (R.S.A.)
*Oriental Swaziland (garments)	Private partnership (Taiwan)
Peak Timbers	Anglo-American (R.S.A.)
Roberts Construction	Murray and Roberts (R.S.A.)
Royal Swazi Sugar Corporation	Government of Nigeria Tate and Lyle (UK) DEG (West Germany)

	Coca Cola Export Corp. (USA)
	Mitsui and Co. (Japan)
	Commonwealth Development Corporation (UK)
Shiselweni Forestry (timber)	Commonwealth Development Corporation (UK)
*Sikanye Footwear	Bata Shoes (Canada)
Standard Bank	Standard Chartered (UK)
Stuttafords Swaziland	Stuttafords International (R.S.A.)
Swazi Mechanized Farming (tractors and farm implements)	Massey Fergusson (Canada)
Swazi Oxygen	BOC International Group (UK)
Swaziland Bottling Company	Amalgamated Beverages (R.S.A.)
	Cadbury-Schweppes (UK)
Swaziland Breweries	BevMan (R.S.A.)
Swaziland Collieries	Gencor (R.S.A.)
Swaziland Fruit Canners	Gant Foods (R.S.A.)
	Commonwealth Development Corporation (UK)
*Swaziland Industrial Development Corporation	Commonwealth Development Corporation (UK)
	DEG (West Germany)
	FMO (Netherlands)
Swaziland Irrigation Scheme (citrus, sugar, meat)	Commonwealth Development Corporation (UK)
Swaziland Meat Corporation	Imperial Cold Stores (R.S.A.)
Swaziland United Bakeries	Premier Milling (R.S.A.)
Tate and Lyle Engineering	Tate and Lyle PLC (UK)
*Tru Security Products (locks)	Viro (Italian)
Usutu Pulp	Courtaulds (UK)
	Commonwealth Development Corporation (UK)
YKK Zippers	YKK (Japan)

* new investments made in the last three years.
In addition to these there are many small firms owned by individuals of many nationalities, predominantly South African, British, Dutch, Portuguese, German, Mozambican and Taiwanese.

Source: Foreign Investors in Swaziland, Annex I Investment Climate Statement, USAID

There are no reliable figures on the profitability of foreign investment. Nor is it possible to estimate private sector investment by firm size or source. However, indications are that real rates of return are generally high, particularly in the export sectors. There is a high level of investment in the country, currently running at about 30% of GDP. Much of this investment is financed out of the retained earnings of private corporations many of which are foreign owned.

In 1986 Coca Cola decided to relocate from South Africa to Swaziland. The Coca Cola Export Corporation has erected a modern beverage base concentrate plant at the Matsapha industrial estate. The plant is designed to supply the Swazi market, South Africa and other markets in east and southern Africa. The plant is operated by Conco Limited, a wholly owned subsidiary of Coca Cola registered in the Cayman Islands. Production commenced in 1987. The output of the plant is estimated to have added in the region of 5% to Swaziland's manufacturing value added by 1988. Coca Cola is now the country's biggest taxpayer.

In 1989, Cadbury-Schweppes opened a new E10 million (US$ 3.8 mn) factory in Swaziland called "Candy World" to manufacture sugar confectionary. This investment represents a new branch of agro-based industry, grafted neatly on to the established sugar sector. More significantly, however, this is another project that has been launched in Swaziland in preference to neighbouring South Africa, although it is from Johannesburg that the development has been overseen. In its initial form Candy World is to supply the domestic and south African markets, but it is clear that for the future the company has its eye on export markets further afield.

Despite the good news of investments like the Coca Cola and Cadbury-Schweppes projects, there have been a few disinvestments. In early 1990 Courtaulds, the British chemicals and textiles company, sold its Usutu Pulp Company to the South African pulp and paper group Sappi. The sale marks a retreat by Courtaulds from southern Africa. The transfer of interests was a drawn out affair, taking 17 months after it was first announced in 1988. It was delayed due to Swazi political concerns over land ownership.

Several Taiwanese companies have come into Swaziland over the past few years. These companies have mainly been involved in garment manufacturing. However, the Swazi government has been concerned about the nature of these firms since two of them disappeared over night last year and relocated to the South African "homelands" where labor is cheaper and the South African government provides businesses with subsidies and generous tax breaks. It has since been reported that these "footloose" firms have experienced problems across the border as few of the workers speak English and productivity is lower. Also, most indications are that this year Pretoria will scrap its business incentives as part of its cost-cutting measures.

7.2 Government Attitude to Foreign Investment

All areas of the economy are open to foreign capital with the exception of those sectors or areas that are wholly-owned government monopolies through the parastatals and the bus service.

The Government of Swaziland encourages private investment as part of its development strategy. Swaziland's macroeconomic strategy, as outlined in the Fourth National Development Plan, calls for stimulation of private investment and creation of private sector employment opportunities.

Since his coronation in April 1986, King Mswati III has reaffirmed Swaziland's commitment to a policy of free enterprise. In recent public statements he has assured foreign investors of the right to operate freely in Swaziland and to make a profit on their investments. In practice, few obstacles are put in the way of private sector activity in the Kingdom. Registration and licensing of companies are easily accomplished and minimal controls are exercised on business operations.

Swaziland has not concluded any general bilateral investment treaties although in 1967 Swaziland signed the OPIC agreement which remains in force. At present, two guarantees are in force: both were written in favour of the Coca Cola Export Corporation. The government attempts to treat investments from any western country equally.

7.3 Investment Opportunities

Swaziland presents some of the same favourable conditions and advantages as the Asian NICs a generation ago. This comparison is particularly true in terms of social and economic stability, cheap labor, access to trade preferences and sound macroeconomic policies. However, there is no evidence of high savings ratios in Swaziland and while labor is cheap, it is not well educated. Nor are Swazis noted for their entrepreneurial dynamism.

Opportunities for investment exist primarily in the agriculture and manufacturing sectors. Swaziland continues to export many of its raw materials in unprocessed form, and there is potential for value-added processing in a number of areas. There is potential for significant, sustained export-led growth, particularly through export of labor-intensive consumer goods.

7.3.1 Agriculture

A detailed overview of the sector is provided in Chapter 1.1.

Swaziland is rich in agricultural resources and so there are many opportunities in the area of agro-industry and agro-processing. Agriculture is the backbone of Swaziland's development policy.

A 1989 USAID survey of the private sector found that 30% of respondents thought that agriculture, either for domestic consumption or for export, offered the highest potential returns for investors. If land usage were rationalized and agricultural research funding increased, the prospects would be even brighter.

Sugar-based products such as candies and beverages offer opportunities. Waste from the sugar industry also presents the possibility of ethanol production, and several feasibility studies have recommended the establishment of an ethanol plant in Swaziland. 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 US and European markets exposes it to some risk. A few farmers have begun diversifying into high value crops (e.g. lychees, mangoes, flower bulbs and cut flowers, tumeric). 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.

There is undoubtedly great potential for maize and dairying on SNL, although they are not export crops. However, the vast majority of SNL remains as common grazing land, subject to population pressure and environmental degradation.

Alternative crops could be grown, especially on the sugar lands. Nut crops such as cashews, macadamia nuts, pecans and almonds as well as spices such as allspice, nutmeg, cinnamon, cardamom, pepper and coffee could all be considered. These are high-value low-volume products with limited transportation and storage costs. Harvesting and basic processing is fairly labor intensive. Although a number of the tree crops take five or more years to yield it is possible that they could be intercropped with sugar until they mature. Some of these non-traditional crops might also be suitable for rain-fed cultivation.

By entering into the production, processing and marketing of milk and milk products, the Dairy Board has become engaged in an area for which it was not originally established and consequently it is run badly and unprofitable. The government is now giving consideration to privatizing the Board's industrial function while maintaining its regulatory function (see chapter 6.5).

Swaziland is suitable for growing herbs and other horticultural crops throughout the year, thus providing an opportunity to access the lucrative European winter markets. The Malkerns Valley has highly productive soil and a suitable climate for a broad spectrum of herbs, spices and vegetables. If constructed, a modern dehydration facility could supply the international market with dehydrated vegetables and condiments.

The tapping of small farmers' production capacity offers substantial potential for niche-market products such as asparagus and artichokes. Development of satellite farms or joint venture arrangements with small-scale farmers' cooperatives would increase the productivity of Swaziland as well as start a new export-oriented industry. There is also an opportunity to grow tomatoes for export - the domestic market is too small - in the Pigg's Peak area where there is good land and many valleys suitable for this kind of crop.

Cotton is also an important area for potential investment. Cotton is Swaziland's main dry land crop and is the principal cash crop for some 7,000 small Swazi farmers. Production fluctuates from year to year depending on weather conditions. A peak of 25,000 metric tons was achieved in 1980/81. There is no cottonseed oil extraction in Swaziland, and seed is exported to South Africa. An oil extraction plant could be economically feasible.

Tanning and leather production from cattle are other areas of interest. With a cattle population of about 650,000, there are nearly as many heads of cattle as people in Swaziland. There is no tanning industry in Swaziland. Hides are currently sent to South Africa for processing. Establishment of a feed mill for local livestock is another area of interest.

7.3.2 Forestry

Forestry has become the second most important agro-industry in Swaziland. Sawn raw timber, wood pulp and other wood products are manufactured primarily at three saw mills. Other firms make use of the cut timber they supply.

Although wood products are mainly exported as raw timber an increasing quantity is used within the country for finished products. High-quality furniture is made for local markets and pine products are exported to Europe. A chipboard factory has just been built at Nhlangano; it is a good example of vertical integration.

The pulp mill at Bhunya produces about 180,000 metric tons of unbleached pulp a year, most of which is exported to East Asia and Europe. Around 80% of the pulp is sold through Usutu's marketing arm in Hong Kong. Raw pulp is not used locally but the potential exists for a link with a paper mill. A factory at Matsapha has recently been converted to produce kraft paper and tissue paper. As the demand for pulp is expected to remain strong, this subsector of the economy is likely to retain its importance.

7.3.3 Manufacturing

Manufacturing grew at an average rate of 5.9% between 1979 and 1987, and overtook agriculture as the leading sector in 1987. 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, which in turn is limited unless significant expansion in small scale production occurs, primarily on crown-owned (SNL) land.

The sector has become increasingly diversified since the mid-1980s. Recent investment and growth has been in non-agriculture related concerns. Garment production shows great potential. The privately owned National Textile Corporation (NATEX) was only producing yarn until it opened a fabric plant last year with an annual production capacity of 13 million square meters of fabric. NATEX is encouraging garment manufacturers to invest in Swaziland.

Footwear offers similar opportunities as the clothing sector. Sikanye Footware, owned by Bata Shoe Company of Canada, reports that their Swazi workforce has reached a productivity level that is nearly 20% higher than in their plants in South Africa. Their footwear sales are mainly to South Africa and most materials are imported from Asia. The growth in footwear production in Swaziland has created spin-off opportunities in areas such as shoe-laces, sewing thread, shoe boxes and tissue paper. If cotton production can be increased, clothing and footwear will continue to be a major factor in the growth and dynamism of the Swazi manufacturing sector.

Possibilities for investment also exist in the wood industry. Recent investments in furniture and paper production have begun to address the potential of this sector but further activity is feasible (see chapter 7.3.2 above). Knock-down furniture has substantial potential and one manufacturer reports that he has more export orders than he can supply.

Swazi labor, (more fully discussed in the chapter on the Labor Market), is well suited to manipulative and assembly related tasks. Women, in particular, have tremendous manual dexterity which is probably due to the country's traditional culture. These abilities are well adapted to the computer and component assembly industries and textile and footwear production.

