United States

Agency for International Development

USAID Mission to Swaziland

The Private Sector and the Economy of Swaziland

Prepared for

United States Agency for International Development

by

LABAT-ANDERSON Inc.,

Capricorn Africa Economic Associates,

and J.E. Austin and Associates

March 1990

The Private Sector and the Economy of Swaziland

Prepared for

United States Agency for International Development

by

LABAT-ANDERSON Inc.,

Capricorn Africa Economic Associates,

and J.E. Austin and Associates

March 1990

Set in Times Roman and Helvetica by Capricorn Africa Economic Associates
and printed by Dove Printing and Publishing, Mbabane, Swaziland

Executive Summary

The purpose of this document is to examine the past and present role of the private sector in the economy of the Kingdom of Swaziland and, in so doing, highlight areas that offer potential for future growth for the private sector or that may constrain future growth. It also provides accurate information for potential investors, who are welcomed by the Swazi people as partners in their nation's growth.

Swaziland's Economy and the Private Sector

The Swaziland economy has four defining characteristics:

- *A specialized economy* in which much of the activity is either directly related to or depends on the goods produced by the agriculture or forestry sectors.
- *An open economy* in that the small scale of its domestic market means that much of what is produced locally finds its way into external markets.
- *A free-market economy* in which the direct role of the government in the economy is limited.
- *A dualistic economy* with a modern sector (where most of the production for the market originates) and a traditional sector (where most of the people produce for their own consumption).

In 1986, the last year for which sufficiently detailed data are available, the private sector contributed 57 percent of the Swazi GDP, parastatals (state-owned enterprises) 7 percent, and government services approximately 22 percent. A Swazi development agency, Tibiyo Taka Ngwane, contributed the balance of approximately 14 percent through its private sector and parastatal holdings.

Major contributors to the private sector's share of the Swazi GDP are agriculture (24.7 percent of the GDP in 1986; 26.1 percent when forestry is included) and manufacturing (23.5 percent). The private sector is also a major contributor to government revenue and direct investment. In the 1985-86 to 1987-88 period, company tax revenue almost trebled in value, rising from E24.4 million to E73 million.

Small Firms in the Private Sector

Just as there are two Swazi economies - modern and traditional, each with its own production and consumption patterns - the private sector itself can also be divided into at least two distinct sets of actors: the private sector of the large firms and that of the smaller firms.

Small firms have a number of distinct characteristics:

- *Ownership.* The majority of the small business enterprises are owned by Swazi women.
- *Labor Mix.* Smaller firms are more likely to employ female labor. They are more likely to employ Swazi in all skill categories than are the large firms.
- *Experience.* In general, smaller firms have less business experience than the larger companies.
- *Marketing and Demand.* Smaller businesses have difficulty improving sales volume, primarily due to difficulty in getting products to the market and a lack of adequate market information.
- *Access to Production Inputs.* Small businesses are more likely to experience difficulty in accessing raw materials, due primarily to difficulty in obtaining financing and transport.
- *Organizational Infrastructure.* In general, small firms do not belong to business associations, and there is very little contact between large firms and the smaller firms.

Trends In Private Sector Development

Manufacturing and commercial agriculture have been the engines of private sector growth in Swaziland over the last 20 years. Most of the growth in recent years has come from manufacturing. Conversely, mining, which served as the engine for growth in the early post-independence period, has declined considerably in importance.

The private sector is the largest formal sector employer, although its relative importance has declined slightly. 70 percent of wage jobs are in the private sector and job creation has averaged 3.5 percent annually since independence. Rapid growth in the labor force and increasing capital intensity have, however, limited the private sector's ability to create jobs fast enough to meet rising demands for employment.

Most of the growth in the private sector has come from the larger, foreign-owned firms. Since the earliest post-independence days, most of the economic activity in the private sector has been in the hands of large, foreign-owned companies. Local entrepreneurs have only recently begun to appear; the bulk of locally owned firms tend to be small and fairly inexperienced.

The Government and Public Policy

The dualism that characterizes the Swazi economy extends to the structures of the government, where Western concepts and the traditional Swazi system operate side by side. The monarch is Head of State and governs modern-day Swaziland in consultation with a cabinet and bicameral parliament. At the same time, the King is advised by a council of elders. The Swazi National Council, made up of all adult Swazi, is convened by the King to advise on matters of national importance.

The government's direct role in the economy has traditionally been limited. Average government expenditures as a proportion of GDP since 1977 have been about 35 percent. Swaziland's government expenditure has been consistently lower than most of the other countries in the region.

The government sees one of its roles as that of promoting development. To this end it has adopted a policy of providing an environment in which the private sector can operate. In addition, the government provides equity and investment capital through a variety of development agencies. The Swaziland Industrial Development Company Limited (SIDC) is the main development agency. In addition, two institutions unique to Swaziland, Tibiyo Taka Ngwane and Tisuka Taka Ngwane, which were established to meet the needs of the traditional groups in the modern western economy, assist in economic and social development by investing in projects deemed to be of benefit to the nation.

Why Conduct Business In Swaziland?

The business climate has generally been perceived as very favorable by entrepreneurs operating in Swaziland. A number of key policies foster and facilitate private sector growth and expansion:

Access to Varied and Well-Developed Sources of Investment Capital. Swaziland not only has access to the well-developed money and capital markets in South Africa, where investors can take advantage of the favorable exchange rate for the financial rand, but has also managed to develop its own active financial sector. The larger commercial banks are complemented by a number of other financial institutions, some of which (for example, the Swaziland National Provident Fund) are relatively unexploited but potentially rich sources of capital. Institutions such as the Swaziland Industrial Development Company and Tibiyo Taka Ngwane are available as sources of equity capital as well as expediters and facilitators for the foreign investor. International financial institutions are also a potential source of capital.

Few Procedures Imposed by the Government. In contrast with so many other African countries, financial and transaction costs for the willing investor are kept to a minimum. Repatriation of capital profits and dividends, another major source of headaches for many foreign firms operating in other countries in the region, is not a problem in Swaziland. Furthermore, corruption is minimal.

Stability. In addition to political and social stability, Swaziland offers a stable and coherent set of economic policies that make business planning easier and reduce the risks of doing business in the country. This stability encourages entrepreneurs to take a long-term view of their investments and thus encourages activities, such as in-house training programs and infrastructure improvements, that may be socially beneficial but require longer gestation periods.

Access to a Well-Developed Network of Services and Markets. Conducting business in Swaziland is made easier because of the country's ready access to a wide variety of services from South Africa. Thus running a business in Swaziland is less expensive than it might be in other countries. In addition to the large South African market, part of a common customs union, the entrepreneur locating in Swaziland has preferential access to the European and African markets not available to firms operating out of South Africa.

Access to a Well-Disciplined and Inexpensive Labor Force. Wages are reasonable in Swaziland. The labor pool is functionally literate and numerate, and most Swazi can speak some English. Labor relations have been relatively stable, but unions are becoming more active. Employers and government have not yet indicated how they will respond.

Bottlenecks in Private Sector Development

The following problem areas could inhibit the growth of the private sector and thus the development of Swaziland:

Land Tenure and Land Use Issues. Swaziland faces three basic challenges with regard to land:

- Convince the business community that its land holdings are secure, despite the September 1988 Royal Decree giving the Ministry of Justice authority to intervene in property transactions
- Develop Swazi Nation Land to its full potential
- Ensure that Title Deed Land is used efficiently.

Lack of Access to Credit for Small-Scale Enterprises. While Swaziland enjoys a well-developed financial sector and numerous sources of capital, few of the smaller Swazi owned firms have access to these resources, primarily due to a lack of collateral.

Tax Policies. The current five-year tax holiday is not generally seen as much of a benefit to the investor, as the first five years of operation are often not profitable and the tax benefit cannot be carried forward. Firms would also like to see an improved set of tax incentives to encourage employee training. Export incentives as currently structured are also not seen as being of much use.

Inefficient Bureaucracy and Inadequate Level of Public Services. The rapid expansion of the Swazi economy and the resultant increase in urbanization has increased the pressure on the physical infrastructure, including electrical supply, housing and roads. The inefficiency of the government is also cited for the length of time required to obtain residence and work permits and to register businesses.

Shortages of Skilled Manpower. While there is a surplus of unskilled labor in Swaziland, acute shortages of some types of skilled labor exist. Such shortages mean that many firms must recruit their supervisory and technical personnel outside of Swaziland. The education system is not providing sufficient graduates with skills relevant to the private sector.

Areas of Potential Private Sector Growth

The following areas offer good prospects for future private sector development:

- Agri-business and agro-industry, especially forestry, fruit canning and processing, cotton and textiles, and dairy production
- Metal products
- Housing, and building and construction in general
- Transportation, particularly land transport
- Tourism.

Conclusion

The past few years have seen exceptional interest in investing in Swaziland, but this has largely been a result of exogenous factors such as the turmoil in South Africa. Swaziland has been able to take advantage of this investment activity, but future development depends on the country's ability to build on its past success.

This report goes some way toward showing how the economy works. Whether it continues to work and grow is largely up to the actors identified here. Thus the challenge for Swaziland in the future, is to aggressively attract new investors and to maintain the investment climate and the investors it already has.

This publication does not provide answers as to how development can be maintained. However, it does provide ideas and information on areas that warrant further investigation. It is not the role of this document to prescribe policy, however, one point has emerged regularly: the urgent need for dialogue - dialogue between government and business; between government and donors; between business and educational establishments; between manufacturers and commerce; between banks and potential borrowers; and between large and small firms.

Preface

The purpose of this document is to examine the past and present role of the private sector in the economy of the Kingdom of Swaziland and, in so doing, highlight areas that offer potential for future growth for the private sector or that may constrain growth. It also provides accurate information for potential investors, who are welcomed by the Swazi people as partners in their nation's progress.

The document combines the results of a number of studies undertaken for the United States Agency for International Development in Swaziland (USAID/Swaziland). The purpose of these studies, which began in late 1988 and were completed in June 1989, was to improve the USAID Mission's understanding of the private sector in Swaziland. The results have been used by the USAID/Swaziland Mission to help formulate its economic assistance strategy for the country.

The document does not pretend to provide answers or prescribe policy, but does identify areas which seem to hold the key to Swaziland's ability to meet its development challenges. As such, the authors hope that it will promote dialogue between and among donors, the government, and the private sector regarding future development priorities and opportunities in Swaziland and the role of each in responding to the challenges development presents.

LABAT-ANDERSON Incorporated of Arlington, Virginia, USA, with subcontract assistance from Capricorn Africa Economic Associates of Mbabane, Swaziland, and J.E. Austin Associates of Cambridge, Massachusetts, USA, has been responsible for producing this document. The USAID Mission in Swaziland and the Office of Market Development and Investment of the USAID Africa Bureau sponsored and guided the work.

The views expressed in this document are those of the authors and do not necessarily reflect those of the United States Agency for International Development.

Foreword

At a time of great concern about the economic future of sub-Saharan Africa, the Kingdom of Swaziland illustrates how the private sector can help promote and sustain economic growth in a developing country.

In the 1980s, a decade characterized by low or negative economic growth throughout most of the region, Swaziland maintained the fourth highest average rate of real growth in sub-Saharan Africa - just over 4 percent per year, or three times the average - and inflation was half the average for the region. Prospects for continued development in the decade ahead are good.

When Swaziland became independent in 1968, it had minimal economic infrastructure, certainly little to indicate that it could achieve or sustain such a high rate of economic growth. The government was able to provide only minimal social and administrative services to its predominantly rural population. The majority of people were engaged in traditional agriculture centered around market towns, while the country depended on the Republic of South Africa for most services and inputs. The country's focus was internal, for it had little capacity to conduct external economic and political activities. Beyond teachers, few Swazi citizens were trained professionals, and expatriates, many financed by the United Kingdom through salary supplement arrangements, filled most senior civil service positions. There was little commercial farming activity. Two small mines, producing iron and asbestos, and some timber and sugar plantations were the major businesses. Industry was virtually nonexistent, and expatriate businessmen controlled most commercial and trade activity. The only airport was a dirt runway serviced by small planes from South Africa.

Twenty years later, Swaziland is attracting multinational corporations, building modern industrial facilities, and drawing praise for its management of international finances. Most government positions at upper and middle levels are staffed by a cadre of able and trained Swazi. The international airport at Matsapha is served by six regional airlines, and jet freighters ship produce to Europe and North America. Swaziland has developed a well integrated and vibrant agro-industrial sector: Swazi-grown cotton is spun into some of the best yarn in the world, woven locally into fine cloth, and soon will be made into high quality clothing; Swazi timber is processed locally into knock-down furniture shipped directly to retail chains in Europe; and Swazi fruit and sugar is converted into a variety of beverage concentrates. The investment climate in Swaziland is one of the best in Africa.

As a culturally homogenous nation-state, Swaziland has escaped the ethnic struggles which have plagued many of the emerging nations of Africa. Moreover, its political leadership is committed to the principles of a free-market economy. In a region where governments are short-lived and oriented toward the present, Swaziland's political leadership has been stable and pragmatic, adopting long-term, conservative fiscal and monetary measures that have enabled the economy to maintain a steady course on the road to growth and development.

Swaziland does face a number of serious challenges, and its economy has been described by one knowledgeable observer as "skating exceptionally well on thin ice." Economic expansion has strained the country's good but modest infrastructure. The growing pace of modernization has led to increasing tension between he society's traditional and modern sectors. The rate of population growth is one of the highest in Africa, adding more pressure to the infrastructure and contributing to unemployment. Nonetheless, starting from a base far less promising than that of many other countries in the region, Swaziland has experienced 20 years of peaceful, prosperous development almost unparalleled on the continent. It is emerging as an example of a successful market-based African economy.

The private sector has played a fundamental role in Swaziland's development, and Swazi policy-makers have been looking to the private sector to help resolve current development challenges and concerns. The document which follows provides a brief overview of the economy and the role of the private sector in that economy. It then highlights areas that offer potential for private sector development and growth as well as areas that may act as constraints on development and growth.

Table of Contents

Part I
Overview of Swaziland's Economy and of Public and Private Sector Activities and Performance Since Independence

Chapter *Page*

Part II
Opportunities and Constraints to Private Sector Development and Growth

Appendices

FIGURES

TABLES

Part I

Overview of Swaziland's Economy and of Public and Private Sector Activities and Performance Since Independence

1

Swaziland's Economy: Structure and Performance

The Swaziland economy has four defining characteristics:

- *A specialized economy* in which much of the activity is either directly related to or depends on the goods produced by the agriculture or forestry sectors.
- *An open economy* in that the small scale of its domestic market means that much of what is produced locally finds its way into external markets.
- *A free-market economy* in which the direct role of the government in the economy is limited.
- *A dualistic economy* with a modern sector (where most of the production for the market originates) and a traditional sector (where most of the people produce for their own consumption).