7.3.4 Tourism

The Swazi tourist industry is dominated by the private sector and foreign companies. The largest company in this sector is Swazi Spa Holdings, in which Tibiyo has a 30% stake. Pigg's Peak Hotel is a parastatal, but it is managed by a South African chain. Most hotels were built before 1974 and they are mainly to be found in the Mbabane-Manzini corridor. Since then the only development has been the 50-bed hotel and casino at Nhlangano and the 106-room complex at Pigg's Peak which opened in 1986. A convention center was opened at Ezulwini Valley in 1983.

This sector has good growth potential if marketed aggressively as there are few, if any, infrastructural constraints. Sun International, Swaziland's main hotel chain forecasts 10-15% growth in tourists; official South African estimate suggest slightly slower growth in domestic and international tourism. Should these forecasts prove correct the number of tourists entering Swaziland could top 500,000 in 2006, double the 1986 level. This would mean an extra 1,025 hotel beds were required.

7.3.5 The domestic market

In a 1986 study of investment in Swaziland, it was found that the majority of foreign firms had established there to take advantage of the domestic market. Most of these firms were identified as South African and it is not clear whether these firms were subsidiaries of US or European multinationals. It appears, nevertheless, that these firms were investing in Swaziland as an adjunct to their South African operations or as the first step toward expansion into the South African market. Since 1986, most new foreign investors have set up to supply external markets, with the major drawing card being fairly easy access to world markets. Despite this there are opportunities to develop goods and services to meet the local market.

Several examples illustrate the domestic market's potential. At the time of writing there does not appear to be a qualified and equipped toolmaker in the country. As previously mentioned, there are spin-off opportunities from the investments being made in the garment and footware industries, as well a need for a feedmill for local livestock. Ethanol production has the potential for satisfying 25% of Swaziland's fuel needs. Possibilities also exist to expand the development of local road transport companies, especially along the Mbabane-Manzini corridor to reduce congestion.

Construction has good growth potential. The problem of developing low-to-middle income housing and upgrading squatter areas is one that the government is only beginning to address and offers potential for private sector involvement. High income housing is also in short supply and there is evidence to suggest, that the real estate sector is growing rapidly. The whole of the Manzini-Mbabane corridor is likely to increase rapidly in population, especially if the manufacturing sector continues to grow. Again, this is an area for business involvement.

There is also limited potential for substitution of products mainly imported from South Africa. For example, all flour consumed in Swaziland is imported from South Africa. Recently, the government announced its intention to make Swaziland self-sufficient in flour and wheat production although this has not yet taken place. Furthermore, the rapid growth in GDP over the past few years and the growing population, would indicate that the local market is also growing and becoming more sophisticated, implying that entrepreneurial opportunities exist.

US investors should also be alert to opportunities for technology transfer and the provision of managing and market assistance. These opportunities exist for existing small entrepreneurs, mainly black, who can be identified through SEDCO and the business associations that serve smaller firms: Sibakho, Commercial Amadoda and the Chamber of

Commerce.

Despite these domestic opportunities, the foreign investor should remember that Swaziland is a small market with per capita income of approximately $800. It is difficult to attain the economies of scale required to compete with South African goods. Investors are probably best to focus on identifying specific spin-off opportunities for supplying the growing number of industrial and commercial concerns.

7.3.6 Other Sectors

Other areas for possible investment include diamond processing (cutting and glass), coal processing (cement, chemicals and metals), and ceramics and pottery production. In the lowveld region, along the coal belt, high quality anthracite has potential.

Chapter 8

The Regulation of Foreign Investment

8.1 Overview and Approvals

In the mid-1970s the government of Swaziland had no clearly defined regime of industrial development accepted under fairly loose conditions any investor who was willing to establish in Swaziland. This largely is the situation prevailing today - but by design and not default. Swazi investment policies have not been incorporated in any specific investment code or legislation. The government's basic strategy, as enunciated in its national development plans, is to encourage development of resource-based, export-oriented, labor-intensive industries. Toward this end, it seeks to avoid disincentives to investment rather than to promote growth in a particular sector or industry by means of subsidies or special incentives.

This open-door approach has for many years combined various allowances, comparatively low rates of taxation, guarantees against nationalization, liberal foreign exchange policy and assistance from public enterprises. The main body within government responsible for promoting private investment is the Industrial Division of the Ministry of Commerce, Industry and Tourism. The Division encourages the establishment of commercial activities on industrial estates.

All major investments in Swaziland must be reviewed by the government and approved by the King. The review process is generally cursory and royal approval is granted expeditiously for bona fide investments which serve Swazi national interests. If the investor is interested in the government providing loan or equity capital, or doing a feasibility study some additional questions will be asked in an attempt to judge financial viability. In this case the prospective investor will be directed to the SIDC, and to a lesser extent Tibiyo. Both of these organizations were discussed in Chapter 6.

Swaziland will not approve investment requests submitted by companies it suspects will use Swaziland to circumvent sanctions imposed by various countries on South Africa. Swaziland requires investors to contribute a minimum of 25% local content in order to obtain a Swaziland certificate of origin, but does not prohibit investments demonstrating less than 25% local value added.

There have been complaints levied against the government relating to the length of time it takes to get a decision on investment through the government or the Swazi Nation. Such delays are not uncommon, especially for decisions relating to investments that will use the country's mineral resources or investments where both the traditional and administrative governments are concerned.

8.2 Forming a Local Company

Legislation regarding company formation in Swaziland is contained in the Companies Act of 1912 and the Companies Act (Amendment) Order of 1978.

The law distinguishes between partnerships, foreign companies (operating through branch facilities rather than local subsidiaries), public companies and private companies. There is no minimum capital requirement, but there must be at least two shareholders. The most common form is the private company. The registration of a local company can be taken care of by a local attorney and is usually affected within 10 days. The average cost is about E800. All local companies are required to have a registered office in Swaziland.

A foreign company can have an office in Swaziland and on registration for tax purposes must state the address of its registered office in the foreign country.

A limited liability company is incorporated on registration of its Memorandum and Articles of Association with the Registrar of Companies. This process is usually handled expeditiously. Annual audited balance sheets and certain other particulars must be lodged with the registrar by public companies. This information is open to the general public. Private companies are not required to publish details of their financial affairs, and may generally commence business immediately registration has been effected.

At present there is no legal requirement that Swazi citizens be appointed as directors of locally registered companies; nor is it specified that board meetings be held in Swaziland. It is advantageous to include Swazi citizens as directors or shareholders and to hold most board meetings in the country. These practices would help to identify the company with local business and financial interests and enhance its overall reputation and image.

There are also no limitations on foreign equity although it would be prudent to invite local participation in keeping with the stated objectives of the government's industrialization policy and to facilitate positive relations with local authorities.

8.3 Real Estate

Real estate in Swaziland is governed by a land tenure system that is divided into two categories: Swazi Nation Land (SNL) and Title Deed Land (TDL). This system and recent related events of concern to investors is discussed in Chapter 6.7.

Recent policy in Swaziland has been to allow non-Swazis to own property subject to the approval of the Land Control Board. The Land Speculation Control Act of 1972 refers to such transactions as "controlled" and defines them as the sale, transfer, lease, mortgage, exchange or other disposal of land to a person who is not -

a) a citizen of Swaziland

b) a company all of whose members are citizens of Swaziland

c) a listed in the schedule to the act e.g. parastatal bodies.

The Land Control Board will give its decision in writing and, if granting its consent, will attach "conditions of development as it sees fit". The Minister of Industry and Commerce may exempt any land transfer or company from any of the provisions of the act, on such conditions as he may see fit to impose. Under this provision, the Minister has exempted land in the Matsapha industrial township and land on which a licensed hotel is erected, so that persons who are not Swazi citizens may deal freely with such land.

The Factories, Machinery and Construction Works Act of 1972 governs industrial premises and estates. Proposed new building projects must be registered with the Labour Department whc will ensure that the Act's safety precautions have been observed.

8.4 Rules of Competition

Swaziland has no rules of competition such as antitrust laws, or those concerning restrictive trade practices and monopolies. There are no defined standards for mergers. Swaziland's small internal market means that most consumer and industrial products are imported from South Africa. Thus, Swaziland is greatly influenced by the competitive environment in South Africa. The South African economy is dominated by cartels and industrial conglomerates. Swazi industry is export-oriented with a considerable portion of its sales outside Africa.

8.5 The current investment climate

In summary, the pluses and minuses of the current investment situation in Swaziland are as follows:

On the negative side,

* Lack of large internal market and exposure to strong South African competition

* Lack of a trading tradition and market linkages to exploit in establishing new industries

* A very small base of resident entrepreneurs and managers

* A drain of human resources to South Africa where there are higher economic rewards

* An awkward blend of modern and traditional elements in the political structure that can cause conflicts over resource use such as use of land for commercial purposes

* Weaknesses in government administration, resulting in delays in decisions and approvals such as for residence permits, and in capital expenditure on industrial infrastructure such as industrial sites.

On the positive side,

* Stability and pro-business aspects of the political structure

* Relatively cheap and cooperative labour (despite recent incidents)

* Availability of many raw materials

* A favourable tax, credit and foreign exchange situation for foreign investors

* A well-ordered macroeconomic picture, especially in terms of the fiscal and balance of payments situations

* Some clear trade advantages because of the Lome Convention, the PTA, and SACU and access to regional and international markets

* Few government interferences and controls over private enterprise

* Relatively good physical and service infrastructure

* Pleasant living conditions

Chapter 9

The Financial Environment

9.1 The Common Monetary Area and Currency Outlook

The national currency is the lilangeni, (plural emalangeni (E)), which is pegged at par with the South African rand. Under the Trilateral Monetary Agreement of July, 1986 between South Africa, Lesotho and Swaziland - which established the Common Monetary Area (CMA) the rand ceased to be legal tender in the kingdom. Nevertheless the rand is still accepted in hotels and shops and banks continue to accept rand for credit of their customers' accounts. The lilangeni was firmer over 1986-88 against major trading currencies, after the precipitous fall of the rand in 1984-85, but had declined to E2.6053=US$1 by 19 March 1990.

The CMA provides for the free transfer of funds among members and common foreign exchange controls (see Chapter 10). Individuals in Swaziland can transfer within the CMA without informing the authorities or getting special permission. Thus, a major drawing card for investors is the ready access to the well-developed South African money and capital markets in addition to the availability of good banking and credit facilities in Swaziland.

The outlook for the lilangeni is that it will continue to be informally pegged to the rand because South Africa is by far Swaziland's largest trading partner. However there is always the political risk that the currency could be unpegged virtually over night. However, local commentators say that the lilangeni would only be unpegged from the rand as a last resort: no action will be undertaken as long as the rand remained above US$0.32 and below US$0.55 on the foreign exchange market. Currently the rand is valued at about US$0.38.

Delinking would allow the stronger lilangeni to have a higher external value, but it would still need to track the rand closely as 80% of Swaziland'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 would reduce business incentives to invest there.

The outlook for the rand will continue to be uncertain and largely dependent on business and investor confidence in the outcome of negotiations to end apartheid in South Africa, gold prices and inflation rates. The exchange rate for the commercial rand has stabilized since the beginning of November, 1989 after a sharp fall throughout most of that year. Most bankers in Swaziland see the exchange rate remaining relatively stable over the medium-term, with continued gradual depreciation being likely given the CMA's high inflation rates relative to those in major markets overseas.