A. Overview of the Economic Structure

Swaziland's economy has become increasingly diversified since independence, moving away from reliance on primary sectors and developing an industrial base (see Figure 1). The manufacturing sector's contribution to GDP grew from 12 percent in 1967 to 25 percent in 1988, making Swaziland one of the most industrialized countries in sub-Saharan Africa. In contrast, the manufacturing sector in 1988 represented 15 percent of GDP in Lesotho, 11 percent in Kenya, 24 percent in Mauritius, and 17 percent in Zambia.

Agriculture and agro-industry are dominant in the economy, through direct production and sale of agricultural output as well as through provision of raw material for the bulk of the manufacturing and processing industries in the country. In 1988, agriculture, including forestry, accounted for an estimated 26 percent of GDP and 17.5 percent of employment, while agro-industry accounted for an additional 9 percent of GDP. Processed agricultural commodities were estimated to account for roughly 92 percent of manufacturing's share of GDP.

The mining industry played an important role as the economy developed in the pre- and early post-independence periods. For example, the Havelock asbestos mine, opened in 1939, was the first major project involving foreign investment in Swaziland and marked the start of modern sector development. The opening of the iron ore mine at Ngwenya in 1964 spurred construction of the railway to transport ore to the port of Maputo in Mozambique. By 1989, however, mining's importance in the economy had declined significantly. The value of mineral sales and their importance to the economy is shown in Figure 2, and employment in mining is shown in Figure 3.

Despite the fast growth of Swaziland's industrial base, only 25 percent of the country's economically active population is employed in the modern wage sector (see Figure 4). The remaining 75 percent are primarily subsistence farmers living on Swazi Nation Land. Income transfers between Swazi rural and urban homesteads are such, however, that the great majority of households participate in the money economy. The following sections describe the allocation of land in Swaziland, as well as other factors of production.

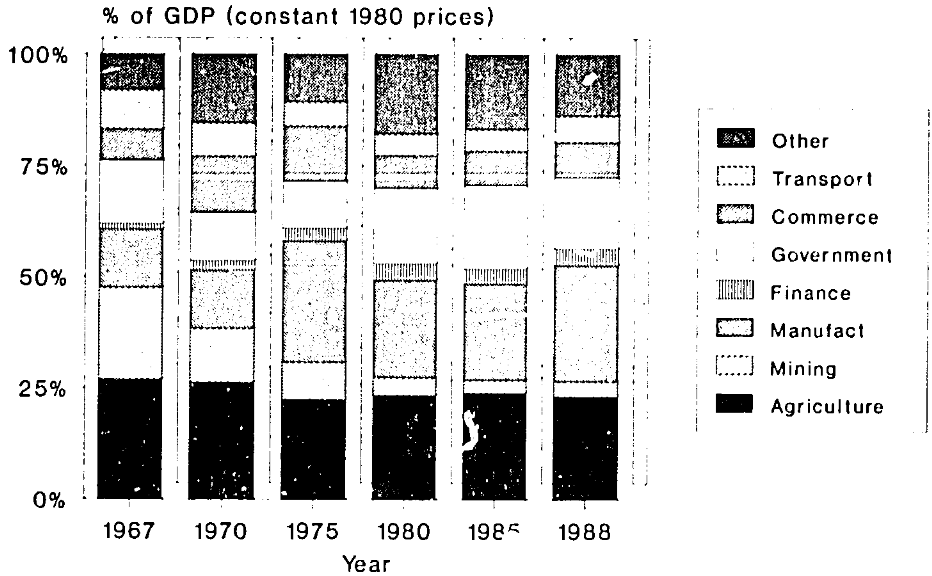
B. Productive Resources

Swaziland has a good supply of natural resources, an abundance of excellent unskilled and semi-skilled workers, and many sources of capital upon which development can grow.

1. *Natural Resource Base*

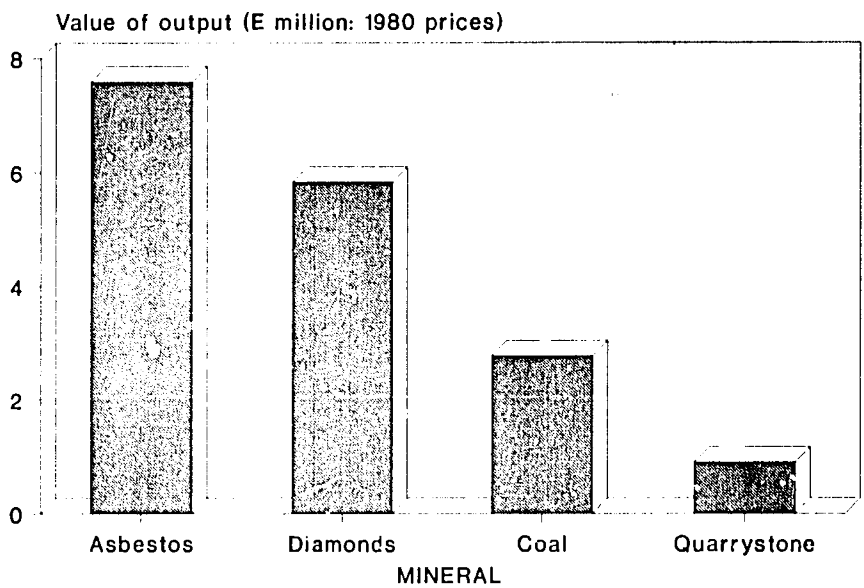
The natural resource base in Swaziland is made up of land and minerals.

Figure 1
Increasing diversification of Swaziland's Economy, 1967-1988



SOURCE: CSO: ASB 1968-1986; EPO: Economic Review and Outlook

Figure 2
Mineral Production in Swaziland, 1988

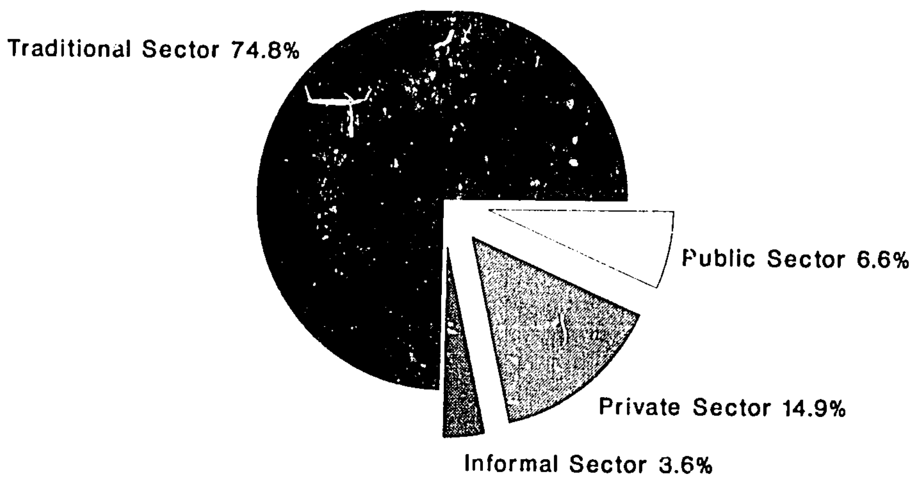


SOURCE: Department of Geological Services: Personal Communication

Figure 3
Employment in Mining as a Proportion of Monetary Employment, 1969-1986

SOURCE: CSO: Employment and Wages Survey, 1970-1986

Figure 4
Distribution of Employment in Swaziland, 1986



SOURCE: CSO: Employment and Wages Survey, 1986

a. Land

Land in Swaziland is divided into two categories: Swazi Nation Land (SNL) and Title Deed Land (TDL). Swazi Nation Land accounts for 56 percent of the land area in the country and is home to 80 per cent of the population, but contributes only 20.3 percent to GDP, mostly in agriculture. This division of land is the basis for the dualistic nature of production in the economy.

Ownership of Swazi Nation Land rests with the King, who holds it in trust for the Nation. It is divided into chiefdoms, with each chief allocating land for homesteads, arable farming, and communal grazing. In theory there is no security of tenure, but all Swazi are entitled to an allocation of land as a matter of birthright.

Title Deed Land is held in perpetuity and may be inherited, bought, sold, or given away. Non-Swazi citizens may own land but, under the terms of the Land Speculation Control Act, the transactions must be approved by the Land Control Board. The Ministry of Commerce, Industry and Tourism can make binding recommendations on sales to non-Swazi citizens if it finds that development of the land in question is in the best interest of the country.

Land use varies between Swazi Nation Land and Title Deed Land. The proportion of land devoted to cattle grazing on the Title Deed Land farms has declined steadily since the mid-1970s, while the proportion used for crops has increased only slightly. In general, the agricultural pattern of land use for Swazi Nation Land has remained static.

Land was not regarded as an issue for private sector development until a Royal Decree published in September 1988 gave Swaziland's Minister of Justice the power to intervene in any property transaction and to determine who could buy any piece of property and at what price. The private sector feared that property would lose its value, but the King and the Prime Minister assured the country that private holdings were not in any way threatened. To date the government has not intervened in any land transaction.

b. Minerals

Asbestos is Swaziland's major source of mineral revenue, but it has not been as profitable in recent years because of an oversupply on world markets. The present mine, 40 percent owned by Tibiyo Taka Ngwane,[1] was thought to be near the end of its working life, but new deposits have been found and the mining lease has been extended.

Coal deposits are estimated at around 1,000 million tons of high-quality, low-sulphur coal. The single mine now operating was opened in 1964 to supply coal to the railway (although it was later found that the ash content of the coal was too high for this purpose). In 1986, coal was Swaziland's second most important source of mineral revenue and was exported to Kenya and South Korea in addition to being used locally. A new coal mine is being established, but low international prices could delay any further exploitation of the large deposits in Swaziland.

Since 1987, *diamonds* have replaced coal as Swaziland's second most important mineral in terms of the value of sales. Two deposits have been discovered and one is now being mined.

Quarrying is taking place at two established commercial sites. Activity in this industry has been sporadic, as it depends on construction projects for business.

Tin was one of the first minerals to be extracted in Swaziland and was mined, off and on, until 1984. At present tin is not economically viable and is therefore not being mined.

Small deposits of *kaolin, barytes, pyrophyllite,* and *gold* have been exploited at times in Swaziland, and some gold prospecting is now occurring in the northwest.

2. Labor Supply

A recent survey undertaken for USAID confirms that Swaziland has an abundant supply of unskilled and semiskilled labor. The current labor surplus is expected to continue well into the next century (see Figure 5), and business people generally regard labor as one of Swaziland's top draw cards. Wages are generally 10 to 30 percent lower than in South Africa, and Swazi workers are generally perceived to be more productive than their South African counterparts. The local labor pool is also more likely to be literate, numerate, and able to speak English than the labor force available in South Africa, particularly the South African homelands. Unions are allowed in Swaziland, but their activities are not politically motivated, nor are they as disruptive as those of their counterparts in South Africa.

Swaziland sends around 20,000 migrants to work in South African mines and industries every year. These workers gain skills and a work ethic that could be applied to the benefit of Swaziland. The potential for employment of migrants has not been explored, but it has been suggested that, beyond being good workers, they could even play the role of entrepreneurs, since many have capital to invest back in Swaziland.

---

1. This development agency is discussed in detail in Chapter 3, section C.2.

Although the overall labor picture is bright, some shortages of specific labor skills do exist in Swaziland. The findings of a 1989 survey conducted by Coopers & Lybrand suggest that larger firms in particular believe that good technical and professional staff are scarce in Swaziland. These businesses must pay much higher salaries to attract quality skilled personnel from outside Swaziland.

The shortage of skilled and supervisory labor also affects the smaller firms, which cannot compete with larger businesses for the relatively few skilled technicians available in the country in terms of salary and benefits or pay the wages necessary to hire expatriates.

3. *Availability of Capital*

This section describes the sources and uses of capital in the economy.

a. *Sources of Capital and Credit*

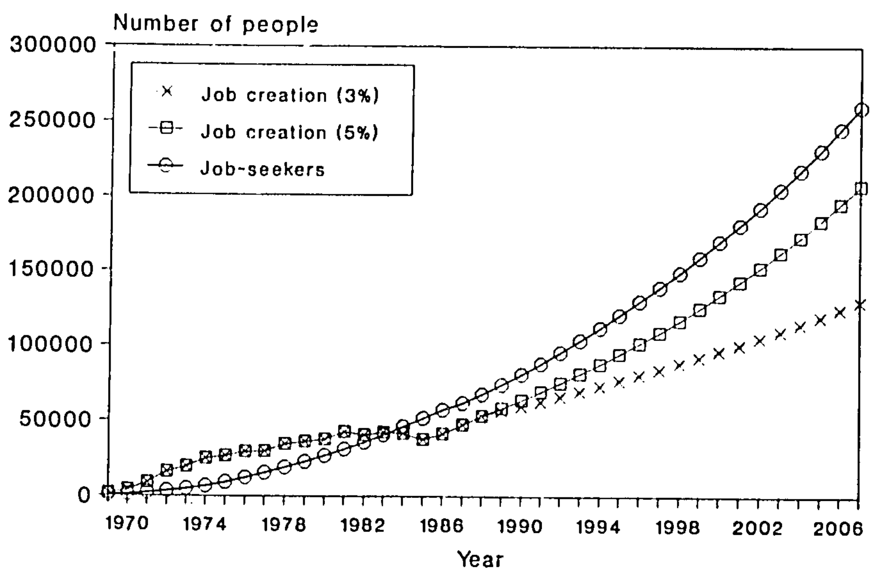
One of Swaziland's attractions for investors has been the availability of good banking and credit facilities. Membership in the Common Monetary Area (CMA) together with Lesotho and South Africa has allowed Swaziland access to the well-developed South African money and capital markets while it has developed its own banking and financial institutions. Within Swaziland, credit is available from traditional banking institutions as well as from non-banking financial institutions (see Figure 6). Banks account for nearly half of the lending. Among the non-banking institutions, the Swaziland National Provident Fund has the largest share. Data on the sources of loans can be found in Table 1.

Table 1 Sources of Loans in Swaziland

Source	*E million*		*Percentage of total*	
Barclays	90		18.8	
Standard	67		12.5	
BCCI	19		3.6	
Union Bank	25		4.7	
SBDS	56		10.5	
Banks total		257		48.1
Building Society	28		5.3	
CDC	50		9.4	
Tibiyo	55		10.3	
Provident Fund	73		13.7	
SIDC	20		3.8	
Other	50		9.4	
Other total		276		51.9
GRAND TOTAL		533		100.0

SOURCE: Authors' Estimates and Lending Institutions.

Figure 5
Cumulative Job Creation and Job Seekers: Historical and Projected



SOURCE: CSO: Employment and Wages 1969-1987; Authors' Projections

(1) Banks

The traditional banking institutions in Swaziland include five commercial banks as well as the Central Bank of Swaziland. Banks account for about 50 percent of all lending.

The Standard Chartered Bank of Swaziland and *Barclays Bank of Swaziland* were established during the colonial period and account for a majority of the banking business in the country (Figure 6). The government holds a 40 percent share in each and appoints the chairman of each bank's board of directors. *The Bank of Credit and Commerce International Limited* (BCCI) was established in 1978.