Table 9.1

Average exchange rates
(US$ per lilangeni)

1983	1984	1985	1986	1987	1988	1989
.89909	.69536	.45639	.44082	.49141	.44227	.38218

9.2 Financial Market Institutions

The formal banking sector comprises the commercial banks and the Central Bank of Swaziland. In addition, a number of financial institutions have been established.

a) The commercial banks
Barclays Bank of Swaziland Limited
Standard Chartered Bank Swaziland
Bank of Credit and Commerce International (BCCI) Limited
Union Bank of Switzerland
International Bank for Swaziland.

Standard Chartered and Barclays Banks were established during the colonial period and have the major share of business in Swaziland. The government has a 40 % share in each and appoints the chairman of the boards. The BCCI was established in 1978 and it partially owned by Tibiyo. The Union Bank which commenced commercial banking operations in 1988 is a joint venture between Swaki, Standard Bank SA, the Swaziland government and European investors. The International Bank was also established in 1988. Its major shareholders are the Bank of Paris and the Union Bank of Switzerland. It is a small operation restrict to trade financing.

b) The Central Bank of Swaziland is charged with managing the country's monetary system. It was only with the signing of the CMA agreement in 1986 that the Central Bank gained the responsibility for managing Swaziland's gold and foreign exchange reserves. It is recognized, therefore, as a fully-fledged central bank.

c) The Swaziland Development and Savings Bank, known as the "Swazibank" is a statutory body managed by a publicly-appointed board. Its mandate is mainly developing the cash economy in the rural areas. The Bank has on the whole not been successful and is now saddled with a heavy burden of non-performing loans.

d) The Finance Corporation of Swaziland began operations in 1981. It was established by the conglomerate Swaki to "assist the business and professional sector by providing hire-purchase and leasing facilities". FINCOR became the Union Bank of Swaziland in 1988 after it was granted a banking license.

There are several quasi-official funding sources the most important of which is the Swaziland Industrial Development Company (SIDC). The SIDC is discussed in the section on the State Role in the Economy. The SIDC is one of the main agents for new development and investment in the Swazi economy.

Tibiyo and Tisuka are also discussed in Chapter 6. Tibiyo in particular has the potential to provide credit.

The British government-owned Commonwealth Development Corporation exists to make investments in enterprises in developing countries. It was established in Swaziland prior to independence. It has investments in many local undertakings valued at an estimated E50 million.

There are several additional sources of funds which have not yet been tapped by the private sector. While access to credit is discussed in the next section, foreign investors should bear in mind that for large investments the following institutions might be able to make funds available at competitive rates:

a) The Swaziland National Provident Fund is a savings scheme providing benefits for wage-earners unable to work. It has a large amount of money that could be made available for investment.

b) The Swaziland Royal Insurance Company was established in 1974 and has a monopoly on the insurance market in Swaziland. The company has not always been profitable but has the potential to invest revenue from short-term insurance policies.

c) The Swaziland Building Society makes money available for the construction and purchase of private homes. although in recent years it has expanded its functions to include commercial property. It too has capital to be tapped.

The Central Bank and the Commonwealth Development Corporation are involved in a scheme to establish a "stock exchange". The exchange will actually be a stock broking company which will deal with about four to five listed players. It will be an over-the-counter operation oriented to large institutional investors and not the person in the street. There has been only limited interest in the exchange but the machinery is in place when and if it is required.

9.3 Monetary Policy and Credit Availability

Swaziland's monetary policy is strongly influenced by South Africa because of the CMA and close economic relations. South Africa's high interest rates for example, are mirrored within one or two percentage points by the Swazi authorities and capital moves within the Customs Union with few restrictions. The Central Bank of Swaziland issues notes and coins on demand although overall money supply is largely dictated by South Africa. As long as the Swazi currency is tied to the rand on a par basis, the Central Bank of Swaziland will have little monetary control. The Bank's only effective policy is to encourage lending by the fairly conservative banks who are required to invest a certain proportion of their funds locally. Foreign exchange controls are discussed in the next section.

9.4 Access to Credit

Although credit is relatively easily available in Swaziland, it has not been fully utilized in the past few years, partially because of delays in getting major capital projects off the drawing board. As such, the financial and banking system is highly liquid. In addition local banks are only allowed to park 5% of their deposits in South Africa. A constant complaint by local businessmen is the difficulty in obtaining loans and the inflexibility of loans for small-scale industry. Firms also have access to South African sources of credit, although this route is rarely used.

One well-established local banker acknowledges that the older and larger banks such as Barclays and Standard Chartered are conservative while the newer banks such as the Union Bank of Switzerland are looking for market share and are therefore more liberal in their lending habits. Short to medium term loans are much easier to obtain than medium to longer term loans. Overseas investors are likely to encounter fewer obstacles than many local borrowers who are often short of collateral and/or business experience.

Raising capital in Swaziland by issue of bonds and shares in aggregate amounts of E100,000 or more during a period of 12 months requires approval. Applications in this connection, supported by the relevant details, should be routed through a bank in Swaziland for consideration by the Central Bank.

Non-resident companies that are more than 25% directly or indirectly non-CMA controlled need prior approval of the Central Bank before raising loans or bank overdrafts within the CMA. Non-residents are expected to raise a fair share of required funds from their own sources.

Chapter 10

Foreign Exchange Controls

10.1 The Common Monetary Area (CMA)

Because the CMA provides for the free transfer of funds among members and common foreign exchange controls, individuals and companies within the CMA can transfer money within the CMA without informing the authorities or getting special permission. Outside the CMA, exchange controls exist but in practice the approval of most currency transfers is routine.

Transferring money to non-CMA countries involves going through exchange control. Exchange regulations are contained in the Exchange Control Act of 1975. As part of the government's policy of encouraging foreign investment, the existing rules on exchange control are interpreted as liberally as possible. The government requires investors to declare the amount of their investment in Swaziland at the time it is initially made. This amount is recorded with the Central Bank and is freely remittable together with dividends, capital returns, royalties, interest payments and principle payments on foreign debt related to the investment.

Dividends derived from current trading profits are subject to non-residents shareholders' tax of 15% when transferred abroad. Interest payments on non-CMA borrowings are subject to a 10% non-resident withholdingtax. Payments to non-CMA residents in respect of royalties and fees arising from the use of patents, trade marks, copyrights, designs etc. are permitted with minimum controls.

Remittance applications must be filed with one of the commercial banks authorized as foreign exchange dealers. Each is empowered to approve applications within limits set by the Central Bank. Amounts in excess of delegated limits are referred to the foreign exchange control office of the Central Bank for approval. Approval is granted routinely.

10.2 Financial Rand

In 1987, the Central Bank of Swaziland negotiated an agreement with the Reserve Bank of South Africa which permits certain investors to obtain rands in South Africa at a rate determined by market forces so as to equal long-term capital flows into and out of South Africa. These "financial" rands are generally traded at a 30-50% discount vis-a-vis commercial rands, whose value is determined by short-term supply factors. The separate exchange for commercial and financial rand was introduced in 1985 to stem capital flight from South Africa and avoid depletion of foreign reserves.

An investor in Swaziland must demonstrate in a written application that a proposed investment will facilitate economic growth within the CMA in order to obtain rand for investment at the financial rate. If approved, the invested capital cannot be repatriated except at the financial rate in affect at the time of transfer. Because there has been substantial abuse of the two-tiered rand exchange rate, South Africa is estimated to have lost 11 billion rand due to round-tripping - approvals can take up to six months.

In December, 1989, the governor of the Reserve Bank of South Africa indicated the dual currency system is unlikely to be scrapped within the next 12 months, because of concern over capital outflow although some commentators believe a unified exchange regime would encourage capital inflows. A merger is unlikely until South Africa's foreign reserves reach a "satisfactory" level and the gap between the financial and commercial rand narrows from the current 30%.

Swaziland has no guarantees against inconvertibility but the country has 3-4 months import cover and as such there should be not be any problems with availability of foreign exchange. Investors need not fear the problems that can be encountered in other African countries since Swaziland is not dependent on foreign exchange earnings from any one commodity as, for instance, Zambia is on copper.

Chapter 11

Debt and Aid

11.1 External debt

"Total external debt", reports the Central Bank of Swaziland,"public and guaranteed, stood at E532.5 million (US$ 235 mn) at the end of March, 1988. This exceeds the previous years figures by E25 million, reflecting a large volume of drawing from existing loans". Total disbursements, mainly from Danish, World Bank, African Development Bank and European Investment Bank loans stood at approximately E28.1 million (US$12.4mn),while disbursements involving public loans were E23.2 million (US$10.3mn). An estimated 51% of external debt comprises loans from international organizations, with foreign governments following a close second at 45%.

Table 11.1
Total public and publicly guaranteed external debt
(E million)

Lender	1984	1985	1986	1987	1988
International organisations	133.2	185.1	260.6	243.0	270.4
Foreign governments	85.3	118.6	184.6	213.8	242.0
Private lenders	13.1	22.1	26.6	50.7	20.1
Total external debt	231.6	325.8	471.8	507.5	20.1
central gov't	174.7	212.6	245.6	299.4	344.6
statutory bodies	56.9	113.2	226.1	208.1	187.9
Debt service					
% export receipts	6.8	8.3	13.8	11.8	17.0
% export goods & services	4.9	5.7	8.6	8.1	9.8
SDR/E	.6627	.4509	.4295	.3854	.3414
US$/E	.6953	.5991	.4490	.4955	.4715

Source: Barclay's Business Guide to Swaziland

"Debt service in 1987 reached new highs, recording a level of US$309 million from US$278 million the previous year" states the latest annual report of the Central Bank. This is equivalent to about 9.8% of total exports of goods and services. In 1988 the debt had fallen to US$264 million: at 43% of GDP, this represented the lowest level of overall indebtedness since 1984 when the lilangeni/rand slumped in value, and reflects the net redemption of public external debt permitted by the budget surpluses recorded since 1987/88. The burden of debt service has eased in relation to rising export receipts. In 1988, external debt service accounted for 5.2% of exports of goods and services. In fact, Swaziland's debt repayment record is excellent, if somewhat tardy at times. Because most of Swaziland's imports come from South Africa and are paid in rand, the country is freed from many of the foreign exchange constraints faced by many other African countries. Partly as a result of this, Swaziland has had few problems with its external debt. The following table gives information on public and publicly guaranteed debt for the years 1984-88.

11.2 Foreign Aid

Gross official development assistance (ODA) rose strongly in nominal terms to US$49 million in 1987, after a low of $28 million in 1985. However, the figure is still below earlier levels; gross disbursements of ODA ran to $52 million in 1980. Applying the OECD's deflator for exchange rate and price changes, a real increase of 14% was recorded in 1987. The US was the largest donor again in 1987 and, ahead of the UK and West Germany, the contribution of Denmark made the country Swaziland's second largest bilateral donor. Commitments of new support declined a little in 1987, suggesting the upturn in disbursements levelled off in 1988. EC commitments rose substantially, however, confirming the trend in EC support which doubled to $5 million in 1987.

Table 11.2

Gross official development assistance*
($ mn)

	1984	1985	1986	1987
Bilateral	19.6	20.3	27.2	32.8
of which				
USA	7.0	8.0	8.0	12.0
Denmark	0.1	0.1	2.9	6.6
UK	3.7	2.7	5.6	4.8
W. Germany	1.8	1.8	2.9	3.7
Multilateral	6.2	2.0	2.5	4.9
of which				
EC	6.2	2.9	2.5	4.9
World Food Program	1.1	-	0.8	3.8
Total	31.8	27.9	37.6	49.0
of which				
grants	27.3	24.7	28.1	38.6

*Disbursements. Official development assistance is defined as grants and loans with at least a 25% grant element, provided by OECD and OPEC member countries and multilateral agencies and administered with the aim of promoting development and welfare in the recipient country. IMF loans, other than Trust Fund facilities, are excluded, as is aid from the eastern bloc.
Source: OECD/EIU

The major areas of current involvement by USAID are:

family and primary health care
basic education
manpower development
agricultural cropping systems
commercial agricultural production and marketing
railways operation and management

The USAID also has a strong programme of support for the private sector and is encouraging other donors to also place particular emphasis in this area such as investment, industrial and trade promotion. The only other donors active in this area are the EC and the West Germans.

Overall, donors in Swaziland believe that increased flows of foreign investment capital into the country will enhance development. Donors are also anxious to see the benefits of economic growth shared equitably. Some donors place less of an emphasis on promoting free enterprise than the USAID and place more attention on social affairs such as health and education.

Chapter 12

Price Controls

Although Swaziland is basically an open economy encouraging a free-market system with little or no interference in private-sector business, the government sets prices on a few commodities.

The Ministry of Agriculture and Cooperatives regulates the price of some grades of maize, and some cheeses and margarine, and wheat has been recently added. The Ministry of Commerce, Industry and Tourism regulates the price of bread and soft drinks. Regulated prices are published in the Swaziland Government Gazette which can be obtained from the government printer. The prices are either minimum prices such as those paid to farmers or are maximum prices such as those paid by consumers. Most of these price controls exist due to monopoly supply conditions since Swaziland has no competition legislation.

Producer prices are usually determined on an import parity basis equalizing them with the costs of imports from South Africa. Consumer price adjustments are readily granted if justified by cost increases.

While price controls are not a major concern, distortions appear from time to time. Production of maize in Swaziland, for instance, was discouraged under the import parity formula inasmuch as the South African growers received an indirect subsidy through storage operations conducted by the South African Maize Board. Although the South African government is now less willing to subsidize maize storage, this case illustrates how sensitive the Swazi economy is to South African policies.

In general, industrial and most commercial firms are not affected significantly by price controls. Relative to most other countries in Africa, most firms are free of government interference - one of the most attractive aspects of doing business in Swaziland. Furthermore, Swazi prices vary almost monthly due to the fact that they are pegged to South African prices.

Chapter 13

Licensing and Intellectual Property Protection

13.1 Licensing Procedures

Every company registered in Swaziland, and every foreign company which establishes a place of business in the kingdom is required to take out a company license from the Registrar of Companies. These licenses are renewable each year and the maximum license fee payable is about E200.00

There is no general system of industrial licensing in the country, but special licenses are required to carry out certain activities concerned with agriculture, mining and food. With some exceptions , trading licences are not needed by manufacturing concerns unless they sell goods retail.

13.2 Trade Marks and Patents

The Trade Mark Act of 1981 has not been enforced. And so, at the moment, a local patent, copyright or trade mark developed in Swaziland must first be registered in the United Kingdom or the Republic of South Africa to ensure adequate protection. A copy of the registration document must be sent to the local Registrar of Trade Marks, Patents and Designs, who makes the necessary record in the local register thereby extending the protection to Swaziland. In other words, local requirements are purely for purposes of protection. The local registrar does, however, resister assignments and regular users.

Swaziland is a member of the African Regional Industrial Property Organization (ARIPO) which has an office in Harare, Zimbabwe. Under the ARIPO system, the Swaziland Patent Office will conduct preliminary formal examination of and thereafter submit the application documents to the ARIPO office in Harare which will then investigate and examine for novelty, inventiveness and industrial applicability. This office will grant the patent or design as the case may be, and then advise the Swazi authorities who may then decide whether or not to reject such grant. The advantage to the applicant is that in his application he may designate a number of states which are members of ARIPO as territories where the patent may be protected. The advantage to ARIPO countries is that their sovereignty is preserved in that they can now, contrary to previous arrangements, stipulate conditions of grant such as giving the applicant a few years to set up the business in the country, thus eliminating monopolies.

13.3 Intellectual Property

In practice, intellectual property such as industrial designs and computer software is not at risk in Swaziland as it can be in some newly industrializing countries in the Far East. Nevertheless, investors are advised to ensure that copyrights and so on are registered in either South Africa or Great Britain in addition to the protection afforded by Swazi law and the ARIPO.

Chapter 14

Taxation

Swaziland's tax system is administered by the Commissioner of Taxes under the authority of Minister of Finance. Income tax legislation is contained in the Income Tax Order 1975 with amendments in 1985 and 1989.

14.1 Income Tax

In keeping with the tax legislation in South Africa, the basis for determining taxable income in Swaziland is the source of the income. Income is liable to taxation...."Following the tax legislation in South Africa, and based on the rationale that because the resources of the country give rise to the income, such income should be taxed in that country irrespective of the nationality of the taxpayer. "Taxable income" is defined as "gross income (excluding capital receipts, foreign and exempt income) less allowable deductions incurred in the process of production in the kingdom".

In the case of a company, which is a person for tax purposes, the tax rate is 37.5 % of net income . An exception to this, are mining companies which pay tax at 27% on the first E20,000 of their taxable income, and the usual 37.5 % on the balance.

There is no domestic capital gains tax except in the case of mining, nor is there provision for deductions in respect of capital losses. In certain specified cases, however, receipts of a capital nature are taxable and capital expenditure deductible. For example, the mining industry is allowed to write off capital expenditure in the year in which such expenditure is incurred. The deductions allowed include:

a) expenditure and losses incurred in the production of income

b) interest charges

c) reasonable depreciation allowances

d) contributions to pension schemes up to a fixed percentage of employee remuneration

e) all expenses incurred in the training of Swazi employees in approved industries

f) expenditure in research relating to production at the rate of annual cost or 4% of the contract value, whichever is greater

g) contributions to approved bursary schemes.

Depreciation allowances are allowed in respect of the diminished value by reason of wear and tear during the tax year of any industrial building, machinery, and equipment used by the taxpayer for the purpose of his trade. In the case of the building industry, the amount prescribed is 4%. Other allowances range from 10% for assets such as plant and machinery to 33.3% for computer hardware and software.

An initial allowance is available for machinery, plant and buildings used by the taxpayer for the first time in a manufacturing or hotel business. The rate of 50% is granted for the first year of assessment during which the machinery, plant or building was first used.

Employee housing allowances carry a 20% allowance in the first year and 10% for the next eight years subject to a maximum of E4,000 in the first year and E2,000 thereafter.

Assessed losses may be carried forward indefinitely and offset against income in later years. As far as new manufacturers are concerned, assessed losses may be carried forward into the sixth year.

The assessment year for a company is the end of the financial year for that company. Tax is collected by means of a Notice of Assessment. Tax is payable within 21 days of the day of issue.

14.2 Other Direct Taxes

Other taxes of concern to potential investors are:

Mineral Rights Tax

Holders of mining rights are subject to taxes with respect to properties able to produce precious and semi-precious metals to which they hold rights. There are three distinct taxes which are grouped together: a tax on the transfer of mining rights; a ground tax on mineral rights; and a capital gains tax.

Tax on Underutilized Land

This a tax levied by the Land Taxation Board on land deemed to be underdeveloped. After a hearing tax may be levied on all or part of the owner's land.

Sugar Export Levy

A levy is imposed on excess profits receive for sugar exported from Swaziland to any other country outside the South African Customs Union that is over a "reference price". The price is set annually and collected by the Swaziland Sugar Association which is a government-owned body.

Property Transfer Tax

This tax is levied on the sale or long-term lease of fixed property situated in Swaziland. Most forms of gifts are exempted.

Real Estate Tax

This tax, which is in the form of rates, is collected on property owned in the principal towns of Mbabane and Manzini. Government-owned property is exempt from this tax.

Cattle Export Slaughter Tax

A tax is imposed inter alia on cattle exports and on the slaughtering of cattle.

Withholding dividend taxes are discussed under the section on Personal Taxes.

14.3 Indirect Taxes

Customs and Excise Levies

These levies are administered by the Secretary for Customs and Excise and, in accordance with the Common Customs Union Agreement (discussed more extensively later on as the South African Customs Union) which exists between Swaziland, South Africa, Lesotho and Botswana. Customs and sales duties are levied at the import or manufacturing level, and collected on a wide range of goods in conjunction with the other members of the Agreement. The tax is generally not applied on goods considered to be necessities. Rates are set by South Africa and any rebates must conform to those in force in South Africa. The valuation for tax purposes is 115 % of the f.o.b. value, or the current domestic value, whichever is higher, plus customs duty paid.

The proceeds from taxes collected under the Agreement are pooled amongst the countries mentioned, and are divided by formula. Exemptions include some raw materials and semi-processed goods, as well as those covered by specific excise duties such as tobacco and alcohol. The rates are mostly ad valorem and vary between 5% to 20%.

Sales Tax

The Sales Tax Act of 1983 was amended in 1989 and is also administered by the Secretary for Customs and Excise. A general sales tax is levied at the import and manufacturing level and is collected on all goods, other than those specifically exempted, and on certain services. Where payable on goods imported from outside the Customs Union Area, valuation is at 110% of the customs value, plus customs duties payable. Proceeds are received directly by the Swazi government and are not paid into the common pool. The rates are as follows: 5% on services, 20% on alcohol and tobacco goods, and 10 % on all other goods.

Exemptions include necessities, intermediate goods for manufacturing, medical supplies, temporary imports, certain personal imports and electricity.

Swaziland has Double Taxation Agreements with South Africa and the United Kingdom.

14.4 Personal Taxes

A system of PAYE (pay-as-you-earn) was introduced in 1967. It applies only to individuals in paid employment. Other taxpayers are assessed annually. Personal income tax legislation is integrated with that for company tax. Hence, where exemptions, allowances, normally appropriate to companies are applicable to persons, these may be claimed.
A system of provisional taxation is in operation in respect of all companies, directors of private companies, and any person whose income, other than remuneration under PAYE exceeds E1,000 per annum. Provisional taxpayers pay provisional tax on account of their final liability for normal tax for the year. The advance payments are to be made:

a) on or before the last day of the six months of the year of assessment (December) one half of the tax payable on the tax payable on the estimated income for the year.

b) on or before the end of the year of assessment (June) the balance of any tax payable.

The income tax legislation allows for the de facto separation of employed married women's income. The husband is still responsible for the return in respect of the wife's income, but her employment income is subject to a special rate. Generally speaking the wife will pay less tax annually.

The income tax year runs from 1st July to 30th June. Sample tax rates for single persons are as follows:

a) Where taxable income is E20,000, the rate of tax is E4,075 plus 38% of the income in excess of E18,750

b) Where taxable income exceeds E30,000, the rate of tax is E8,938 plus 45% of the amount by which the taxable income exceeds E30,000.

The equivalent for a married person would be:

c) Where taxable income is E20,000, the rate of tax is E3,025 plus 32% of the income in excess of E18,750

d) Where taxable income exceeds E30,000 the rate of tax is E7.476 plus 45% of the amount by which the taxable income exceeds E30,000.

For a table of taxation rates see Appendix Three.

The exemptions from individual income tax are small and cover certain dividends, interest, pensions, gratuities, civil service salaries and E2,000 in respect of married and E1000 in respect of single taxpayers income.

Deductions cover insurance premiums, retirement annuities, medical expenses, dividend income and bursary schemes.

Taxes on unutilized land and the mineral rights tax are covered in the section on Corporate Taxes.

Non-resident's tax on dividends is 15%, but only 12.5% in respect of any dividend paid to a company registered or carrying on a business in Botswana, Lesotho or South Africa, provided that it is neither a subsidiary nor a branch of company incorporated or registered outside these countries.

The amount of non-resident's tax on interest is 10 %.