The formal financial sector has been one of the fastest growing areas of the Swazi economy (Figure 1). In fact, two of the country's five commercial banks - the Union Bank of Swaziland and the International Bank of Swaziland - began operations in 1988.

The *Union Bank of Swaziland* is a joint venture whose major investor is the Standard Bank of South Africa (49 percent). The government holds a 10 percent share. The bank evolved from the Finance Corporation of Swaziland (FINCOR), which was established in 1981 to "assist the business and professional sector by providing hire purchase and leasing facilities" (Barclays, 1986, p.51). By the end of 1988 the bank had made advances of E25 million[2] and was growing rapidly. Significant expansion occurred in 1989.

The major shareholders of the *International Bank of Swaziland*, a small operation, are understood to be the Banque de Paris and the Union Bank of Switzerland. This bank's major area of interest is import and export financing; thus it has no involvement in local lending.

The *Swaziland Development and Savings Bank* (SDSB) is a statutory body managed by a publicly appointed board. Its main purpose is to develop the cash economy of the rural areas. The latest available figure for advances was E56 million on 31 March 1989, an increase of 33 percent over the previous year. The bank recently announced that it had re-entered the home-loan market and had E4 million available to invest in this sector.

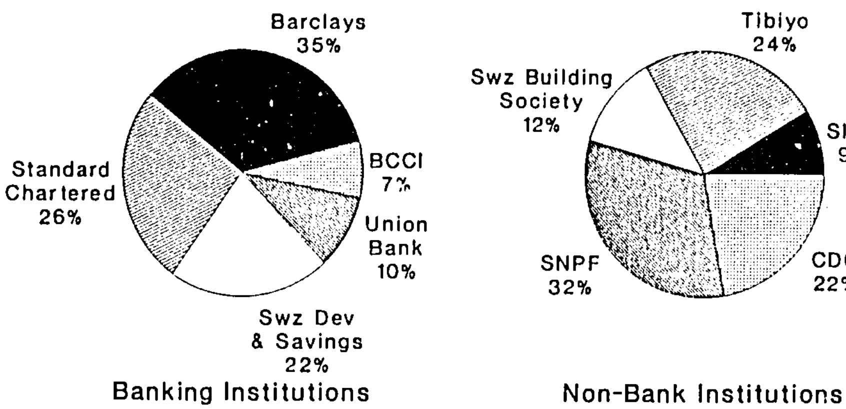
(2) Local Institutions

Other institutions that are not engaged in banking but provide capital and credit include the Swaziland Industrial Development Company and Tibiyo Taka Ngwane.

---

2. The abbreviation E stands for Emalengeni, the singular form of Swaziland's currency, the Lilangeni. The Lilangeni is pegged to the South African Rand; thus E1 is equal to R1. In December 1989 the Rand was worth approximately $0.40 in U.S. funds.

Figure 6
Sources of Credit and Capital: Public and Private Sectors Combined



SOURCE: Authors' Estimate

The *Swaziland Industrial Development Company* (SIDC) is the most important non-banking source of funding for new development. Charged with mobilizing domestic and external resources to finance private sector projects, the SIDC is the primary agent for new development and investment in Swaziland.

Tibiyo Taka Ngwane was established in 1968 to invest mineral royalties. In 1975 it was decided that Tibiyo could become self-sustaining, and accordingly these royalties were channeled to Tisuka Taka Ngwane, a new fund. Tibiyo has acquired and currently holds equity in 19 companies and owns another 10 outright. It becomes involved in projects and gains equity shares through cash investment, providing land or borrowing against future dividends. (Chapter 3, section C.2 contains additional information on Tibiyo and Tisuka.)

(3) International Institutions

The *Commonwealth Development Corporation* (CDC) began operating in Swaziland prior to independence. It has an estimated E50 million invested in many local undertakings, ranging from small farms to large industries.

The *International Finance Corporation* (IFC) is part of the World Bank. They have financial interests with SIDC, Natex and Spintex. The operations in Swaziland are managed from their Nairobi office.

The *German Finance Company for Investment in Developing Countries* (DEG), the West German based development corporation, is involved in supporting private enterprise in Swaziland. It is a shareholder in SIDC, Usutu Pulp and the Simunye Sugar Company, and has participated in providing the finance for Spintex. Although the organisation has no office in Swaziland, the General Manager of SIDC is funded by DEG.

The *Netherlands Development Finance Company* (FMO) offers finance in various forms to small and medium sized private enterprises in developing countries. The aim is to aid companies where the costs of outside assistance are relatively heavy, and who have no access to foreign technology and know-how because of lack of foreign exchange.

The *European Investment Bank* (EIB) is also contributing to the expansion of the economy of Swaziland. This organisation has provided loans to SIDC, Swaziland Meat Industries and Spintex among others. Contact can be made through the local European Community (EC) office.

(4) Potential Sources of Capital

The following organizations have not been tapped by the private sector to any degree, but they represent potentially rich sources of capital.

The Swaziland National Provident Fund (SNPF) was founded in 1974 as a savings scheme to provide benefits to wage earners who were unable to work. Employers are obliged to contribute to the fund, but may recover half of their contributions from their employees. SNPF loans and investments total E73 million: E53 million in loans and E20 million in property. The loans cover a wide spectrum of the economy, including the Swaziland Electricity Board, the Swaziland Railway, various town councils, sugar companies, housing, and various commercial and tourist operations. As Table 2 shows, a large sum of money (the difference between total contributions and expected claims) is potentially available for investment.

The *Swaziland Royal Insurance Company*, established in 1974, has a monopoly over insurance in Swaziland. The government has a 51 percent share in the company; the balance is held by a number of foreign insurance companies. While it has not always been profitable, the company has the potential to invest revenue from short-term insurance premiums, as shown in Table 3.

The *Swaziland Building Society's* primary function is to make funds available for the construction and purchase of private homes. In recent years, however, it has expanded its activities to include commercial property. It is not linked to the government and could not directly assist in foreign investment, but, as Table 4 shows, it also has capital available for investment.

Table 2 Swaziland National Provident Fund Resources (E million)

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
Contributions	4.2	4.4	6.6	6.9	6.5	6.6	5.7	8.0ª	NA
Claims		NA	NA	NA	1.5	1.6	1.8	1.3ª	NA
Investment Inc		0.6	1.3	NA	NA	5.4	6.0	7.3ª	8.3ª
Members		-ᵇ	-ᵇ	-ᵇ	NA	63520	72513ª	79441ª	NA

Notes: (a) All figures are for the financial year ending 30 June.
(b) Accurate data for the years 1981-1983 are not available.

SOURCE: Central Bank Annual Reports.

Table 3 Swaziland Royal Insurance Corporation: Profit and Premiums (E million)									
	1979	1980	1981	1982	1983	1984	1985	1986	1987
Profit/Loss	0.12		NA	0.9	0.9	(1.1)	1.0	(1.2)	1.1
Short Term Ins.Premiums		3.26	3.32	5.05	4.8	5.74	8.5	8.0	11.0

SOURCE: SNPF Financial Statements

b. Uses of Capital: Loans and Investments

Swaziland's financial institutions are required to invest a certain portion of their funds locally, but otherwise the free flow of funds is retained. The bulk of all lending goes to the manufacturing sector; private sector businesses are also the heaviest borrowers in the country. Data on the uses of loans are provided in Table 5.

Flow of Foreign Capital

Foreign investment in Swaziland has increased in importance, although the ease of moving currency in and out of the country makes exact estimates difficult. An indication of the importance of foreign investment can be obtained from Table 6, which lists the major Swazi enterprises in which foreign ownership is important.

Foreign private investors range from multinational corporations to families and individuals. The enterprises themselves range in size from 10 or 20 employees to several thousand. Many of the multinational investors are associated with Tibiyo. Large South African groups make up a significant category of investors, but many smaller South African concerns as well as individuals have also invested in Swaziland.

Table 4 Swaziland Building Society Resources (E million)

Year	Assets	Liabilities	Share Cap.	Fixed Investments	Savings Dep.
1983	11.5	4.44	1.9	3.7	2.1
1984	14.5	5.30	2.7	5.2	2.5
1985	16.2	6.30	1.0	5.2	2.7
1986	20.0	6.80	3.5	5.5	3.7
1987	26.4	8.80	1.1	8.1	6.9
1988	31.9	10.40	1.3	9.7	8.9

Note: For fiscal year ending 31 March

SOURCE: CBS Annual Reports: 1987-1988: 1986-1987 p.18; 1985-86 p.18; 1984-1985 p.14.

C. Foreign Trade and Balance of Payments

This section describes the importance of international trade to Swaziland's open economy, and the factors influencing the growth of imports and exports and foreign debt.

1. The Importance of Trade

One of the central or defining characteristics of the economy is that it is open, a fact reflected in the high level of exports and imports relative to GDP (see Figure 7). External markets have traditionally been very important for firms operating in Swaziland. Thus, while the 1989 survey of the private sector found that the domestic market continues to be of primary importance to the

Table 5 Loans in Swaziland by Sector: Central Statistical Office Data (E million)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
SECTOR									
Agriculture & Forestry	13.5	15.2	19.2	20.3	20.0	18.6	19.4	22.3	21.1
Construction, Mining & Manufacturing	30.7	32.1	26.5	51.0	53.1	55.3	60.8	60.8	43.0
Other	16.9	23.3	28.0	29.4	35.1	37.0	37.5	34.6	53.5
Total Business Loans	61.1	70.6	73.7	100.7	108.2	111.0	117.7	117.8	117.6
CATEGORY OF BORROWER									
Business	61.1	70.6	73.7	100.7	108.2	111.0	117.7	117.8	117.6
Local Authorities	0.0	0.0	0.2	0.2	0.3	0.9	0.5	0.1	0.3
Statutory Bodies	1.3	4.4	4.0	5.4	3.1	6.4	5.4	2.3	6.8
Personal	7.7	7.9	15.9	19.3	22.2	23.2	27.1	26.0	43.5
TOTAL LOANS & ADVANCES	70.1	82.9	93.8	125.7	133.7	141.4	150.7	146.2	168.2

SOURCES: CSO: ASB 1986, p87 Table M3

Table 6 Foreign Participation in Major Enterprises in Swaziland

Sector/Enterprise	*Foreign Shareholders (Country)*
Mining	
Havelock Asbestos	Turner & Newall (UK)/Msauli Asbestos (SA).
Dvokolwako Diamonds	Trans-Hex (Rembrandt Group) (SA).
Agro-Industry	
Ubombo Ranches (sugar)	Lonrho (UK).
Mhlume Sugar	CDC (UK).
Royal Swaziland Sugar Corp.	Tate & Lyle (UK), Coca Cola Export Co (USA), Government of Nigeria, CDC (UK), Mitsui (Japan), IFC (USA), Deutsche Gesellschaft fur Wirtschaftliche Zus (FRG).
Usutu Pulp	CDC (UK), Oakwood Ltd (Guernsey).
Mondi Timber	Anglo American Corporation (SA)
Swaziland Plantations	J More (SA).
Swazican	Gants (SA).
Swaziland Meat Industries	CDC (UK), Lonhro (UK).
Bromor Foods	Bromor Foods (Pty) Ltd (SA).
Swaziland Cotona Cotton Ginning Co	Tongaat Foods (Pty) Ltd (SA).
Agriculture	
Crookes Plantations	Crookes Bros. (SA).
Ngonini Estates/ Tambuti Estates (citrus)	United Plantations (Denmark).
Inyoni Yami Swaziland Irrigation Scheme	CDC (UK).
Tambankulu Estates/Umbuluzi Estates (sugar, citrus)	Format Development Corporation (Switzerland)
Shiselweni Forestry	CDC (UK).
Manufacturing	
Beral	Turner and Newall Holdings (SA).
Langa National Brickworks	CDC (UK).
Neopac	National Containers (SA), CDC (UK).
Swaziland Bottling Company	Amalgamated Beverages (SA), Cadbury- Schweppes (UK).
Swaziland Breweries	SA Breweries (SA)/Andras BV (Netherlands).
Swaziland United Bakeries	ASAB (SA).
YKK Zippers	YKK (Japan).
Conco	Coca-Cola Export Corporation (USA).
National Textile Corporation (NATEX)	CDC (UK), IFC (USA).
Progress Industries	(ROC-Taiwan).
Interboard	Interboard Ltd (SA).
Macmillan Boleswa	Macmillan (UK).
Swaziland Yarn & Fabrics	Frame Group (SA).
Oriental (Swaziland) Company	Chu Wei Kank, Tsai Kuang Yung (SA).
Sikanye Footwear Ltd	Leader AG (Swiss).
Steel and Wire International	Wedge Holdings (SA).
Transport	
Cargo Carriers	Cargo Holdings (SA).
Unitrans Swaziland	United Transport (UK), United Transport (SA), P.V. Bet, Kam (Netherlands).
AMI	Agence Maritime Internationale (France).
Manica Freight Services	Manica (UK).
Stuttafords Van Lines	Laser Removals (Pty) Ltd (SA).
Wholesale, Retail and Distribution	
OK Bazaars	OK Bazaars (SA), Fresta Holdings (SA).
Edgars, Jet Stores, Sales House	Edgars (SA).

(Continued)

Table 6 (contd.) Foreign Participation in Major Enterprises in Swaziland

Sector/Enterprise	*Foreign Shareholders (Country)*
Mobil Oil	Mobil Petroleum (SA).
Caltex Oil	Caltex (USA).
BP Swaziland	British Petroleum (UK), Melrose Oil (UK).
Shell Oil	Shell Petroleum (UK).
Total Swaziland (Pty) Ltd	Total (SA).
Metro (Swaziland) (Pty) Ltd	Metro (SA).
Swaziland Food Distributors	Premier Group (SA).
Swaziland Liquor Distributors	Gilbeys, SFW, Distillers Corporation (SA).
Tourism	
Royal Swazi Sun Casino, Ezulwini Sun Casino, Lugogo Sun Casino, Nhlangano Sun Hotel	Sun International (SA).
Rennies Travel	Rennies Group (SA).
Commercial Banks	
Bank of Credit & Commerce International	BCCI (Luxembourg).
Barclays Bank	Barclays (UK).
International Bank for Swaziland	Afritrust International (France), Banque Internationale pour L'Afrique Occidental (France), ESH (Luxembourg).
Standard Chartered Bank	Standard Chartered (UK).
Union Bank of Swaziland	Standard Bank (SA) European investors.

Notes: Tibiyo, SIDC and SWAKI have equity ownerships in many of these companies.

SOURCE: G.O.S. Registrar of Companies

smaller firms, it also found that even the smallest firms reported some amount of external trade, primarily with South Africa.

Foreign trade is facilitated by Swaziland's membership in a number of multilateral organizations. These include the Southern African Customs Union (SACU),[3] which allows for a free and virtually unimpeded interchange of goods between the member countries; the Preferential Trade Area for Eastern and Southern Africa (PTA),[4] which facilitates the duty free flow of trade between the member countries in the southern and eastern African region; and the Lomé Convention, which allows preferential access to the European Community. Swaziland is also a party to various bilateral trade agreements. However, trade is dominated by a few commodities and the number of major trading partners is comparatively small.