Exemption from non-resident shareholders tax and non-resident tax on interest is permitted in instances where the government has given an undertaking to grant such exemptions.

A withholding tax of 10 per cent from payments to non-resident contractors or persons providing professional services in respect of any construction operations to be performed in Swaziland is levied. The tax deduction is offset against the person's liability for normal company or individual tax.

14.5 Tax Incentives

The Swazi government does not try to compete with the generous subsidies and concessions offered by some of its neighbours such as Botswana and the South African "homelands", although the corporate tax rate of 37.5% does compare favourably with these countries. The incentives offered by the government are a stable and liberal business environment coupled with selected allowances and deductions as discussed in the section on Corporate Taxes. Other incentives to investors include:

a) Development Enterprises. The Minister of Finance can nominate a new business as a development enterprise and issue a development enterprise order to the business that grants and specifies special tax concessions in addition to any others already in existence.

b) New or Export-Oriented Manufacturers. A new business or one that is predominantly involved in exports from Swaziland will be exempt from income tax for the first five years. The exemption is, however, limited to the extent that the cumulative taxable income from such industry less cumulative remuneration of Swazi employees does not exceed 150% of the value of assets owned by the owner of the business and employed in such.

c) Tariff Protection against Imports. The government of Swaziland, or an individual industry in Swaziland, may apply to the South African government for external tariff protection against non-customs union imports. There are several conditions that have to be met before such protection is granted, the most important being that the industry concerned should have the capacity to supply at least 60% of the quantitative requirements of the customs union. Tariff protection against imports from within the customs union is almost impossible to get.

Appendices

Appendix One

Trade Agreements

1. THE PREFERENTIAL TRADE AREA

WHAT PTA IS ALL ABOUT

The Preferential Trade Area (PTA) is an economic cooperation arrangement amongst the countries of Eastern and Southern Africa. It is a sub-regional grouping which provides for cooperation in all major sectors embracing trade, industrial cooperation, transport, communications, agriculture financial and other arrangements.

OBJECTIVE

The principle objective of the PTA is to promote trade and cooperation in other fields of economic activity, so as to raise the standard of living of the people in the region and foster closer relations among the member countries i.e. with the ultimate objective of becoming a common market and eventually an economic community by the turn of the century. The objectives of the PTA as set out in Article 3 and 28 of the Treaty are as follows:-

(a) To promote cooperation in the fields of trade, Customs, industry, transport, communications, agriculture, natural resources and monetary affairs.

(b) To promote the establishment of inter alia appropriate machinery for the exchange of agricultural products, minerals, metals, manufactures and semi-manufactures as well as the establishment of common training programmes and institutions in various fields which would assist in the development of the manpower required by the PTA Member States.

In particular where trade is concerned the PTA aims at:

(a) The gradual reduction and ultimate elimination of customs duties in respect of imports of commodities produced within the PTA.

(b) Establishment of common rules of origin with respect to products that shall be eligible for preferential treatment.

(c) Establishment of appropriate payment and clearing arrangements that would facilitate trade in goods and services.

(d) Fostering cooperation in the fields of transport and communications with a view of facilitating trade in goods and services.

(e) Establishment of conditions regulating the re-export of products within the PTA.

(f) Promulgation of regulations for facilitating transit trade within the PTA.

(g) Simplication and harmonization of trade documents and procedures.

(h) Cooperation in customs matters.

(i) Standardization of the manufactures and quality of goods produced and traded within the PTA.

(j) Relaxation or abolition of quantitative and administrative restrictions on trade among members.

(k) Promoting the establishment of direct contacts between and regulating the exchange of information among their commercial organisations such as Chambers of Commerce, association of businessmen and trade information and publicly centres.

(l) Ensuring the application of the Most Favoured Nation Clause to each other.

(m) Progressively adapting the members' commercial policies in accordance with the provisions of the PTA Treaty.

MEMBERSHIP

The organisation comprises fifteen member countries Burundi, Comoro Islands, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. There are five potential member countries which are yet to accede to the Treaty to become members. These are: Angola, Botswana, Madagascar, Mozambique and Seychelles.

PTA COMMON LIST

The PTA Common List comprises a list of selected commodities/products which are to be accorded lower customs duties and equivalent charges when traded amongst the member states. These are commodities and products of import and export interest to member states. The list is revised periodically to include more goods of import and export interest to the member countries. Negotiations (revisions) are undertaken every two years and the main consideration is matching of import or export interests for a product to be included in the Common List. The last revision was done in June 1987.

The list is in six categories and the initial reductions in tariffs are as follows:

GROUP	DESCRIPTION	INITIAL PERCENTAGE
I.	Food items (excluding luxury items)	30%
II.	Raw materials: A. agricultural	50%
	B. Non-agricultural	60%
III.	Intermediate goods	65%
IV.	Manufactured consumer goods (excl. luxury items):	
	A. Durable consumer goods (excl. (IVc) and (IVd))	40%
	B. Non-durable consumer goods (excl. (IVc) and (IVd))	35%
	C. Highly Competing Consumer goods	30%
	D. Consumer goods of particular importance to economic development	70%

V.	Capital goods (including transport equipment)	70%
VI.	Luxury goods	10%

At its 10th Meeting the Council of Minsters approved the formula for further lowering of tariff and non-tariff barriers to intra-PTA trade according to the provisions of the Treaty. The target year for reducing customs duties was extended from 1992 to 1996. In this respect, 5 rounds of tariff reductions at a discount rate of 10 per cent each time will be effected in 1988, 1990, 1992, 1994 and 1996. This is to allow member states sufficient time to carry out the necessary structural adjustment to strengthen their economies, and to spread their revenue losses. Subject to review of the entire situation in 1996 the remaining 50 per cent may be eliminated in two steps.

ELIGIBILITY REQUIREMENTS FOR PREFERENTIAL TREATMENT.

Goods traded amongst the member states will only receive preferential treatment if they meet the following requirements:-

(i) Qualify under or satisfy the PTA Rules of Origin.

(ii) The products or goods should be in the PTA Common List which compromises commodities and products of import and export interest to member states.

(iii) Local content of 45% i.e. the local value added resulting from the process of production should account for at least 45% of the ex-factory cost.

P.T.A. RULES OF ORIGIN:

The requirements of the Rules of Origin state that

(i) -goods must be consigned directly from a member state to a consignee in another member state.

(ii) -must be produced by enterprises in the member countries 51% owned by nationals of member states, their government institutions, agencies or corporations. Besides the above two, they must satisfy any one of the following requirements to qualify as originating in a PTA Member State;

(a) The products must have been produced in a member state and the value of materials imported from outside PTA and used at any one stage of production should not exceed 60% of the total cost of materials used in production of goods.

OR

(b) They are produced in a member state and CIF value added resulting from the process of production accounts for at least 45% of the ex-factory cost.

(c) They have, through a process of production been substantially transformed out of material imported from NON-PTA countries.

In May 1986 the PTA Authority meeting in Bujumburu Burundi suspended the PTA Rules of Origin (Rule 2-1 (a) for five years. The application of it was found too restrictive and therefore a stumbling block to trade amongst the member countries. During this period the following sliding scale preferential formula applies.

(i) Goods from enterprises 51% and above owned by nationals will enjoy 100% preferential treatment.

(ii) Goods from enterprises 41% up to 50% owned by nationals will enjoy 60% preferential treatment.

(iii) Goods from enterprises 30% up to 40% owned by nationals will enjoy 30% preferential treatment.

In respect of countries that are already enjoying derogations under the Treaty, it was decided that the sliding scale preferential treatment formula would apply on a pro-rata basis. In the case of the BLS countries the sliding scale is as follows:

(i) Enterprises with 30% and above ownership by nationals from or nationals from PTA member states will enjoy 100% preferential treatment.

(ii) Above 24% and below 30% ownership by nationals will enjoy 60% preferential treatment.

(iii) 18% up to 24% ownership by nationals will enjoy 30% preferential treatment.

As per the BLS Protocol the derogation i.e. that of reducing the 51% equity holding to 30% was for a period of five years as from 30th September, 1982, after which the percentage is to be reconsidered. This process is under way.

CLEARING HOUSE PAYMENT ARRANGEMENT

The PTA Multilateral Clearing House was established under the PTA Treaty mainly to facilitate and promote easy flow of traded goods and services under an agreed payment scheme. The member states (countries) are allowed to use their national currencies as a means of settling their day to day payments. A Committee on Clearing and Payments Arrangement was established under the Protocol on Clearing and Payments. This Committee consist of Governors of monetary authorities or central banks of signatory countries. It is charged with the responsibility of promoting trade in goods and services within the PTA by:

(i) encouraging the use of national currencies in the settlement of transactions between member countries.

(ii) establishing adequate machinery for the settlement of payments amongst themselves.

(iii) reducing as much as possible the use of foreign exchange by member states in intra-regional settlements.

It is this Committee which adopted rules and regulations for the establishment of the multilateral clearing facility commonly known as the CLEARING HOUSE and based in Harare, Zimbabwe.

The Committee has adopted the unit of account of PTA (UAPTA) as its currency and is currently pegged to the International Monetary Fund (IMF) "Special Drawing Right" (SDR). Payments are settled at the exchange rate of the day of payment. The basic objective is to facilitate and encourage the use of national currencies in settlement and payment of intra-PTA trade transactions and other services, and in the process reduce the use of convertible foreign exchange. With the introduction of the PTA Clearing House all trade transactions in the sub-region could be effected through the account of the member country at the

Clearing House. There is an established transaction period of two calendar months after which net balances are settled in convertible currency between Central Banks. The balance in such an account at the end of a transaction period is in effect therefore the net trade balance with the member countries for the trade and other payments routed through the account. It means that during a transaction period export proceeds from other members are automatically applied to pay for imports from other member states. This is an advantage over other payment arrangements as it reduces settlements in convertible currencies to only once after each transaction period for trade among the members. During this two calendar months transaction period members are not charged interest on any debit balances. Thus a free credit is given to them during the two months transaction period.

OPERATIONS OF THE CLEARING HOUSE

Operations may be divided into two transactions.

1. The transactions between the exporter, importer and their commercial bankers.

2. The transactions between the member countries central banks and the Clearing House.

Each of the PTA Member Central Bank operates an UAPTA account with the Clearing House and these monetary authorities are also required to operate reciprocal accounts among themselves. The same is required of the Commercial banks. A trader's Commercial Bank in Swaziland should have necessarily established correspondent arrangements with one of the commercial banks in the other member country with which it is intended to do business. When an importer requires the currency of another member country he would go to his commercial bank which in turn would go its Central Bank. The Central Bank will purchase the required currency from the Central Bank of the exporting member country in exchange for UAPTA. The Clearing House would then debit the importer's Central bank and credit the exporter's Central Bank with the UAPTA equivalent. The currency bought is then paid to the account of the exporter's bank in the exporter's country and the exporter is the paid in local currency. The Clearing House can be used for payments of all trade transactions and services.

The introduction of the Clearing House payment arrangement has not resulted in any variations or upsets to the already existing settlement procedures. As already stated the PTA Clearing House Payments System provides a mechanism for minimizing the use of foreign exchange in the settlement of intra PTA trade and other transactions.

The role of commercial banks in the system is secondary to that of central banks which are directly involved in the PTA payments and settlement framework. Commercial banks do however have a very important function in the PTA payment arrangements. They make it possible for the business community to pay in local currencies for imports and to receive export proceeds through the correspondent accounts or agency relationship with their counterparts in PTA member countries. Participation by commercial banks in the system commences only after the exporter and the importer in the member countries have entered into a valid contract, placed firm orders based on authorised imports with each other and clearly defined the method of payment.

CERTAIN POPULAR MISCONCEPTIONS REGARDING PTA ARRANGEMENTS

(a) The PTA is only for trade in products and commodities in common list.

This impression is incorrect. The member states of the PTA can exchange any commodity/product produced in their countries within the normal tariff structure and the existing rules and procedures governing trade. If preferential tariffs under the PTA Treaty are required to be availed of, the commodities to be bought or sold should be in the common list and conform to the rules of origin requirements.

(b) The PTA Clearing House Payment Mechanism can only be used for trading in commodities in the Common List.

This is also erroneous. The Clearing House Payment Mechanism is open for use for trade in commodities and services produced in member countries. Such commodities do not have to be in the Common List or even to conform to the rules of origin requirements. Services can also be paid for through the Clearing House.

BENEFITS OR ADVANTAGES TO SWAZILAND PTA

In general the PTA provides an opportunity for developing trade thus helping to foster economic development of the sub-region. Benefits to Swaziland i.e. as a result of it membership of PTA can be itemised into two namely accelerated development and brotherhood. Article 3 (1) of the PTA Treaty States that "the aim of the PTA is to promote cooperation and development in all fields of economic activity with the aim of raising the standard of living of its people---".

The PTA does represent a wide market for absorbing products produced in Swaziland. This is particularly important for exporters of secondary or manufactured products over which Swaziland possesses a cost-advantage but cannot produce and export because of high transportation costs high tariffs and various other barriers to entry into foreign (traditional) markets. The removal of such barriers especially the reduced tariff rates does represent an increased opportunity for Swaziland to raise its pace of development.

Of particular advantage and interest to Swaziland exporters is the Protocol on Clearing and Payments Arrangements under which the Clearing House was established. The basic objective under this Protocol is to facilitate and encourage the use of national currencies in settlement and payment of intra-PTA transactions, and in the process reduce the use of convertible FOREX. In effect the problem of availability of FOREX which has been a serious constraint with most of PTA Member States, is shifted from the business community to the national monetary authorities. For the Swaziland exporters even the exchange risk is minimised when trading through Clearing House. Currently there is no forward exchange market for PTA currencies. The importers therefore cannot avoid the exchange risk when importing from the region since the exporter will invariably invoice in his own currency. On the other hand, the exporter by demanding payment in his own currency eliminates the risk.

For further information and details about the PTA contact;

THE TRADE PROMOTION UNIT
MINISTRY OF COMMERCE, INDUSTRY & TOURISM
P.O. BOX 451, PHONE:43201
MBABANE - SWAZILAND TELEX:2232 WD.

2. LOME CONVENTION PREFERENTIAL TRADE ARRANGEMENTS

The Lome Convention is a co-operation Agreement between the European Community (EC) and the African, Caribbean and Pacific Group of States (ACP). The former has twelve member states and the latter comprise sixty-six. This convention was concluded in order to promote and expedite the economic, cultural and social development of the ACP States through trade, financial and technical assistance.

Under this convention the chapter on Trade Co-operation has as its object to promote trade between the ACP States and the Community by improving the conditions of access for their products to the community market.

2. Products originating in the ACP States shall be imported into the community free of Customs duties and charges having equivalent effect.

The following products shall be considered as products originating in an ACP State.

(a) products wholly obtained in one or more ACP States.

(b) products obtained in one or more ACP States in the manufacture of which products other than those referred to in (a) are used, provided that the said products have undergone sufficient working or processing.

Sufficient working or processing means that the goods obtained receive a classification under a different tariff heading from that covering each of the products worked or processed. The incorporation of non-originating materials and parts in a given product obtained shall only make such products lose their originating status if the value of the said materials and parts incorporated exceeds 5% of the value of the finished product.

When products wholly obtained in the community (EC) or in their overseas territories or ACP States undergo working or processing in one or more ACP States, they shall be considered as having been wholly produced in that or those ACP States, provided that the products have been transported directly - direct consignment rule.

Eligible products shall be accompanied by evidence of originating status, the movement certificate EURI.

However, products which fall under a common organisation of the treaty establishing the European Communities or are subject on import into the community, to specific rules introduced as a result of the implementation of the Common Agricultural Policy (CAP) may be excluded or subject to quantitative restrictions or the safeguard clause.

Under the Lome Convention for example Swaziland among the ACP States, has been given fixed quantities for export of sugar and beef.

The following products shall be considered as wholly obtained either in one or more ACP States or in the community.

(a) Mineral products extracted from their soil or from their seabed;

(b) Vegetable products harvested therein;

(c) live animals born and raised therein;

(d) products from live animals raised therein;

(e) products obtained by hunting or fishing conducted therein;

(f) products of sea fishing and other products taken from the sea by their vessels;

(g) products made abroad their factory ships exclusively from products referred to in subparagraph (f);

(h) used articles collected there fit only for the recovery of raw materials;

(i) waste and scrap resulting from manufacturing operations conducted therein;

(j) goods produced there exclusively from the products specified in subparagraphs (a) to (i).

For the purpose of para.2(b) the following shall always be considered as insufficient working or processing, whether or not there is a change of tariff heading:

(a) operations to ensure the preservation of merchandise in good condition during transport and storage.

(b) simple operations consisting of removal of dust, sifting or screening, sorting, classifying, matching, washing, painting cutting-up;

(c) (i) changes of packaging and breaking up and assembly of consignments;

(ii) simple placing of bottles, flasks, bags cases, boxes, fixing on cards or boards.

(d) affixing marks, labels and other like distinguishing signs on products or their packaging.

(e) (i) simple mixing or products of the same kind where one or more components of the mixture do not meet the conditions as a originating product.

(ii) simple mixing of products of different kinds unless one or more components of the mixture do not meet the conditions as a originating product.

(f) simple assembly of parts of articles to constitute a complete article;

(g) a combination of two or more operations specified in subparagraph (a) to (f)

(h) slaughter of animals.

In defining the concept of originating products, Protocol I of the Lome III Convention gives a list of working or processing operations carried out on non-originating materials which result in a change of tariff heading without conferring the status of "originating products" on the products resulting from such operations.

The Lome Convention has a provision for financial assistance in trade promotion so that exporters from Swaziland or any ACP country may participate in trade fairs and exhibitions.

The EURI Form may be obtained from the Chief Customs Officer, Department of Customs and Excise, P.O. Box 720, MBABANE, Phone:4537/0/3.

3. GENERAL SCHEME OF PREFERENCES ON OTHER PRODUCTS

1. The Generalized Systems of Preferences (GSP) are schemes whereby the industrialized countries (preference-giving countries) accord global preferential tariff treatment to products originating from developing countries (preference receiving countries). There are at present 16 schemes of preferences.

2. Swaziland exporters may benefit from the GSP Schemes by way of tariff rate cuts below a general rate or the Most Favoured Nation (MFN) rate (preferential margin) applied by that particular preference-giving country.

A. THE SCHEME OF AUSTRALIA

(i) TARIFF PREFERENCE MARGIN

Australia applies a 5% tariff preference margin to all tariff items except to about 20 tariff lines where excise duties are provided for.

(ii) QUANTITATIVE RESTRICTIONS

There are no general quota provisions. However, on eight Textile, Clothing and Footwear (TCF) products the limitation on the value of these products eligible for preference will continue until 31 December 1988. However, a safeguard clause or the escape clause is applied for all products covered by the scheme, when market disruption is caused by the preferential imports.

(iii) RULES OF ORIGIN

In order to qualify for preferential treatment, goods must meet the following requirements;-

(a) the final process of manufacture must be carried out in the country claiming preference and

(b) at least half (50%) of the total factory or works cost of the goods must consist of the value of labour and/or materials of

-the exporting developing country or
-the exporting developing country and Australia; or
-the exporting developing and one or more other developing countries; or
-the exporting developing country and one or more other developing countries and Australia.

B. THE SCHEME OF CANADA

(i) AGRICULTURAL PRODUCTS

Canada grants preferences for selected agricultural products falling under more than 100 tariff lines of the Canadian Customs Tariffs (CCT). More than half of the tariff items receive duty-free treatment.

(ii) INDUSTRIAL PRODUCTS

Canada grants preferences for all industrial products including primary commodities, with the exception of selected tariff items including certain products of the chemical, plastics and allied industries, certain textile products, footwear and electronic tubes.

Products covered by the scheme are admitted at GSP rates which are equal to the British

Preferential Tariff generally applied to products from countries which are members of the Commonwealth or the MFN rate less one-third which ever is the lower.

(iii) QUANTITATIVE RESTRICTIONS

Although Canadian legislation since 1980 includes the possibility of establishing a prior limitation on quantities they have not been applied under the scheme.

(iv) RULES OF ORIGIN

In order to qualify for preferential tariff treatment, eligible goods must,

(a) in principle, be shipped direct to a specified port in Canada without passing through the territory of another country. (Transit through a third country is allowed provided the goods remain under customs control and do not enter into trade there) and must

(b) comply with the origin criteria specified for these goods by Canada. Goods are considered to have originated in a beneficiary country if they are bona fide the growth, produce or manufacture of that country (wholly obtained).

Products which have been manufactured in a beneficiary country wholly or partly from imported material, parts or components (including material of undetermined or of unknown origin), are deemedto be bona fide the growth, produce or manufacture or a beneficiary country, provided the import content does not exceed 40% of the ex-factory price of the products as packed for shipment to Canada.

In calculating the value of the import content, any materials used in the manufacture or production of the goods, originating from any other beneficiary country or from Canada any packing required for the transportation of goods but not including packing in which the goods are ordinarily sold for consumption in the beneficiary country, are considered as originating in the preference-receiving country.

E. THE SCHEME OF JAPAN

(i) AGRICULTURAL PRODUCTS
Japan grants preferences for selected products in 73 CCCN headings. Various duty reductions, including zero-duty, apply for agricultural products covered by the scheme. For about a third of those tariff items, duty-free entry is granted. For about 20% of the tariff items the duty reduction is more than 50% from the MFN rates.

(ii) INDUSTRIAL PRODUCTS
Japan grants preferences for all dutiable products including primary commodities, with the exception of some products in 17 CCCN headings. Duty-free entry is granted for most industrial products covered by the scheme with the exception of selected products falling within 30 CCN headings for which tariff reductions of 50% from MFN rates are accorded.

(iii) QUANTITATIVE RESTRICTIONS

The scheme of Japan provides for quantitative limitations on preferential imports. A priori limitations apply in respect of industrial products covered by the scheme. Products are divided up into 199 product groups each covering either a full CCN chapter or one or several CCCN headings/subheadings. A ceiling is set in advance for each fiscal year limiting preferential imports of each products group by value or by quantity.

(iv) RULES OF ORIGIN

In order to qualify for preferential treatment, eligible goods

(a) must in principle, be transported director Japan without passing through the territory of another country (under certain conditions transit through the territoiy of third countries is permissible).

(b) are considered to have originated in a beneficiary country if they are wholly obtained in the country. If goods are manufactured wholly or partly from materials, parts or components imported or of unknown origin, the materials parts or components must have sufficient working or processing in the exporting beneficiary and is considered sufficient if the goods obtained are classified under CCCN, heading other than that covering any of the non-originating materials, parts or components used in the manufacture of the final product.

F. THE SCHEME OF NEW ZEALAND

New Zealand grants preferences for selected dutiable agricultural products falling within 99 CCCN headings. It also grants preferences for a large number of dutiable industrial products. Selected items falling within 74 CCCN headings are excluded from the scheme.

Margins of preference extended to both the agricultural and industrial products covered by the scheme vary widely. The GSP rate is 80% of MFN rate.