Up to 1975, Swaziland had a substantial trade surplus, primarily due to favorable markets for sugar and woodpulp. Falling world prices for sugar and rapidly rising imports, due in part to the drive to develop the economy with large imports of machinery and transport equipment, resulted in a deficit in 1976. The deficit peaked in 1984, when imports totalled E547 million and exports stood at E340 million. According to the Economic Planning Office, in 1987 Swaziland recorded its first surplus on the balance of trade in f.o.b. terms since 1977 (see Figure 8) and, though all official figures are not in, a surplus also was expected in 1988.

2. Exports

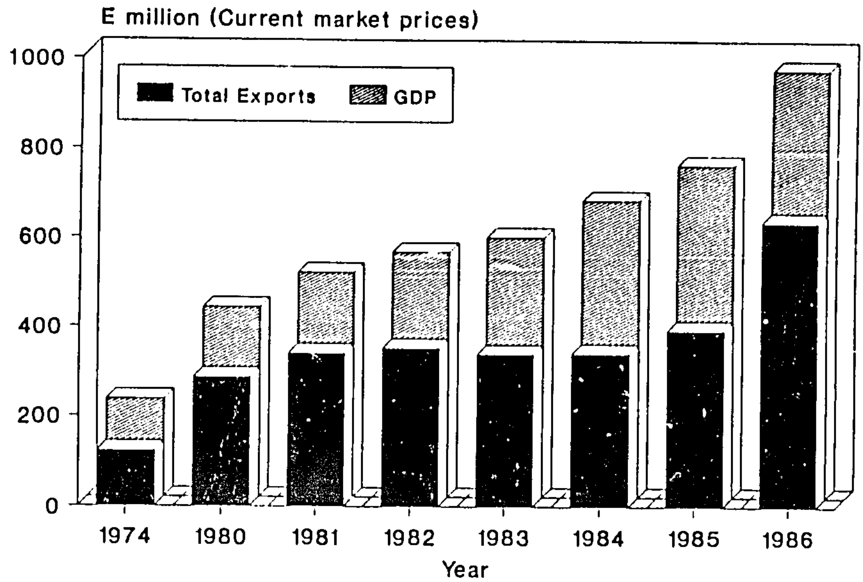
Swaziland's exports and export markets have changed significantly since independence. In terms of exported goods, minerals, which contributed over 38 percent to export value in 1968, contributed just 7 percent in 1986. Manufactured goods, which were not exported at all in 1968, represented 12 percent of export value in 1986. Since then much of the growth in manufactured exports is attributed to the Coca-Cola operations. It is understood that data for 1988 will show that soft-drink concentrate has become the major single export. Figure 9 shows the composition of exports for selected years. It is anticipated that figures for 1988 and 1989 will show that exports have continued to diversify as the industrial sector has continued to expand.

The direction of exports from Swaziland has changed dramatically since independence. South Africa now takes 37.8 percent of Swaziland's exports (compared to 16 percent in 1968) while the United Kingdom accounts for only 1.1 percent (compared to over 35 percent in 1968).

3. SACU members are Botswana, Lesotho, the Republic of South Africa, and Swaziland.

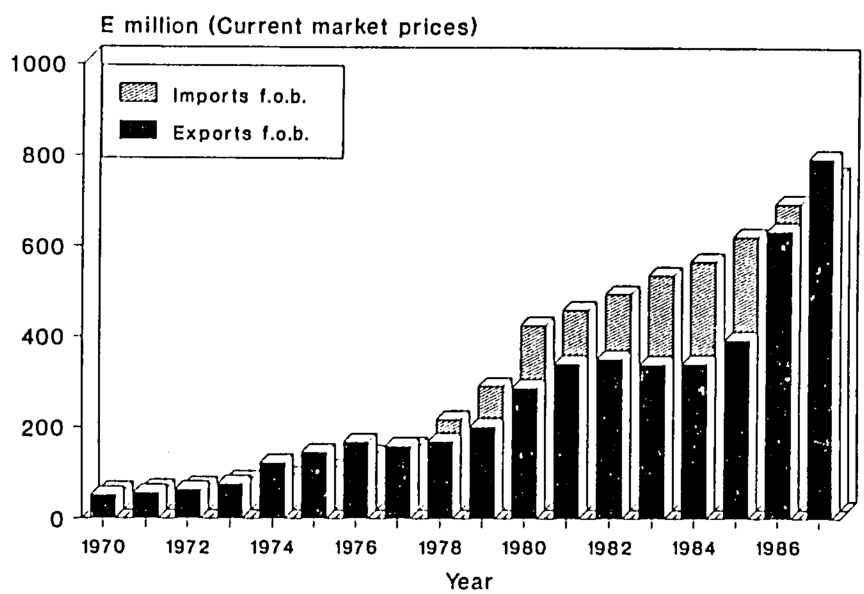
4. PTA members are Angola, Burundi, the Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

Figure 7
Swaziland's Exports as a Proportion of GDP



SOURCE: EPO: Economic Review and Outlook

Figure 8
Total Exports and Imports for Swaziland



SOURCE: EPO: Economic Review and Outlook

3. *Imports*

The major source of imports to Swaziland has always been South Africa (imports from overseas that are re-exported by South African agents are listed as South African). In 1968, South Africa provided 91.2 percent of Swaziland's imports; in 1986 the figure was 90 percent. The reasons for this dominance are apparent. It is the nearest, quickest, and least expensive source of supply. The sophisticated South African economy produces or imports most of the goods Swaziland demands. In addition, Swaziland's membership in the South African Customs Union and the Common Monetary Area means that there are no barriers to trade with South Africa.

The major commodities imported are fuels, transport equipment, and other manufactured goods (see Table 7). The January 1989 Economic Review noted, however, that import figures might not be accurate because the introduction of sales tax would lead importers to under-declare import values. In addition, commodity classification has been inconsistent.

4. *Foreign Debt*

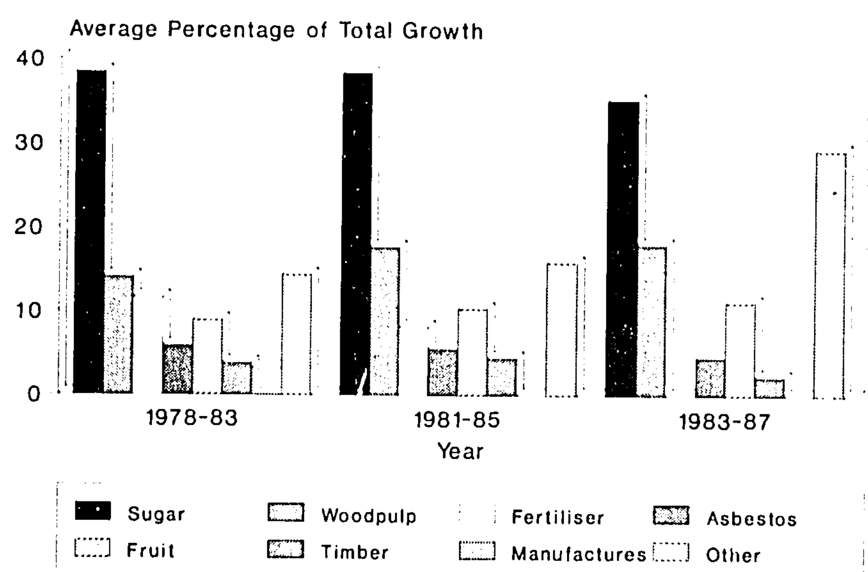
In developing its economy, Swaziland has been far more successful than many of its neighbors in keeping its financial house in order. Since the mid-1980s, the dramatic fall of the South African rand, to which Swaziland informally pegs its currency, has doubled the country's debt service ratio; however, at less than 10 percent, Swaziland's ratio, which has fallen from 8.6 percent in 1986 to 7.7 percent in 1989, is still one of the lowest on the continent.

Table 7 Growth of Imports to Swaziland (Major import averages for selected years: percent)

Commodity	*1979-83*	*1981-5*	*1983-7*
Food & animals	7.7	8.4	9.7
Mineral fuel, etc.	14.6	17.7	16.5
Chemicals etc	11.6	8.9	8.5
Machinery, transport	22.3	26.0	22.3
Manufacturers	24.0	18.8	20.4
Other	19.8	20.2	22.6
TOTAL	100.0	100.0	100.0

SOURCE: Derived from Economic Reviews

Figure 9
Growth of Exports from Swaziland (Major export averages for selected years)



Note: "Manufactures" are included in "Other" for 1981-85 and 1983-87

SOURCE: EPO: Economic Review and Outlook

2

The Role of the Private Sector

The previous chapter provided an overview of Swaziland's economy in macro terms, identifying key features and describing the various components of the economy and the private sector. This section quantifies the overall importance of the private sector to the economy.

A. Overview

This section describes, in general terms, the private sector's contribution to production and value added, employment, fiscal revenue, and investment in Swaziland.

1. Private Sector Contribution to Production and Value Added

In 1986, the last year for which sufficiently detailed data are available, the private sector contributed an estimated 57 percent of GDP. Tibiyo (through its holdings) contributed approximately 14 percent, the parastatals (state-owned enterprises) 7 percent, and government services the balance, approximately 22 percent. Major contributors to the private sector's share of GDP are agriculture (24.7 percent in 1986; 26.1 percent when forestry is included) and manufacturing (23.5 percent).

2. Private Sector Contribution to Employment

In absolute terms, private sector employment has grown over the last 20 years (from 31,569 in 1969 to 56,629 in 1987); however, it has decreased relative to total employment in the wage sector (from 76.7 percent in 1969 to 69.3 percent in 1987). This change, in part reflects the growth in employment by the government and the parastatals since indepen-dence, but it also reflects the increasing inability of the private sector to absorb the growing number of those leaving school and entering the work force.

Agriculture accounted for 31 percent of all workers in the private sector in 1986; most of these workers were employed in the sugar or forestry subsectors, and this trend has continued.

3. Private Sector Contribution to Fiscal Revenue

The private sector has contributed a steadily increasing proportion of government revenue in Swaziland (see Figure 10). In the period from 1985-86 to 1987-88, company tax revenue almost trebled in value, rising from E24.4 million to E73 million. The increase is attributed to increased foreign investment, the excellent performance of the industrial sector, the continued buoyancy of the world economy, and the fall in the value of the Lilangeni, all of which have increased earnings from exports.

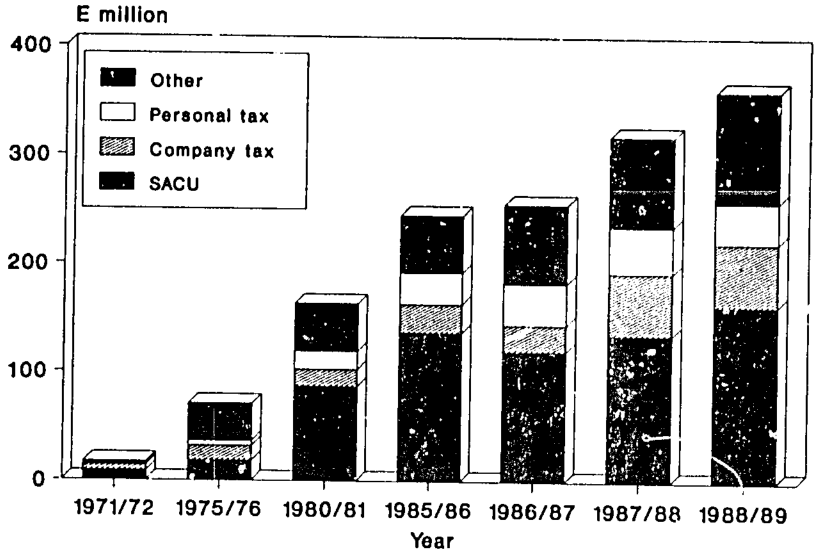
4. Private Sector Contribution to Investment

Most new investment in Swaziland comes from the private sector. Data on gross capital formation by the private and government sectors are found in Table 8. This is understood to represent the contribution to new investment. Gross fixed capital formation amounted to 23 percent of GDP in 1986.

B. Small Firms in the Private Sector

As noted in Chapter 1, there are two economies in Swaziland - modern and traditional. Each has its own production patterns. Along the same lines, data from a 1989 survey of the private sector suggest that the private sector itself can also be divided into at least two distinct sectors - large firms and smaller businesses. Each sector employs a different labor mix, operates in different markets, and faces different sets of constraints.

Figure 10
Sources of Fiscal Revenue in Swaziland



SOURCE: Central Bank Annual Reports

Table 8 Contribution of Public and Private Sector Investment (E million)

	1975	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*
Private	32.0	40.2	49.6	71.9	109.0	139.0	112.9	136.1	167.0	183.3	188.0	187.0
Public	7.6	12.4	21.6	69.9	39.0	32.2	42.6	40.1	35.7	26.1	49.5	46.9
Total	39.6	52.6	71.2	141.8	148.0	171.4	155.5	176.2	208.8	209.4	237.5	233.9
% Private	80.8	76.4	69.6	50.7	73.6	81.8	72.6	77.2	82.4	87.5	79.1	79.9

Note : There is no breakdown between public and private sector prior to 1975.

SOURCE: 1975-78 National Accounts 1975-81.
1979-86 National Accounts 1979-86.

The survey found that the small firms[5] had a number of distinct characteristics which distinguish them from larger firms:

Ownership. The majority of the small business enterprises are owned by Swazi women. In contrast, large firms tend to be owned by expatriates, and no women own large firms.

Labor Mix. Smaller firms are more likely to employ female labor. They are also more likely to employ Swazi in all skill categories than are the large firms. The fact that the number of expatriates, which fell immediately after independence, has risen slightly in recent years may be in part a result of new investment (most of which is foreign), with the new investor more likely to employ foreign manpower in high-level positions.

Experience. In general, smaller firms have less business experience than the larger companies. Approximately 75 percent of the large firms in the sample have been operating in Swaziland for more than 10 years, compared to 24 percent of the micro enterprises, 39 percent of the small enterprises, and 28 percent of the medium-scale enterprises.

Marketing and Demand. Large and medium-size firms were twice as likely to report at least some improvement in their sales volume over the

5. Small businesses are defined as those employing fewer than 25 persons. Because data collected by the Central Statistical Office are not broken down by size distribution, the most complete data that permit an analysis of the size of businesses are found in the records of the SNPF, which has a listing of all firms employing one or more Swazi and which register with the SNPF. A 1989 survey categorized businesses according to number of full-time equivalent employees. Large firms employ more than 100, medium-size firms employ 26-100, small businesses employ 1-25, and micro-enterprises have no employees, that is, they are owner-operated.

previous year than were the smaller businesses and women-owned firms.