(i) QUANTITATIVE RESTRICTIONS

The New Zealand scheme makes no provision for quantitative limitations on preferential imports.

(ii) Rules of Origin

In order to qualify for preferential treatment eligible goods must meet the following requirements:

(a) In principle, the goods must be transported direct without passing through the territory of another country (transit through a third country is allowed, provided the goods remain under customs control and do not enter into trade there). Nevertheless, the products of one preference - receiving country may enter the commerce of another preference - receiving country without losing entitlement for GSP treatment;

the final process of manufacture must be performed in the exporting preference - receiving country, and

-the expenditure on imported materials, parts and components originating in any preference-receiving country and/or in New Zealand and expenditure on other items of ex-factory or works cost represent at least 50% of the ex-factory or works of cost of the product obtained in its finished state.

(ex-factory e.g. cost of materials, excluding duties, manufacturing wages, overhead expenses, cost of containers other than outside packaging)

G. THE SCHEME OF AUSTRIA, FINLAND, NORWAY, SWEDEN AND SWITZERLAND (EUROPEAN FREE TRADE AREA-EFTA)

(i) AGRICULTURAL PRODUCTS

AUSTRIA: Grants preference for 148 selected products in 65 CCCN headings. Selected products are duty-free, while for others various tariff reductions are granted.

FINLAND: Grants preferences for selected products in 54 CCCN headings. Duty-free entry is granted for all products covered by the scheme.

NORWAY: Grants preferences for selected agricultural products in 80 CCCN headings. Duty-free entry is granted for all products covered by the scheme.

SWEDEN: Grants preference for selected agricultural products in 43 CCCN headings. Duty-free entry is granted for all products covered by the scheme.

SWITZERLAND: Grants preference for selected products in 97 CCCN headings. Duty-free entry is granted in most cases, while substantial reductions are applied in others.

(ii) INDUSTRIAL PRODUCTS

AUSTRIA: Grants preferences for all MFN dutiable industrial products including primary commodities, with the exception of 11 products. For products covered by the scheme, tariff cuts of 50% from the MFN rate of duty are granted, with the exception of textiles and clothing in CCCN chapters 50 to 62 and 65, for which the reduction from MFN rate is 35%.

FINLAND: Grants preferences for all MFN dutiable industrial products, except for selected products in 66 CCCN headings. Duty-free entry is granted for all products covered by the scheme.

NORWAY: Grants preferences for all MFN dutiable industrial products, except for selected products in 23 CCCN headings.

SWEDEN: Grants preferences for all MFN dutiable industrial products, except for selected products in 19 CCCN headings Duty-free entry is granted for all industrial products covered by the scheme.

SWITZERLAND: Grants preferences for all MFN dutiable industrial products except for selected products which are subject to fiscal duties in 17 CCCN headings. Duty-free entry is granted for products covered by the scheme, except for textiles, clothing, footwear, umbrellas, unwrought aluminium and primary cells and batteries for which tariff reductions of 50% and 75% from the MFN rate are granted.

(iii) QUANTITATIVE RESTRICTIONS

Under the schemes of the EFTA countries there are no tariff quotas limiting in quantity preferential imports. However, these countries have reserved the right to introduce the necessary safe-guard measures in the event of market disruption.

(iv) RULES OF ORIGIN

(a) DIRECT CONSIGNMENT RULE

In order to qualify for preferential treatment, goods eligible for preference must in general, be transported directly to any of the EFTA countries.

(b) WHOLLY OBTAINED PRODUCTS

In order to qualify for preferential treatment the products must be 'wholly-obtained' in the preference-receiving country.

(c) PRODUCTS WITH IMPORT CONTENT

Products which have been manufactured in a preference - receiving country wholly or partly from imported materials, parts or partly from imported materials, parts or components (including materials etc of unknown origin) are considered as originating in that country if those materials, parts, or components have undergone sufficient working or processing. Imported materials parts or components (inputs) are considered to have undergone sufficient working or processing if the finished product falls under a tariff heading of the CCN at a four-digit level different from that of any of the materials, parts or components used in the process (referred to as a "change in CCCN heading").

List A of the schemes sets out working or processing operations not conferring to the product obtained the status of originating products whilst List B sets out working on processing operations conferring to the products obtained the status of originating products.

Further details in this respect are contained in the individual schemes of the EFTA countries.

H. THE SCHEME OF UNITED STATES OF AMERICA

(i) PRODUCTS COVERAGE AND DEPTH OF TARIFF CUTS

The United States grant preference for approximately 3000 agricultural and industrial products under the scheme. Among the products not eligible under the scheme are the following:textiles and articles of apparel subject to multi-fibre textile agreement; certain import sensitive articles such as petroleum products; leather products; most types of footwear; glass, steel and electronic products; watches. Duty free entry is granted for all products eligible under the scheme.

(ii) QUANTITATIVE RESTRICTIONS

Individual beneficiaries may be excluded from GSP treatment in respect of specific products because the competitive need ceilings were exceeded and this is if

-the appraised value (ex-factory price) of its shipments of the product to the USA during the calendar year exceeds 50% of total US imports of this product; or

-the appraised value of its shipments of the product to the United States during the calendar year exceeds a given dollar value.

(iii) RULES OF ORIGIN

In order to qualify for preferential treatment, the goods eligible for preferences

(a) Must, in principle, be shipped direct from a beneficiary developing country to the United States without passing through the territory of any other country; if shipped through the territory of another country the merchandise must not have entered the commerce of that country; if shipped from a beneficiary country to the United States through a Free Trade Zone in a beneficiary country, the goods must not enter into the commerce of the country and must not undergo any operations other than sorting, grading testing, packing, unpacking, changing of packing or repacking, affixing marks, labels or other signs, or operations necessary to ensure the preservation of the merchandise in its condition as introduced into the Free Trade Zone.

(b) For goods to meet the origin criteria under the U.S. scheme, they must meet the 35 per cent value added requirement. Goods are considered as wholly-obtained if they are wholly the growth, produce or manufacture of a beneficiary country or an association of countries treated as one country. To meet the 35 per cent value-added requirement, the following conditions must be met:

(A) The cost or value of materials produced in Swaziland.
+

(B) The cost or value of imported materials substantially transformed into new and different materials of which the eligible article is composed.

+

(C) The direct cost of processing performed in Swaziland
= No less than 35 per cent of the appraised value of the article at the time of entry into the United States.
Items not included as direct costs of processing are those which are not directly attributable to the merchandise under consideration or which are not "cost" of manufacturing the products. These include profit and general expenses and business overhead such as administrative salaries, casualty and liability insurance, and advertising and salesman's salaries, commissions or expenses.

GSP Certificate or Origin

This certificate, Generalized System of Preference "FORM A" accompanies the goods exported to the preference-giving country certifying that the product is of the exporting country and meets the status of "originating product as required by the preference-giving country.

These forms are obtainable from the Ministry of Commerce, Industry and Tourism upon request. The form must be accompanied by Form CE 550...endorsed by the Department of Customs and Excise and Form F178... endorsed by any Commercial Bank and by Customs.

V. G.S.P. FOR HANDICRAFTS

Generalized Schemes of Preference is preferential treatment given by developed markets economies for hand-made products from developing countries. Handicraft products from developing countries have a duty free access to markets of the developed countries. Certain preference giving countries have certain tariff quotas and quantitative restrictions. Others give a more favourable tariff treatment.

Preference giving Countries:

Australia	Norway
Austria	Sweden
Canada	Switzerland
EC	USA
Finland	Japan
New Zealand	

AUSTRALIA: Grants special treatment for hand-made articles without any specific product limitation. However, for textile, clothing and footwear (TCF) products, a special regime applies. Global tariff quotas apply to Textiles, clothing and footwear (TCF products) - machine made TCF products. Similar handicraft products also fall within the global quota arrangements. Separate handicraft quotas apply in areas where trade in handicraft products represents a substantial proportion of total trade. Under the Australian Schemes duty-free treatment is provided.

Under the measures applied by Australia, products must meet special requirements in order to be eligible for special tariff treatment as handicrafts. These requirements refer to material used (the use of machine-made or of non-traditional or "modern" raw materials is generally not permitted), and to processes performed in the manufacture (the use of electric power is acceptable only under very restrictive conditions). The products must also possess certain artistic, traditional or decorative characteristics of the country or region of manufacture. It is normal practice for Customs to ask the Australian importer to furnish documentary evidence by way of photographs from the overseas supplier, showing the various stages of manufacture and the tools used in production, together with written statement detailing the step-by-step processes and materials involved. On receipt of satisfactory evidence which confirms that the goods are handmade, appropriate details are sent to all State Customs Offices, so that it is not necessary to present further evidence for future shipments of the same goods from the same supplier. Handicraft products are not exempted from Sales Tax.

AUSTRIA: Swaziland is not among the beneficiaries under the GSP but together with other developing countries which conform with the Austrian requirements concerning certification would be recognized as a beneficiary if it so applies.

The normal GSP Certificate of origin Form A bearing certain additional declaration and certification is required. Austria grants tariff reductions for products falling within 92 CCCN headings; 26 headings concern textile products. The other headings cover mainly leather products including household utensils of wood, articles of plaiting materials, paper products, walking sticks, prepared feathers, artificial flowers, articles of human hair, articles of stone, glass and glassware, precious metal articles, copper products, hand tools, cutlery, musical instruments, furniture, dolls and other miscellaneous articles.

Austria grants duty-free treatment for non-textile handicrafts, certain hand-made textiles, from the least-developed countries and 50% reduction from developing countries.

CANADA: Grants duty-free entry under GSP for handicraft products classified under item 87500-1 of the Canadian Customs Tariff. This treatment is granted under the condition that the products concerned:

(a) are listed in the schedule of handicraft goods-

DEFINITION OF HANDICRAFT PRODUCTS

(i) possess traditional or artistic characteristics that are typical of the geographical region in which they were produced; and

(ii) acquired the traditional or artistic characteristics described under

VI. RULES OF ORIGIN

1.1 The industrialised countries or tariff preference giving countries lay down certain rules to ensure that the benefits of preferential tariff treatment under the Generalized Systems of Preferences (GSP) or other arrangements are confined to products which have been entirely grown, extracted from the soil or harvested within the country or manufactured there exclusively from any of these products. These are termed 'wholly obtained' products.

There are other products with an import content which may be considered as originating from a developing country if those products have either undergone sufficient working or processing or the local content exceeds a certain percentage determined by the preference-giving country. There are variations in this percentage from country to country but the general percentage required is around 45%. It is advised that the % be checked and ascertained for specific destinations. In addition to the above conditions for products to be accorded originating status they must be transported direct from the exporting preference receiving country. This is known as the direct consignment rule, and does not allow the goods in question to enter the commerce of another country, save for the purpose of transit and shipment of goods.

All the above constitute what is internationally known as the Rules of Origin. For the PTA preferential arrangements, it is also necessary to meet the condition regarding local equity share holding in the manufacturing/exporting enterprise, to be eligible for the preferential treatment.

1.2 An exporter in Swaziland is concerned with the Rules of Origin of the following:-

(i) UNCTAD/GATT - The Generalised System of Preferences Schemes offered by all the industrialised countries.

(ii) The Preferential Trade Area (PTA) of the Eastern and Southern African states.

(iii) European Community (EC) known as the ACP/EC Convention of Lome.

and(iv) Swaziland rules as laid down in the Customs and Excise Act. The use of these rules is very limited since it is the rules of the importing country that prevail.

Goods can be exported to the neighbouring countries (R.S.A., Botswana, Lesotho and Mozambique) without a certificate of origin. These are normally accompanied by an Export Permit. This document differs from a Certificate of Origin in that it is merely a permit to export and it is not a certification that the goods exported were produced in Swaziland and meet the required conditions of eligibility.

1.3 To establish conformity withe rules of origin a certification that the goods to be exported were produced in Swaziland according to the rules of origin of the importing country is required from the exporter. The Ministry of Commerce, Industry and Tourism grants the Certificate of Origin for the GSP, PTA and Swaziland. For the EC countries the certificate is granted by the Chief Customs Officer. The certificate of Origin is to be applied for normally when the goods have been produced and are ready for shipment. If goods are dispatched without a certificate of origin having been obtained, there may be difficulties in obtaining a retrospective certificate of origin.

1.4 In the computation of the local content/local value added, not all costs are allowed to be included and certain processes of assembly, manufacture or packaging are not considered as conferring originating status. The costs which are generally allowed to be included are:-

	Can be Included	Not to be Included
(i)	Costs to manufacture of all materials used in the manufacturing process.	Charges for outside packages and expenses in connection with packing of goods therein.
(ii)	Manufacturing wages and salaries.	Manufacturer's profit or the remuneration of any other person dealing with the article in its unfinished state.
(iii)	Direct manufacturing expenses.	Royalties.
(iv)	Overhead factory expenses.	Carriage, insurance etc. charges.
(v)	Cost of inside containers.	Any other charges incurred subsequent to the completion of manufacture.
(vi)	Other expenses incidental to the manufacturing operation at the discretion of the Chief Customs Officer or Principal Secretary, Ministry of Commerce, Industry & Tourism.	

For eligible processes, it will be best to enquire from the Ministry of Commerce, Industry and Tourism in specific cases.

While calculating local content/local value added, the CIP cost of imported materials/components is taken into account but materials/components obtained from a GSP preference giving country if the exports are destined to that country/PTA member country in the case of imports from and exports to a PTA country/EC-ACP States in the case of imports from and exports to a EC market can be counted towards local content/value added. The reference to imports is confined to materials and components for the manufacture of the product for whose export a certificate of origin is required.

2. DOCUMENTATION REQUIRED WITH APPLICATIONS FOR CERTIFICATES OF ORIGIN

2.1 TYPES OF CERTIFICATES OF ORIGIN:

GSP Form A, PTA, EUR 1 and Swaziland. For the Eur 1 Certificate of Origin exporters should address their applications to the Chief Customs Officer otherwise the rest are handled by the Ministry of Commerce, Industry and Tourism.

2.2 DOCUMENTATION REQUIRED

Applications for Certificates of Origin should be accompanied by (1) Export Foreign Exchange Proceeds Form F178 and the Bill of Entry Form CE 550 obtainable from the Commercial banks or Central Bank and from the Department of Customs and Excise respectively. The exporter may at this stage be required to produce an authentication of local content by a recognised Firm of Auditors/Chartered Accountants. The application is to be made in the prescribed form i.e. GSP/PTA/EUR 1, as the case may be.

For certain agricultural products like fruits, vegetables and animals or meat the exporter must first obtain an export permit from the Ministry of Agriculture through the National Agricultural Marketing Board for fruits and vegetables and from the Director of Agriculture for other products. In addition to the export permit the exporter must also obtain a phytosanitary Certificate from Malkerns Research Station for fruits and vegetables. A Health Certificate is required for live animals. This is issued by the Director of Veterinary Services.

2.3 ACCOUNTING RECORDS AND INSPECTIONS

In order to satisfy himself/herself the officer granting the Certificate of Origin may want to look at the following:-

(i) Records and evidence of incoming (parts, components, raw material) and outgoing units, that is the finished products.

(ii) Wages sheets.

(iii) Annual Statement of Cost of Goods produced.

(iv) Transportation invoices.

(v) Bill of Lading (for incoming raw materials) and Bills of entry for outgoing products.

(vi) The factory premises and the manufacturing processes being carried out.

Appendix Two

Basic minimum wage levels
(Emalangeni per week)

Learner Craftsperson Learner Finisher Learner Machine Operator Learner Spinner Learner Weaver	E24.23
Casual Labourer Seasonal Labourer Carder Checker Cleaner Cook Engraver's Assistant Entrepreneur's Assistant Finisher Grinder Loader Potter Runner Trimmer Bagger Learner Machine Operator Screenprinter Semi-skilled kiln hand Silversmith Spinner Tablehand Presser (garment)	E33.59
Washer Weaver Layer Sorter Presser Folder Packer Box Folder Canteen Assistant Carton Sealer Painter	E35.54
Upper Primer Backseam Reducer D. ring inserter Foam attacher Hand Trimmer	E39.09

Lacer
Stacker
Receiver-Second Stock
Sorter
Sewing Machinist II
Shoe Boxer
Sole Chlorinator
Stamper
Staple extractor
String lacer
Strip Cutter
Toepuff Positioner
Unlaster
Upper Cleaner

Assembler-Bottom Components	E41.11
Box labeller	
Canteen assistant/Cashier	
Insole Moulder/Stamper	
Last Preparer	
Last Transporter	
Rougher-sole Margin	
Shoe Repairer	
Sticker attacher	
Upper splitter	
Weights Clerk	
Coil Winder	E42.15
Component Assembler	
Copy Typist	
Dough Panner	
Driver Salesman's Assistant	
Entrepreneur's assistant Grade I	
Flour sifter	
General labourer	
Hoist Operator	
Learner machine operator (other than knitting and weaving)	
Loader/Packer	
Messenger	
PC Board Trimmer	
Plant Assistant	
Security Guard/Stonehand	
Machinist	
Assembler (soldering)	E43.61
Binder Assistant	
Compositor	
De-Boner	
Dark Room Attendant	
Mechanical Assembler	
Mono Caster Attendant	

Proof Reader	
AJS Operator	
Assembler-Upper Components	
Counter inserter	
Counter Moulder	
Leather Baler	
Loader F.O.F.	
Recutter	
Sewing Machinist I	
Shop Assistant	
Skiver-Upper/toepuffs	
Socker	
Slaughterman	E45.78
Driver/Messenger	
Laboratory Assistant	
Presser Attendant	
Electrical Maintenance Assistant	
Office Clerk	
Rougher Uppers	
Senior Watchman	
Sole Presser	
Cabinet Fitter	E47.89
Chassis Fitter	
Clerk/Stores Assistant	
Driver (L.D.V.)	
Forklift Operator	
Picture Tube Assembler	
Soakline Attendant	
Switchboard Operator	
Utility	
Baker's Assistant	E48.45
Blower	
Confectioner's Assistant	
Divider Operator	
Dough Mixer	
Engraver	
Clicker-High Frequency	E50.42
Clicker-Insolers/Toepuffs/Counters	
Clicker-Linings/Trims/Socks/Velcro	
Despatch Clerk	
Heelseat Laster	
Invoice Clerk	
Leather sorter	
Quality Controller	
Sole spotter	
Kiln Operator	E50.88
Melter	

Saw Sharpener Design Draftsman's Assistant Inspector Machine Operator Machine Attendant Solder Bath Attendant Tester	
Boiler Operator Driver (H.D.V.) Kardex Clerk/Storeman Aligner Final Inspector/Tester	E51.60
Clicker-textile Rebater Clerk Wages Clerk	E53.00
Line Feeder Quality Controller Repairer's Assistant	E54.51
Baker Confectioner Handyman Chef Clicker-Suede split	E56.65
Chargehand Final Aligner and Tester Jumper Plant Attendant Tool Setter Fitter Personnel Secretary Sewing Mechanic Toelaster	E58.86
Clerk/Storeman (with Junior Certificate) Driver Salesman	E62.10
Artisan Grade III Cattle Buyer Master Screenprinter Master Potter Master Silversmith Salesman	E67.91
Assistant Foreman Confectioner Assistant Foreman Baker Clerk/Storeman (with Senior Certificate)	E80.75

Artisan Grade II	E111.45
Foreman Baker	
Foreman Confectioner	E119.52
Artisan Grade I	E164.29
Laboratory Technician	E172.82
Supervisor	25% above the wage to the highest paid employee under his direct supervision.

SECOND SCHEDULE

(Paragraph 8)

PAID PUBLIC HOLIDAYS

Incwala Day
Good Friday
Easter Monday
Christmas Day
Reed Dance Day
Somhlolo Day
King's Birthday

A.M. Fakudze
Principal Secretary, Ministry of Labour

Appendix Three

Personal Taxation Rates

Single person Taxable income E		Rate %	+E
0-	1250	4	
1251-	2500	10	50
2501-	3750	12	175
3751-	5000	14	325
5001-	6250	16	500
6251-	7500	18	700
7501-	8750	20	925
8751-	10000	22	1175
10001-	11250	24	1450
11251-	12500	26	1750
12501-	13750	28	2075
13751-	15000	30	2425
15001-	16250	32	2800
16251-	17500	34	3200
17501-	18750	36	3625
18751-	20000	38	4075
20001-	21250	40	4550
21251-	22500	42	5050
22501-	23750	44	5575
23751-	25000	45	6125
25001-	26250	45	6687
26501-	27500	45	7250
27501-	28750	45	7312
28751-	30000	45	8375
30001-		45	8937.50

Married person Taxable income E		Rate %	+E
0-	2500	4	
2501-	3750	6	100
3751-	5000	8	175
5001-	6250	10	275
6251-	7500	12	400
7501-	8750	14	500
8751-	10000	16	725
10001-	11250	18	925
11251-	12500	20	1150
12501-	13750	22	1400
13751-	15000	24	1675
15001-	16250	26	1975
16251-	17500	28	2300
17501-	18750	30	2650
18751-	20000	32	3025
20001-	21250	34	3425
21251-	22500	36	3850
22501-	23750	38	4300
23751-	25000	40	4775
25001-	26250	42	5275
26501-	27500	44	5800.50
27501-	28750	45	6350
28751-	30000	45	6912.50
30001-		45	7475.50

Appendix Four

US AID Projects

Title		Date started	Amount $'000
1.	Rural water-borne disease control	1979	5,300
2.	Cropping systems research	1981	12,900
3.	Teacher training	1983	6,200
4.	Manpower development assistance	1984	20,100
5.	Primary health care	1985	6,100
6.	Training for entrepreneurs	1986	990
7.	Family health services	1988	2,400
8.	Commercial agricultural prod. & marketing	1988	5,600
9.	Educational policy	1989	6,900
10.	Manpower development	1990	10,000
11.	Small projects assistance	1989	100
12.	Business Management	1990	250
13.	Private enterprise support	1991	5,000
14.	Program development	1988	1,100

Appendix Five

ACRONYMS

ACP	Africa, Caribbean, Pacific
ARIPO	African Regional Industrial Property Organisation
BLS	Botswana, Lesotho, Swaziland
CAP	Common Agricultural Policy (of the EC)
CMA	Common Monetary Area (South Africa, Lesotho, Swaziland)
EC	European Community
EPZ	Export Processing Zone
GATT	General Agreement on Tariffs and Trade
GSP	General System of Preferences
NIC	Newly Industrialised Country
OSS	One Stop Shop
PTA	Preferential Trading Area
SACU	South African Customs Union (Botswana, Lesotho, Swaziland, South Africa)
SADCC	South African Development and Coordination Conference
SDR	Special Drawing Rights (IMF)
SEDCO	Small Enterprises Development Corporation
SFTU	Swaziland Federation of Trade Unions
SIDC	Swaziland Industrial Development Company Ltd
SNL	Swazi Nation Land
TDL	Title Deed Land
TRP	Temporary Residence Permit
UAPTA	Unit of account of the PTA