Small businesses believe marketing constraints account for poor sales performance. These firms believe sales performance is affected by competition from local firms and difficulty in getting the product to the market (due primarily to lack of market infrastructure and transportation). These firms also believe that they lack adequate market information.

Smaller firms also were twice as likely to report low consumer demand as a cause for sluggish sales than the larger firms (perhaps because their clientele is less affluent and has fared worse over the last year than that of larger firms). In contrast, large firms were more likely to attribute poor business performance to lack of an appropriate production infrastructure (particularly premises and housing) and government regulation.

Access to Production Inputs. Small businesses were much more likely to say they experience difficulty in accessing raw materials. Part of this is a result of the problems these firms face in obtaining financing and transport. Large firms generally did not mention access to inputs as a problem.

Organizational Infrastructure. In general, small firms do not belong to business associations. Further, there is very little contact between the large and the smaller firms. These topics are discussed in Chapter 7.

C. Trends in Private Sector Development

The following trends in private sector development have been noted.

Manufacturing and commercial agriculture have been the engines of private sector growth in Swaziland over the last 20 years. The preceding sections show that most of the growth in the private sector in recent years has come from manufacturing. Conversely, mining, which provided the impetus for growth in the early post-independence period, has declined considerably in importance.

The private sector is the largest formal sector employer although its relative importance has declined slightly. 70 percent of jobs are in the private sector and job creation has averaged 3.5 percent annually since independence. Rapid growth in the labor force and increased capital intensity have, however, limited the private sector's ability to create jobs fast enough to meet rising demands for employment. Given the current capital/labor mix, this trend is not likely to be reversed.

Absorbing those seeking formal employment requires either significant sustained growth in the economy (at a rate of at least 8.3 percent per year) or a change in the ratio of capital to labor. One possibility, advocated by the Swazi government in its latest development plan, would be to foster more labor-intensive development through fiscal policies and incentives.

Most of the growth in the private sector comes from the larger, foreign-owned firms. Since the earliest post-independence days, most of the economic activity in the private sector has been in the hands of the large, foreign-owned companies. Local entrepreneurship has begun to develop and grow only recently. Because of their size and relative inexperience, small firms have a difficult time competing for labour and accessing local credit. This issue will be explored in subsequent chapters.

3

The Role of Government

This chapter describes the structure of government, government spending patterns as they relate to the economy, and government policy toward development and the private sector.

A. The Structure of Government: A Brief Overview

The dualism that characterizes the economy extends to the nation's government, in which Western concepts and the traditional tribal system operate side by side. The monarch is Head of State and governs modern-day Swaziland in consultation with a cabinet and bicameral parliament. At the same time, the King is advised by a council of elders. The Swazi National Council, made up of all adult Swazi, is convened by the King to advise on matters of national importance.

On the death of King Sobhuza II in 1982, a regency governed until the coronation of his son, King Mswati III, in April 1986. The new monarch enjoys strong national support, and his reign has seen a return to political stability following the power struggles that marked the regency period.

1. *The Executive*

Executive power is vested in the King, who, as Head of State, appoints the Prime Minister. Other ministers are also appointed by the Head of State and must be members of either chamber of the Swazi Parliament. The Head of State is consulted and informed on all matters concerning the government of Swaziland by the Prime Minister.

2. *The Legislature*

The Parliament of Swaziland consists of a Senate and a House of Assembly. The Senate comprises 20 members, of whom 10 are elected by the members of the House of Assembly and 10 are appointed by the Head of State for their special knowledge or practical experience in areas not already adequately represented in parliament. The House of Assembly consists of 50 members, 40 of whom are elected by an Electoral College and 10 of whom are appointed by the Head of State. The 80 members of the Electoral College are elected by the citizens of Swaziland.

3. *The Judiciary*

Swaziland has an independent judicial system. Except where modified by statute, Roman-Dutch law is the common law of Swaziland. In civil matters, Swazi law and custom may be followed by all courts. Two court systems exist: the Magistrates' Courts with two high courts and a Court of Appeal, which administer statutory law, and the Swazi National Courts, which administer traditional law and custom.

B. Government Budget and Expenditure

One important point stands out when looking at government spending as it relates to the economy: *Expenditure as a proportion of GDP is relatively low by the standards of the region.* The government's direct role in the economy has traditionally been limited.

Table 9 shows that government expenditures as a percentage of GDP have fallen since 1978. The International Monetary Fund (IMF) data (see Figure 11), while not strictly comparable, indicate that Swaziland government expenditure has been consistently lower than most other countries in the region.

Table 9 Total Government Budget as proportion of GDP, 1975/76 - 1985/86 (current prices) (E million)

	Budget (1)	*GDP (2)*	*(1)as % of (2)*
1975/76	72.7	253.7	28.7
1976/77	70.1	244.8	28.7
1977/78 of 1977	105.2	214.2	49.1
1978/79 " 1978	221.6	260.9	85.0
1979/80 " 1979	138.5	299.3	46.3
1980/81 " 1980	152.7	362.6	42.1
1981/82 " 1981	179.7	437.8	41.0
1982/83 " 1982	197.4	484.7	40.7
1983/84 " 1983	206.4	516.7	40.0
1984/85 " 1984	219.2	580.6	37.8
1985/86 " 1985	252.0	6[illegible]0.3	38.7

Note: GDP figures: for fiscal year 1975/76-1976/77; for calendar years 1977-1985.

SOURCE: National Accounts 1975-1981, 1980-1986

have been for development of the economy and infrastructure, including roads; agriculture and forestry; mining, manufacturing, and construction; transport and communications; and water and electricity.

b. Recurrent Expenditure

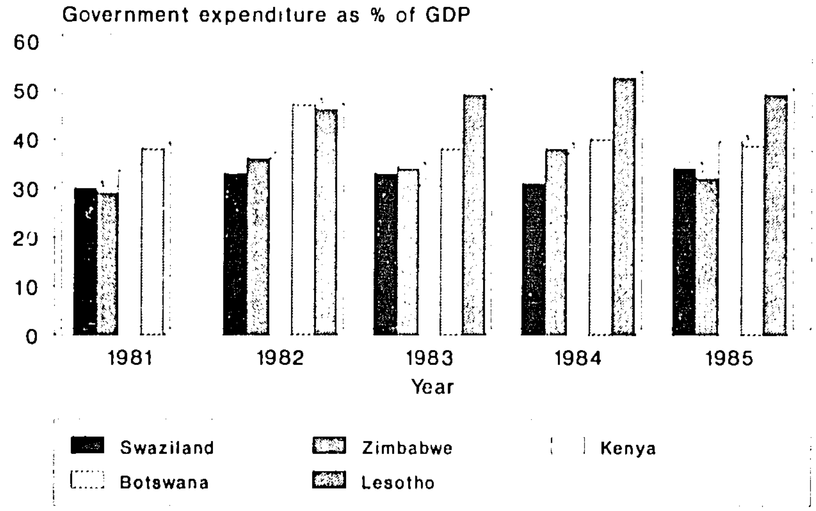
The emphasis in recurrent expenditure is on social services, especially education, which generally receives the largest share. The Fourth National Development Plan notes: "Education, preventative health hazards and basic infrastructure requirements have the first call on the national budget" (NDP IV, p.298).

2. Control of Government Spending

Reviewing Swaziland's economy some years ago, the World Bank found that the quality, quantity, and direction of government expenditure seemed generally appropriate. Expenditure had been directed toward the infrastructure and as a result did not constitute a bottleneck to development. Health and education standards were reported to have improved and the government was congratulated for not indulging in any "white elephants." The World Bank's findings remain largely true today.

There are, however, three areas of concern. One of these is that money allocated to capital projects is consistently under-utilised. Second is maintain-

Figure 11
Central Government Expenditure, 1981-1985: Comparison with Other Countries



SOURCE: IMF International Financial Statistics: June, December 1988

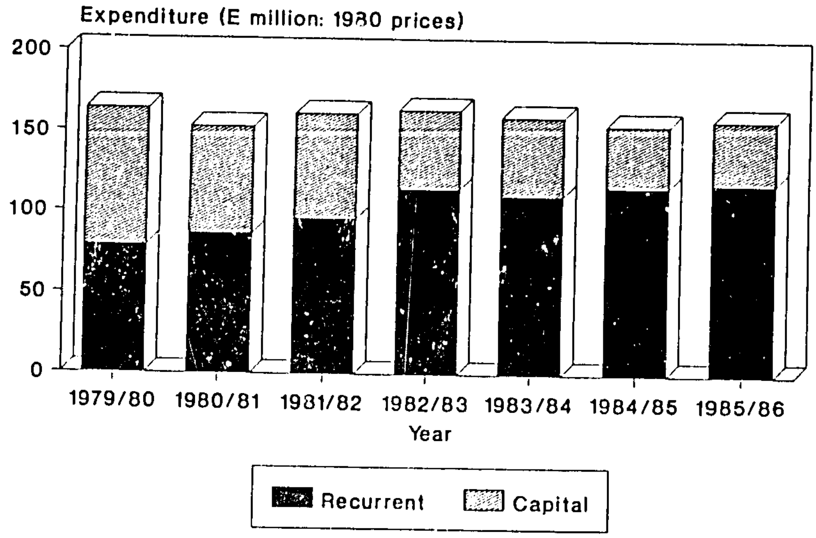
1. Sources of Expenditure

Government spending in Swaziland is divided into capital and recurrent expenditure (see Figure 12). It is controlled by the Treasury Department of the Ministry of Finance.

a. Capital Expenditure

Data on capital expenditure provide a clear picture of Swazi national priorities. The government's major capital expenditures since independence

Figure 12
Central Government Total Expenditure Pattern, 1979-1985



SOURCE: National Accounts 1975-1981, 1980-1986

ing controls on recurrent spending so that the government can increase spending on capital projects. Finally, it is important to control spending by parastatals (state-owned enterprises). The performance of the parastatals in the economy is discussed in the following chapter.

C. Government Policy

The government sees one of its roles as that of promoting development. To this end it has adopted a policy of providing an environment in which the private sector can operate.

1. *The National Development Plans*

Development goals for the country are set out in the National Development Plans. Up to 1987/88 these were five-year plans, but the government has with effect from 1989/90 introduced a system of three-year rolling plans which include details on planned spending. These plans are indicative rather than mandatory.

The Fourth National Development Plan, which covered the period 1983-84 to 1987-88, outlines a broad strategy for achieving Swaziland's development goals. At the macroeconomic level this strategy emphasizes the following:

- Greater efficiency and control over the use of public funds
- Stimulation of private investment
- Creation of jobs through vocational training programs and establishment of productive agricultural employment opportunities in the rural areas.

The strategy will remain the same for at least the next few years.

2. *The Development Agencies*

The government of Swaziland meets many of the development goals highlighted above through a variety of national development agencies, of which the Swaziland Industrial Development Company Limited (SIDC) is the most important. In addition, two institutions unique to Swaziland, Tibiyo Taka Ngwane and Tisuka Taka Ngwane, which were established to meet the needs of the traditional groups in the modern western economy, assist in economic and social development by investing in projects deemed to be of benefit to the nation.

a. *Swaziland Industrial Development Company Limited (SIDC).*

SIDC was established by the government and private investors to mobilize domestic and external resources to finance private sector development projects. It was incorporated on 24 June 1986, although operations did not effectively begin until 1 October 1987.

SIDC[6] invests in a project by providing equity, loans, industrial property, or a mixture of the three. By the end of June 1988, it had investments of E37.7 million, of which 55 percent were in property (E20.6 million), 33 percent were in equity (E12.3 million), and 13 percent were in loans (E4.8 million). All of the SIDC loans are performing reasonably well.

Although the first report has yet to be published it is apparent that the SIDC's operations have been very successful in the early years. In its first year the Board approved 13 projects representing a total investment of E104 million. The total investment is now over E220 million spread over 22 projects.

SIDC equity investments at its inception are listed in Table 10. Long-term investment loans are found in Table 11 and the allocation of the SIDC investment portfolio is shown in Figure 13. As these exhibits show, the focus of SIDC investment is principally in the textile, metal manufacturing, woodwork, agro-industry, and service sectors.

---

6. The government owns approximately 40 percent of SIDC. The other investors are the Commonwealth Development Corporation (CDC), the German Finance Company for Investments in Developing Companies (DEG), the International Finance Corporation (IFC), the Netherlands Development Finance Company (FMO), Barclays Bank (Swaziland), and Standard Chartered (Swaziland).

SIDC gives priority to projects that will:

- Provide permanent employment
- Generate foreign exchange
- Utilize local resources
- Encourage linkages with existing industries
- Upgrade human resource skills
- Transfer appropriate technology.

Its overall financial involvement in a project will not exceed 50 percent of the project's financial requirements. Its maximum participation is currently E3 million, while the smallest involvement is not usually below E100,000. Although it may take an equity position in a project, SIDC will not participate in the project's management.

In addition to equity financing, SIDC offers medium- and long-term loans with terms of up to 10 years and denominated in local or foreign currency to fund the acquisition of fixed assets. These loans are available to locally incorporated companies only.

SIDC also offers advice and information to potential investors; thus it has an important role as a facilitator of investment.

b. Tibiyo Taka Ngwane

Tibiyo Taka Ngwane, which means "the core of the nation," was established by Royal Decree in 1968.

Table 10 SIDC Equity Investments (E'000)

Name of investee company	*Cost of equity*	*Percent sharehldg*
Mbabane Development Corporation	1,314.0	50.0%
Metro Swaziland	755.0	50.0%
Swaki Limited	6,627.0	50.0%
Swazi Plaza Properties	527.0	50.0%
Swaziland National Lottery	-	50.0%
The Cement Organisation	538.0	50.0%
Swaziland United Bakeries	1 530.0	40.0%
Swaziland Food Distribution	-	33.3%
Bowring and Minet	89.0	25.0%
Simunye Plaza	67.0	25.0%
Construction Associates	58.0	20.0%
Grinaker (Swaziland)	14.0	20.0%
LTA Construction	-	20.0%
Siemens	16.0	20.0%
Swaziland Stone Cutters	-	20.0%
Tek Swaziland	-	20.0%
Macmillan Publishing	36.0	15.0%
Sizeze Pipes	10.0	15.0%
Natex Swaziland	364.0	10.6%
Neopac	343.0	10.0%
	12,297.0	

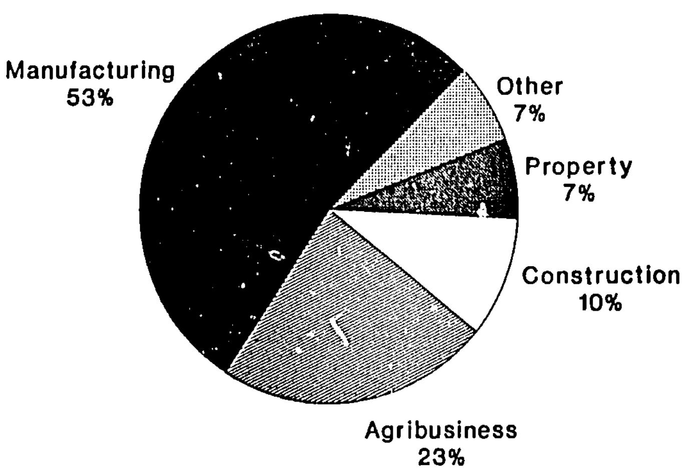
SOURCE: SIDC valuation

Table 11 SIDC Long-term Investment Loans (E'000)

Name of investee company	*Capital outstanding 30-06-88*	*Applicable interest rate*
Mbabane Development Corp	360.0	1% above standard prime
Metro Swaziland	224.2	10.0%
Natex Swaziland	1843.6	13.5%
Ngwane Brewery	110.4	11.5%
Rosecraft	5.0	11.5%
Rosecraft	179.8	14.75%
Royal Sugar Corporation	291.7	11.5%
Simunye Plaza	-	8.0%
Swaki Investments	975.0	14.5%
Swazi Plaza Properties	110.0	1% above standard prime
Swazi Safe	96.5	15.0%
Swazi Trode	299.5	15.0%
Swazi Timber Products	156.5	15.0%
Swazi Knits	25.9	14.5%
Swaziland United Bakeries	136.3	13.0%
	4814.5	

SOURCE: SIDC

Figure 13
SIDC Investments



SOURCE: SIDC

According to the late King Sobhuza II, Tibiyo was created to promote harmonious race relations as well as to promote the economic and social development of the nation while preserving Swazi customs and traditional institutions.

Tibiyo is accountable to the King, who appoints a chairman and a committee of seven members to guide the organization. Day-to-day operations are the responsibility of a managing director and a permanent staff headed by a general manager.

Tibiyo's stated policy is to actively promote the establishment of productive commercial projects in mining, agriculture, agro-industry, other industry, and services that contribute to the economic prosperity of Swaziland. It has five primary objectives:

- Increase formal sector employment
- Create income in the hands of citizens
- Foster economic independence and self sufficiency
- Earn or save valuable foreign exchange
- Develop the rural communities.

At first, Tibiyo received mineral royalties and used these for its investments. In 1975, however, revenues from its existing investments were large enough to sustain Tibiyo, and another institution, Tisuka Taka Ngwane, was established to invest revenue from mineral royalties. Tibiyo initially invested in the mining and industrial sectors through a formula whereby future dividends on mining leases or land rights were used to acquire the shares.

Over the years, Tibiyo has been involved in between 30 and 40 investments at any given time. These investments include most of the major British and South African corporations in the country. By 1981, accumulated funds had grown to E46,017,573 from E3,984,836 in 1974 (Stephen, p.203).

Tibiyo makes new investments in one of two ways. A project may be initiated by Tibiyo, which "identifies, researches and formulates proposals for commercially viable projects in the sectors mentioned and invites - where desirable - suitable, experienced local and foreign partners to form with it joint-ventures" (Tibiyo brochure, undated). Alternatively, Tibiyo may be approached by investors. It welcomes such proposals, provided they are in line with its objectives and are viable.

Tibiyo has no firm rules about distribution of equity. It generally prefers a minority interest, which enables it to invest in a larger number of projects. Tibiyo's investments are listed by sector in Table 12. The table shows that a number of these projects are not joint ventures, but are instead 100 percent owned by Tibiyo. The major Tibiyo investments are valued at E54.7 million.

The relationship between Tibiyo and the Government of Swaziland and between Tibiyo and other development institutions in the country has not always been clear. As one observer explains it:

> "To some it would appear that there is a degree of rivalry and duplication between the activities of Tibiyo and SIDC, but in fact this is not so. Tibiyo's primary responsibility is to maximize the (private) returns on investment for the King; the interests of SIDC relate to the country as a whole, i.e., maximizing social returns. In essence, Tibiyo is not a development corporation." (de Vletter in Whiteside, 1989, p.157)

Tension between Tibiyo and government officials has not been unknown in this regard:

> "Tibiyo's revenue and assets do not accrue to the Swazi Ministry of Finance, but are controlled by the traditional rulers organized through the monarchy. ... [It] has persistently resisted attempts to make it in any way accountable to parliament or to the Cabinet ... [but] has not hesitated to demand substantial funds from the public account to mount and sustain its operations. ... This has led to some conflict with officials in the Swazi government, particularly the Finance Ministry." (Davies, et al, 1985, pp.19-20)

Tibiyo's strength is undoubtedly its ability to avoid lengthy procedures and to facilitate investment and development. Its weakness is a lack of accountability, which means that it has become and remains involved in unprofitable projects.

c. *Tisuka Taka Ngwane*

Tisuka Taka Ngwane, which means "pillars of the Swazi Nation," was established to receive the mineral revenues that had previously gone to Tibiyo. Its objectives are to promote health, welfare, and housing in Swaziland; maintain and administer the traditional institutions; and fulfill any other purpose set by the King in the interests of the nation. It is administered by a committee appointed by the King. Tisuka has concentrated on investment in property, mainly in or near urban areas. It has provided incentives for housing for low-, middle-, and high-income groups as well as commercial buildings. It is also reported as having other investments, including some in agriculture, and as being prepared to consider joint ventures.

D. Government Policy and the Private Sector

The government's policy since independence has been one of encouraging a strong private sector as well as foreign investment. The role of the state in the economy has been restricted mainly to providing the necessary physical and social infrastructure to support development, both in the modern private sector and the traditional rural sector. The government also provides the usual range of public utilities, goods transportation, education, social services, etc.

The government's role as it relates to the private sector can be divided into active intervention, that is, actions which are actually designed to encourage or discourage the private sector, and passive intervention in shaping the business environment,

Table 12 Tibiyo Investments

Sector/Company	*Holding %*	*Activity*
Agriculture/Agri-business		
Ubombo Ranches Ltd	40	Sugar
Sivunga Estate	100	
Mhlume (SWD) Sugar Co Ltd*	50	Sugar growing & milling
Sihoye Estate	100	Sugar
Royal Swaziland Sugar Corporation Ltd*	32	Sugar growing and 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 Company (Pty) Ltd	80	Milling
Tibiyo Granaries	100	Grain storage
Swaziland Meat Industries*	40	Slaughter & processing of meat
Mining		
Havelock Asbestos Mine (Swd) Ltd	40	Mining of asbestos
Manufacturing		
Swaziland Breweries Ltd	40	Production & bottling of beer
Langa National Brickworks	40	Manufacture of clay bricks
Jubilee Printing & Publishing Co (Pty) Ltd	100	Commercial printing
Swazi Observer (Pty) Ltd	100	Production & distribution of newspaper
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 Corporation Limited	50	Air travel
Banking, Insurance, etc.		
Bank of Credit & Commerce International (Swd)(Pty) Ltd	45	Commercial banking
Tibiyo Insurance Brokers (Pty) Ltd	53	Insurance

Notes: * indicates involved in more than one sector.
SOURCE: Tibiyo brochure, undated.

an intangible but essential measure of business confidence which is crucial for new investors.

1. Active Intervention

Active intervention can take several forms: incentive packages, investment facilities and promotion, business registration, taxation, exchange controls, and wage and price policies. Each of these are discussed below.

Incentive Packages. Swaziland provides a series of incentives designed to attract industry, including a tax holiday, generous depreciation and training allowances, carry forward of losses, and local preference on tenders. Swaziland has not tried to compete with other countries in the region through incentive packages, preferring to rely on its favorable business climate to attract investors. In fact, various surveys around the region have found incentives are not the major factor influencing firms to locate to a particular area (see Whiteside, 1989).

Investment Facilities and Promotion. As discussed in the preceding sections, SIDC, Tibiyo, and Tisuka facilitate investment capital and expedite investment in Swaziland. In addition, the Trade Promotion Unit of the Ministry of Commerce, Industry and Tourism promotes exports by functioning as a catalyst to motivate exporters. Its principal functions are to:

- Identify and develop products and markets
- Operate a trade information service
- Provide specialized support services to exporters and associated institutions
- Undertake foreign promotions and publicity.

Business Registration. The government controls the establishment of business, but the process can be accomplished quickly and easily, and the controls are not a hindrance.

Taxation Policies. Taxation is also directly controlled by the government. The 37.5 percent corporate tax rate is not viewed as excessive by the business community. Personal income tax is marginally higher than in South Africa, but the government has recently taken steps to reduce it.

Exchange Controls. The Central Bank administers exchange controls through the commercial banks designated as authorized dealers, and these banks handle most transactions. In general, foreign exchange is not a problem in Swaziland, and the link to South Africa through the Common Monetary Area ensures a free flow of funds. Dividends and profits are easily repatriated.

Wage and Price Policies. Wages and prices are often set in developing countries. However, in Swaziland the prices of only a few staples are set by the government, and this has little impact on the economy. Wages are set in terms of minimum-wage legislation, but the rates are regarded as low by regional standards; in fact, a 1989 employment survey found that most companies in the Matsapha Industrial Area were paying above the minimum. Labor legislation and labor relations fall under the Ministry of Labour and Public Service. In general, the labor force is disciplined and productive.

2. *Passive Intervention: Creating a Favorable Business Climate*

Swaziland's stated development policy - an open economy which encourages a free-market system and in which there is little direct interference by government - makes it an attractive location for private investors. The country's success in attracting new investment would seem to support this: Swaziland has been the most successful country in the southern Africa region in attracting new investment since the early 1980s, and a recent report prepared by Frost and Sullivan ranked Swaziland well above all countries in the Southern Africa region in terms of its investment climate.

Swaziland's best investment promoters are the executives of international firms that have invested in the nation. In a recent survey these business people cited the supportive free market attitude of the government; a highly regarded, stable labor force; political and social stability; and other factors such as location and preferential access to world markets as the main reasons for wanting to establish a business operation in Swaziland.

The current unrest in South Africa has provided Swaziland with a unique opportunity to expand its industrial base by attracting new industries and experienced industrialists. The government has for the most part created the type of environment attractive to companies relocating from South Africa because of the social and political upheaval there and the external pressures to disinvest. But this situation will not last forever; once there has been an acceptable settlement of the situation in South Africa, industrialists may very well decide to return to its larger markets and more developed service infrastructure. Thus the challenge for Swaziland in the future, is to aggressively attract new investors and to maintain the investment climate and the investors it already has.

Recent developments with regard to land tenure policy have demonstrated to the government how easy it is to adversely affect the investment climate in the country and how important it is to influence investor perceptions if growth is to continue.
(See Chapter 1, B for more details on land tenure.)

4

Parastatals

Parastatals, or state-owned enterprises, are generally established to undertake functions the private sector cannot or will not perform, or to provide the government with a measure of control over the economy. Most of the 24 parastatals in Swaziland (see Table 13) have been operating for over 10 years (many were operating before independence in 1968), and the parastatal share of GDP is estimated to be 7 percent. Parastatals are not major employers in Swaziland; only 5,000 people, or less than 10 percent of the total wage labor force, are employed by the parastatals.

Although accurate figures are difficult to find, Swazi government spending on parastatals has been increasing, mostly to cover losses. Such spending competes with other development needs.

A. Parastatal Performance

Funding for parastatals consumes an average of 25 percent of the government's capital expenditures. Flows of funds are shown in Table 14. Three parastatals - the electricity board, the national airline, and the national rail-road - account for 60 percent of that expenditure (see Table 15). The majority of parastatals have posted losses; three parastatals have accumulated substantial losses every year (see Figure 14)[7]. The most important factors affecting the performance of the major parastatals are discussed below.

Poor Quality Standards. An example of this is the difficulty faced by the Swaziland Dairy Board, which has seen a steady decline in the demand for pasteurized milk and emasi, largely attributed to the poor quality of these products.

Poor Management of Loan Portfolios. The difficulties faced by the Central Cooperative Union (CCU) are largely the result of poor supervision and management of the cooperatives it serviced in the past. The CCU served as intermediary between the Swaziland Development and Savings Bank (SDSB) and primary cooperatives. Since these cooperatives operate at a loss (due in part to poor management practices), they have defaulted on most CCU loans. Along the same lines, the SDSB has also been accused of poor portfolio management; an estimated 29 percent of its portfolio is said to be non-performing.

Poor Management Practices and Decisions. The losses posted by the national airline may in part be due to poor choice of equipment and a decision to concentrate resources on the presumably more glamorous passenger services and less on the potentially more profitable air cargo services. In the cases of some parastatals, the tariff structure may inadequately reflect the cost of the services provided. The deteriorating financial condition of the Water and Sewerage Board has been attributed to the government's reluctance to authorize tariff increases. The Small Enterprise Development Corporation (SEDCO) has run into financial difficulties because its low rents have made it difficult to cover expenses, and low rents in part discourage repayment.

Uncovered Foreign Exchange Risks. This has been said to be the cause of recent poor performance by the Swaziland Electricity Board (SEB), which recorded consistent profits from its inception in 1963 until 1986. The SEB took a large foreign loan to finance the Luphohlo-Ezulwini hydroelectric plant, and since 1986 its profits have been adversely affected by the deterioration of the Lilangeni. Tariffs on electricity generated at the plant are inadequate to cover these newly inflated loans.

7. The flow of funds from the government to non-financial parastatals is not the only measure of the transfer of resources between them because (1) much new lending entered into by parastatals is guaranteed by the government, (2) accumulated losses in a number of parastatals are being funded by non-payment of interest and principal for government loans, and (3) debt incurred between public enterprises is unlikely to be recovered and can be written off only if the government injects additional funds.

Table 13 Overview of Parastatals in Swaziland

Name	*Activity*
Agriculture	
Swaziland Dairy Board (SDB)	Producer and distributor of dairy products; runs two dairy farms, produces livestock feed; imports and distributes yogurt and ice cream.
Swaziland Cotton Board (SCB)	Trades in raw cotton; collects levy on cotton.
Central Cooperative Union (CCU)	Umbrella organization for 79 primary cooperatives; major supplier of agricultural inputs and credit to cooperatives; operates own education training department.; arranges audits and supervision for members.
National Maize Corporation (NMC)	Coordinates processing of milled maize.
National Agricultural Marketing Board (NAMB)	Buys local produce and markets it for farmer through network of wholesale and collection depots; issues permits to importers of maize and other feed
Transport	
Swaziland Railway (SR)	Runs all rail transport
Royal Swazi National Airways Corporation (RSNAC)	Passenger air transport services; some cargo.
Central Transport Administration (CTA)	Operates within Ministry of Works and Communications; operates government transport.
Industry and Commerce	
National Industrial Development Corporation of Swaziland (NIDCS)	Assets transferred to SIDC
Small Enterprises Development Company (SEDCO)	Operates 7 industrial estates serving as "nurseries" for Swazi enterprises.
Commercial Board (CB)	Regulates wholesale and retail trade; grants trading licences
Piggs Peak Hotel (PPH)	Tourist services
Swaziland Tourism Development Company (STDC)	Promotes Swaziland as tourist destination
Swaziland Trade Fair Company (STFC)	Organizes trade fairs
Communications	
Posts and Telecommunications Corporation (P&T)	Operates all post and telecommunication services
Infrastructure	
Swaziland Electricity Board (SEB)	Built and operates 2 hydroelectric plants providing electricity to Swaziland
National Housing Board (NHB)	Implements government housing programs; develops housing on self-financing basis; site-and-service development.
Water and Sewerage Board (WSB)	Operates water and sanitation facilities in designated urban areas.
Services and Others	
Swaziland Television Authority (TVA)	Operates national broadcasting service and is only organization licensed to rent TV sets.
Swaziland Development and Savings Bank (SDSB)	Provides rural credit, credit for rural cooperatives; re-entered home-loan market.
Swaziland National Provident Fund (NPF)	Wage insurance/social security scheme for wage earners who are no longer able to work.
Swaziland Royal Insurance Corporation (SRIC)	Monopoly over insurance.
University of Swaziland (UNISWA)	Higher education.
Swaziland National Trust Commission (SNTC)	Responsible for conservation of natural environment

Table 14 Flow of Funds from Government to Non-financial Public Enterprises (E million)

	1985	1986	1987*	1988**	1989**
Total GOS funds to non-financial public enterprises (1)	19.6	17.2	20.5	27.7	13.2
Total GOS revenue & grants (2)	221.5	243.9	255.1	337.3	359.7
Total GOS capital expenditure (3)	53.8	87.3	73.3	64.8	95.0
(1) as a percentage of (2)	9	7	8	8	4
(1) as a percentage of (3)	36	20	28	43	14

Note: Year ending 31 March * Preliminary ** Budget

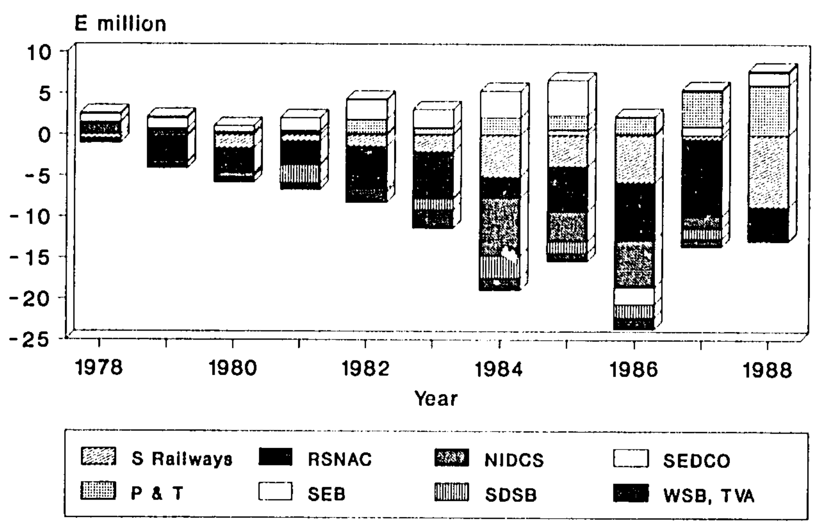
SOURCE: Ministry of Finance

Table 15 Composition of Flow of Funds from Government to Non-financial Public Enterprises (Percentage of Total Flow)

	1985	1986	1987	1988	1989
Swaziland Electricity	-	29	18	13	15
Royal Swazi Airways	18	27	20	28	55
Swaziland Railways	39	3	28	10	3
NIDCS	27	7	6	-	-
SEDCO	2	3	2	1	3
Water & Sewerage Board	9	16	3	5	5
Television Authority	-	-	5	4	19
SIDC	-	-	-	13	-
Piggs Peak Hotel	-	-	7	13	-
National Maize Corp.	-	-	11	-	-
SDSB	-	-	-	7	-
Others	5	15	-	6	-
TOTAL	100	100	100	100	100

SOURCE: A Description of the Private Sector in Swaziland, 1989

Figure 14
Parastatal Performance: Annual Net Profit/Loss - Major Public Enterprises



SOURCE: Financial statements of various parastatals

Part II

Opportunities and Constraints to Private Sector Development and Growth

5

The Environment for Doing Business in Swaziland

This chapter discusses the primary reasons for doing business in Swaziland, as well as some potential bottlenecks that could adversely affect private sector development.

A. Why Conduct Business in Swaziland?

The business climate, an intangible but nevertheless central factor in the process of decision making in all companies, has generally been perceived as very favorable by entrepreneurs operating in Swaziland. Data from the various studies and sources cited in Part 1 of this document suggest that a number of key policies foster and facilitate private sector growth and expansion in Swaziland. The results of these policies are summarized below.

Access to Varied and Well-Developed Sources of Investment Capital. Swaziland is a member (with Lesotho and South Africa) of the Common Monetary Area (CMA). This allows the free flow of money across borders. Thus Swazi business people and investors have access to the well-developed money and capital markets in South Africa. Furthermore, South Africa has a two tier currency, with a commercial rand with which dividends and profits can be repatriated and a discounted financial rand with which money for certain investments can be brought in. This only applies to investors from outside the CMA. The Central Bank controls the use of the financial rand for investment in Swaziland.

Swaziland has developed its own active financial sector. The larger commercial banks are complemented by a number of other financial institutions, some of which (for example, the Swaziland National Provident Fund) are relatively unexploited but potentially rich sources of capital. Institutions such as the Swaziland Industrial Development Company and Tibiyo Taka Ngwane are available as sources of equity capital as well as expediters and facilitators for the foreign investor. International financial institutions are also a potential source of capital.

Few Procedures Imposed by the Government. In contrast with so many other African countries, paperwork and transaction costs for the willing investor are kept to a minimum. Repatriation of capital profits and dividends, another major source of headaches for many foreign firms operating in other countries in the region, is not a problem in Swaziland. Furthermore, corruption is minimal.

Stability. In addition to political and social stability, Swaziland offers a stable and coherent set of economic policies that make business planning easier and reduce the risks of doing business in the country. This stability encourages entrepreneurs to take a long-term view of their investments and thus encourages activities, such as in-house training programs and infrastructure improvements, that may be socially beneficial but require longer gestation periods.

Access to a Well-Developed Network of Services and Markets. Conducting business in Swaziland is made easier because of the country's ready access to a wide variety of services from South Africa. Thus running a business in Swaziland is less expensive than it might be in other countries. In addition to the large South African market, part of a common customs union, the entrepreneur locating in Swaziland has preferential access to the European and African markets not available to firms operating out of South Africa.

Access to a Well-Disciplined and Inexpensive Labor Force. Wages are reasonable in Swaziland. The labor pool is functionally literate and numerate, and most Swazi can speak some English. Labor relations have been relatively stable but unions are becoming more active. Employers and government have not yet indicated how they will respond.

B. Bottlenecks in Private Sector Development

Despite the many positive aspects of doing business in Swaziland, a number of serious or potentially serious problem areas can inhibit the growth of the private sector and thus the development of the country. These are summarized below.

Land Tenure and Land Use Issues. Swaziland faces three basic challenges with regard to land:

- Convince the business community that its land holdings are secure, despite the September 1988 Royal Decree
- Develop Swazi Nation Land to its full potential
- Ensure that Title Deed Land is used efficiently.

Since it appears that the Royal Decree on property transactions (see Chapter 1, section B in Part I) will not be revoked in the near future, it is hoped with the passage of time and the realization that it is not going to be used indiscriminately, if at all, the decree will no longer be a matter of concern.

Developing Swazi Nation Land to its full potential is critical because so much of the population lives on this land and depends on it for income and sustenance. Moreover, given the country's high rate of population growth, (3.3 percent), Swazi Nation Land must support a rapidly increasing number of people. Swazi Nation Land has consistently lagged behind Title Deed Land in productivity and output. Making Swazi Nation Land more productive depends on improving both incentives (prices for producers) and access to critical inputs.

Improving prices for producers could be accomplished by either altering the government's agricultural pricing policies or altering current Swazi Nation Land marketing channels. Prices paid to producers of many of the products grown on Swazi Nation Land are controlled by marketing boards, all of which are parastatals. Many Swazi produce farmers are unhappy with the performance of the National Agricultural Marketing Board, which was established to encourage indigenous producers. Farmers do not receive payment for their produce for up to 30 days after delivery. Enlisting the private sector to assume the functions of many of the Marketing Boards is under active consideration.

Access to inputs is currently restricted primarily because Swazi farmers do not have access to credit to use in financing their purchases. Because Swazi Nation Land is communal, it cannot be used as collateral. Banks will accept cattle as collateral, but there are two drawbacks to this system. First, the loans banks will provide are too small and short-term in nature to be useful for farmers who wish to invest in commercial production activities. Second, Swazi Nation Land is already over-stocked, has low offtake rates and is becoming increasingly degraded. This is hardly surprising since the returns to cattle are higher than the returns to capital invested in the banking system. The ability to use cattle as collateral encourages farmers to expand their stocks in direct contradiction to the Ministry of Agriculture's aim of reducing cattle stocks.

The third challenge with regard to land is to ensure the efficiency of Title Deed Land. Between 1971 and 1986 the proportion of Title Deed Land used for farming fell from 40 percent to 29 percent. Thus there appears to be increasing non-use of parts of Title Deed Land farms. Farmers who choose to leave portions of their farms idle are not currently penalized and as such may prefer to simply hold the land as a way of avoiding taxes and speculating on its price. One way of increasing land use may be to impose a tax or a levy on under-utilized land.

Lack of Access to Credit for Small-Scale Enterprises. While Swaziland enjoys a well-developed financial sector and numerous sources of capital, the 1989 survey of the private sector found that few of the smaller firms have access to these resources. According to the survey, none but the largest firms used formal sources of financing with any degree of regularity. Small businesses have difficulty in obtaining credit primarily because they have difficulty in meeting requirements for collateral. Moreover, smaller entrepreneurs believe that the formal banking institutions have neither the time nor the interest in dealing with newer and smaller firms. In fact, survey results suggest that because of this perception, few of the smaller entrepreneurs even bother to apply for formal bank loans. Some reasonably effective credit schemes (such as the Business Management Extension Program and the Asikhutulisane Credit Society) are aimed at the smaller firms already operating in Swaziland, but these schemes are themselves small and reach relatively few entrepreneurs.

Tax Policies. Results from the 1989 survey suggest that many in the business community would like to see a number of aspects of the present tax policies and incentives in Swaziland changed. The current five-year tax holiday is not generally seen as much of a benefit to the investor, as the first five years of operation are often not profitable and the tax benefit cannot be carried forward. Firms would also like to see an improved set of tax incentives to encourage employee training. Export incentives as currently structured are also not seen as being of much use.

Inefficient Bureaucracy and Inadequate Level of Public Services. The rapid expansion of the economy and the resultant increase in urbanization has increased the pressure on the physical infrastructure, including housing and roads. There is a tremendous backlog in urban housing; there is an acute need to upgrade the Ngwenya-Manzini trunk road; the Ezulwini Valley needs improved water and sewer facilities; and the supply of electricity also needs to be improved. The slow implementation of needed capital projects, due to lack of trained government staff and shortages of funds, has delayed much needed action in this regard. Results from the survey reflect this growing strain on existing services. Over 50 percent of the larger firms interviewed believe that the poor quality of basic government services (electricity, water, housing, etc.) has hindered the performance of their business.

The inefficiency of the government is also cited for the length of time required to obtain residence and work permits. Government promises to speed the process of issuing residence permits and to issue five-year permits have yet to be fulfilled, and tensions between government and private business in this regard are likely to continue. Registration procedures are frequently time-consuming and are poorly coordinated among relevant ministries.

Shortages of Skilled Manpower. While there is a surplus of unskilled labor in Swaziland, results from a survey of employment suggest acute shortages of some types of skilled labor. Such shortages mean that many firms must recruit their supervisory and technical personnel outside of Swaziland, and this increases costs. Those responding to the survey complained that the education system is not providing sufficient graduates with skills relevant to the private sector. Perceptions of how education could be improved varied by the size of the firm. Smaller entrepreneurs were most interested in upgrading accounting and financial management skills, while larger firms were concerned with management and supervisory skills.

6

Areas with Potential for Private Sector Growth

If Swaziland is successful in overcoming the bottlenecks to development highlighted in Chapter 5, where can one expect to see growth in the future? This section outlines the areas which seem to hold the greatest potential for growth.

A. Agriculture and Agro-Industry

Given Swaziland's rich agricultural resources and fairly well-developed industrial base, many of the opportunities noted below fall under the area of agro-industry and agro-processing. The agro-industrial sector has been a major contributor to production, employment, and exports since independence, and the various National Development Plans have made it clear that agriculture is the backbone of Swaziland's development policy.

In the 1989 survey of the private sector, almost 30 percent of the respondents said that agriculture, either for domestic consumption or for export, offers the highest potential returns for the investor. Interviewees suggested that prospects for agriculture would be even greater if land usage were rationalized and funding for agriculture research increased. Below is a brief overview of some of the types of agri-business opportunities available in Swaziland.

1. Forestry and Forestry Products

The climate and terrain of Swaziland make the country ideal for forestry, and timber and pulpwood tree varieties are grown. Trees for pulp can be harvested after 16 years in Swaziland as opposed to 40 years in Europe. Timber plantations cover between 6 and 7 percent of the country, and the Usutu forest is among the largest forest plantations in the world. Sizeable forests also are found in the Nhlangano and Piggs Peak areas. Forestry is labor-intensive and thus a major employer, and it is a major source of raw materials for the agro-industrial sector.

As forest products are generally processed before export, forestry has become the second most important agro-industry in Swaziland. Products include sawn raw timber, wood pulp, and wood products manufactured primarily at three sawmills and a pulpmill. Various other enterprises make use of the cut timber produced by the sawmills.

Wood products are mainly exported as raw timber, but increasing quantities are being used within the country to produce a range of finished wood products. Pine products are exported to Europe, and high-quality furniture is produced and sold locally. A chipboard factory recently established at Nhlangano produces for export and is a good example of this vertical integration.

The pulp mill is located at Bhunya, in the largest forest, and produces about 180,000 metric tons of unbleached pulp per year, exported mainly to East Asia and Europe. An estimated 80 percent of the pulp is sold through Usutu's marketing arm in Hong Kong. Export earnings stood at E125 million in 1988 and are expected to rise. The raw pulp is not used locally, but potential exists for a paper milling enterprise to be linked to the mill. It is understood that a factory at Matsapha has recently been converted to produce kraft paper and paper tissue. Because the demand for pulp is expected to remain strong, this subsector of the economy is likely to remain an important contributor to income, foreign exchange, and employment.

2. Fresh Fruit

Pineapples are grown almost exclusively in the Malkerns area of the Middleveld. The average revenue earned by pineapples has increased more than that of any other agricultural produce, rising from a low of E427 per hectare in 1971-72 to E2,969 per hectare in 1986-87. Despite these economic incentives, the land area devoted to pineapple cultivation has remained virtually static, largely because of a shortage of Title Deed Land for crops in the Middleveld. This problem was compounded by an outbreak of disease, which depressed production in 1987. However, replacements for pineapple plants damaged by pests and disease are now coming to fruit, and the 1989 crop is expected to be 20 percent higher than the 1988 crop.

The export value of citrus has continued to increase steadily, from E7.6 million in 1980 (current prices) to E36.2 million in 1986. No consistent information on the average yield per hectare of citrus orchards can be found, but the steady increase in market prices has maintained the value of citrus export sales.

Bananas are also being studied as a potential export crop.

3. *Fruit Canning*

The fruit canning industry currently comprises one factory, located at Malkerns, where pineapple and some citrus fruit are canned. This industry has potential for expansion, but this depends on increasing fruit production. Farmers on Swazi Nation Land could supplement the supply from Title Deed Land farms.

4. *Herbs and Horticultural Crops*

The four distinct ecological zones provide an opportunity to grow herbs and horticultural crops throughout the calendar year, thus providing an opportunity to access the lucrative winter markets for fresh produce in Europe. The highly productive soil and climate in the Malkerns Valley, for example, are ideal for a broad spectrum of herbs, spices and vegetables. A modern dehydration facility in this area could supply the unsatisfied demand in the international market for dehydrated vegetables and condiments for packaged soups.

5. *Cotton*

Cotton is grown on the larger Title Deed Land farms, on government-supervised irrigation schemes, and by subsistence smallholders on Swazi Nation Land. The total area planted in 1988 was estimated at 20,000 hectares in Title Deed Land, and cotton was the principal cash crop of some 12,000 Swazi Nation Land farmers.

Because of the increase in the area under cultivation, the 1989 cotton harvest was expected to be significantly better than the 1988 harvest, and establishment of a textile mill and a developing local textile industry ensure a continued internal market for the cotton crop.

Cotton is currently processed at two ginneries, at Matsapha and Big Bend. Each has the capacity to process all current output, but the developing textile industry promises more business for each. There is also potential for extraction of oil from the cottonseed.

6. *Dairy Production and Animal Feed*

While prospects for commercialization of the livestock industry are dim, the outlook for dairy production is considerably brighter.

Cattle remain an important store of wealth rather than a source of income in the traditional sector, and this inhibits the commercialization of livestock farming. In 1987, only 18 percent of all cattle were on Title Deed Land and the national offtake rate was only 11.4 percent; on Swazi Nation Land the offtake was as low as 3 percent. Attempts to encourage commercial livestock farming on Swazi Nation Land through the Rural Development Area Program have had some effect, but the privately owned ranches in the Middleveld and Lowveld, as well as some Tibiyo farms, account for almost all commercial production.

The Swaziland Dairy Board (SDB), a parastatal that has a monopoly over milk sales, operates the major dairy. The "fresh" milk is made up from locally produced milk, industrial milk bought from South Africa, and European Community surplus powdered milk. The low quality of the milk is part of the reason why SDB sales of milk and associated products have declined, and dairy production is an area where there is an opportunity for growth for a private sector concern.

The SDB also operates the only feed mill in Swaziland. This mill produces about 3,000 tons of feed a year, with most of the raw material imported from South Africa. This sector has potential for backward and forward linkages with local industry.

7. *Meat Processing*

The commercial abattoir in Swaziland, recently reestablished after provisional liquidation, slaughters and processes meat for the local market as well as for export. Before reopening, the building underwent reconstruction to conform with rigorous international health and hygiene standards. There is considerable potential for increasing the offtake from the national herd, but this sector faces problems due to the role of cattle in Swazi society.

8. *Textiles and Footwear*

Textiles and footwear are the fastest growing areas of investment in Swaziland, accounting for 13.7 percent of the sales in the subsector. Most of the production is exported.

The recent establishment of the National Textile Corporation (NATEX) of Swaziland is an example of the vertical integration possible in the agricultural and manufacturing sectors of the economy. This company supplies local clothing manufacturers with fabric from locally-grown cotton and employs over 650 people. But the continued growth of the textile and footwear industry in Swaziland will depend on the country's ability to remain competitive with other areas in the region.

B. Other Manufacturing

Much of the major investment in this area has taken place too recently to appear in the available statistics. Nonetheless, it is apparent that Swaziland is rapidly developing a broad-based industrial sector. In general, the workforce is capable of manufacturing a broad range of labor-intensive products.

A small, but growing metal-products subsector accounts for 11.8 percent of manufacturing sales. Much of the production is used locally, although there is also significant export. Mozambique is likely to prove an important market.

C. Mining

Mining is a labor-intensive operation that can take advantage of the abundant and inexpensive labor pool available in Swaziland. A possible major development seems to be the expansion of coal mining for the proposed ferrochrome plant at Mpaka or to further develop new export markets. A thermal power station had been proposed, but this no longer appears to be economically viable. Such a power station would also have negative environmental consequences, although the sulphur content of Swaziland coal means it is less polluting than that currently burned in South Africa. In addition, there is some potential for additional forward linkages, particularly in the case of asbestos, although at present Beral Brakes is the only local manufacturer using asbestos.

D. The Service Sector

The service sector includes the housing and real estate, building and construction, transportation, and tourism industries.

1. *Housing and Real Estate*

Public housing in Swaziland is provided by a number of organizations, including the town councils of Mbabane and Manzini, various ministries, the National Housing Board, the Swaziland Development and Savings Bank (SDSB), and a Townships Authority under the control of Tinkhundla. Government housing includes approximately 5,360 units. However, few units have been built in the past decade, and 6,000 people are on a waiting list. This could be an area of growth. In addition to public housing, the burgeoning squatter areas in Swaziland's urban centers urgently need to be upgraded, and this can provide development opportunities as well.

Private housing, industrial sites, and farms can be bought and sold in Swaziland. Although the question of land ownership may remain sensitive (see Chapter 1, section B in Part I of this report), enough data are available on the contribution of real estate to the GDP to suggest that this, too, could be an area of growth.

2. *Building and Construction*

Building and construction is an important subsector of the economy and is the second largest contributor in the services sector. The industry depends on government, industry, and private housing for business and therefore is sensitive to large government projects, the investment climate, and the state of the economy.

The tremendous backlog in infrastructure development in the urban areas of Swaziland means that prospects for this subsector are good. The government has just begun to address the problems arising from the influx of people to the urban areas (and the concomitant squatter housing) in two major studies: one on the Ezulwini Valley (completed) and one on urban infrastructure (under way). Once these studies have been accepted, it is hoped that there will be major investment in housing, which could not only boost the construction industry but also contribute to many other sectors of the economy.

3. *Transportation*

Much of the transportation sector is covered by parastatals such as the railway (Swaziland Railway) and airline (Royal Swazi National Airways Corporation). Both of these are owned by the government, although Tibiyo has a 50 percent holding in the airline. Two private companies are involved in air transport: Swazi Air Cargoes, which operates a Boeing 707 freighter, and Scanair, which offers several small aircraft for charter. Air transport could become more important if exports of fresh produce to Europe increase.

There is room for growth in land transport as well. At this time local road haulage is dominated by two companies: Unitrans and Cargo Carriers. The former is part of the multinational United

Transport group (Tibiyo holds a 40 percent share), and the latter is a subsidiary of a South African firm. Both of these companies have large fleets and handle predominantly bulk commodities. A number of smaller firms convey mainly local consignments of coal, maize, sugarcane, sugar, timber, and general goods, and some of the larger companies (for example, the sugar estates and timber plantations) operate their own fleets.

All road transport for passengers is privately operated. Taxis and minibuses operate primarily in urban areas; minibuses also carry people to major cities in the region. Larger buses are used on longer routes within the country. The number of fleet owners is relatively small due to the high cost of equipment.

The transportation sector is one in which Swazi entrepreneurs have achieved success, and where there may be potential for growth. But any judgement regarding its potential will need further analysis, both in terms of available data and the legislative framework in which transporters operate.

4. Tourism

Tourism, which began in Swaziland with the opening of the Royal Swazi Hotel in 1966, two years before independence, is a large employer and earns considerable revenue. Hotel tourism has grown at a mean annual compound rate of 11.2 percent over the period 1969-86.

The majority of visitors to Swaziland are either South African or resident in South Africa. Statistics for the period 1978-86 show that this group constituted between 67.6 and 73.5 percent of all guests. Thus the industry has been greatly influenced by the attitudes, tastes, and perceptions of South African residents, as well as by the alternatives open to them in other parts of the region and, of course, the general economic climate in South Africa.

The tourist industry in Swaziland is highly centralized and dominated by the private sector and foreign companies. Tibiyo has a 30 percent holding in the largest group, Swazi Spa Holdings, and although the Piggs Peak Hotel is a parastatal, a South African chain has the management contract. Most facilities are located in the Mbabane-Manzini corridor, and virtually all hotels were completed by 1974. The only development since that time has been the 50-bed hotel and casino at Nhlangano, completed in 1978, and the 106-room complex at Piggs Peak, which opened in 1986. The Ezulwini Valley was given a further boost by the opening of a convention center in 1983.

If the tourism industry in Swaziland is able to market itself as aggressively as that in Mauritius, and attract entrepreneurs, it has good growth potential within the overall Southern African sector. In South Africa, official projections put the mean annual growth rates at 6 to 8 percent for international visitors and 10 to 12 percent for domestic tourists over a 10-year period beginning in 1983-84. These forecasts relate to all tourist establishments, not only hotels, and assume the maintenance of a political status quo. Sun International, the major hotel chain in Swaziland and one of the largest in Southern Africa, is basing its forecasts on a 10 to 15 percent mean annual growth rate over the next decade - a rate very close to the official South African figure.

If these projections are correct, it is possible that the number of tourists entering Swaziland could grow to 512,000 by the year 2006, double the 1986 level. This would require an additional 1,025 hotel rooms. Plans for new hotels were postponed in 1988, but at the end of 1989 the press reported that a number of new hotels were being considered.

E. Opportunities for Privatization

The Swazi government recently formed the Public Enterprise Unit to evaluate the role of parastatals and consider privatization of certain parastatals. Privatization schemes could allow businesses and individual investors, both Swazi and otherwise, to invest in and benefit from the ownership of private companies.

Not all parastatals would be amenable to privatization, and even those that are may require different privatization schemes. Some institutions are unlikely to ever be candidates for privatization, even if they are destined to lose money for the foreseeable future, because their continued existence is regarded as being in the national interest. An example of this is Royal Swazi Airlines. Other parastatals, for example the Swaziland Electricity Board, have incurred losses due to extraneous factors such as the 1984 cyclone and a dramatic fall in the value of the lilangeni. The government regards their losses as temporary and is unlikely to want to divest.

However, a number of parastatals (both profitable and unprofitable) operate in areas that could be occupied by the private sector. Examples are the Swaziland Dairy Board and the National Agricultural Marketing Board. Neither of these has been performing well, and farmers are becoming increasingly impatient with their poor performance, which can be attributed to management problems. Many of their marketing and production functions (the feed mill, for example) could well be undertaken by private sector concerns.

7

The Role of the Private Sector in Promoting Its Own Growth

As the economy has developed and become more sophisticated, so the potential for increased backward and forward linkages has grown. There is potential to provide raw materials to industry and to further process finished goods. As the preceding chapters have noted, the opportunities for these linkages to develop are plentiful; the main need is for greater communication so that the various members of the business community are made aware of these linkages. There is also room for and a growing need for a variety of local services. The larger firms must provide services that range from gardening to security either through in-house resources or by procuring them in South Africa. Many of these services could and are increasingly being provided by smaller local firms.

In this sense the role of business associations in Swaziland acquires increased importance. Business associations are a vehicle for networking and information exchange between private sector actors. Effective business associations increase the efficiency of information flow and may thus help to forge these crucial linkages. Business associations are also a vehicle for communication and dialogue with other important actors in the economy. The preceding chapters have noted a number of policy issu^s of importance to the private sector - for example, land tenure, housing development, and taxation. These issues must be addressed. Increasing communication between the government and the private sector could improve the quality of public policy by informing both of the policy design and policy evaluation process.

There is also an urgent need to expand the dialogue between the private sector and the formal education establishment in Swaziland. It is clear that the education system in many instances is not providing people with the skills most in demand by the private sector. Increased dialogue between employers and educators could improve the efficiency and value of the education system. Again, business associations can serve as a forum for these discussions.

The following section describes the existing organizational infrastructure serving the private sector and discusses the extent to which it meets these important communication and dialogue needs.

A. Existing Business Organizations

In Swaziland, four bodies represent employers and firms doing business in commerce and industry. The Federation of Swaziland Employers is the biggest of these bodies. Its members are mainly large and medium-size firms, most of which are foreign-owned. The Swaziland Chamber of Commerce and Industry also has mostly large and medium-size firms as members. The Commercial Amadoda and Sibakho primarily represent Swazi-owned enterprises, which tend to be the smaller concerns.

According to the 1989 survey of the private sector, few of the smaller firms belong to any business organization. While almost all large enterprises (90 percent) report belonging to some association, only 17 percent of the micro enterprises and 30 percent of the small enterprises do. Moreover, the smaller firms that do belong to business associations tend to be dissatisfied with the quality of the services provided by these institutions. The business associations which serve smaller firms (Sibakho, Commercial Amadoda, and to a lesser extent the Chamber of Commerce) received very low effectiveness rating, from their constituents, as shown in Figure 15.

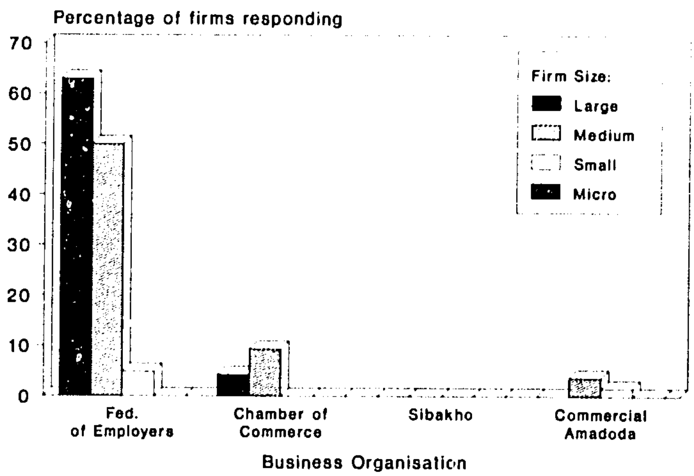
B. Membership Needs

Micro and small enterprises want and require different services than the larger firms. The large firms believe a business organization should serve as a vehicle to lobby government and perhaps assist with the development of personnel training programs. Small firms believe these organizations should assist by providing access to credit and information about marketing. Figure 16 shows the services desired by size of business.

The fact that small and large firms demand very different sets of services may explain why few of the smaller firms belong to associations such as the Federation of Swaziland Employers (FSE). While this organization received very high marks from its membership (the majority of which are larger firms), it does not provide the types of services most desired by smaller firms. Further, in discussions with entrepreneurs carried out as part of the 1989 survey, it was noted that the organization is regarded as an expatriate "club" by many of the indigenous Swazi.

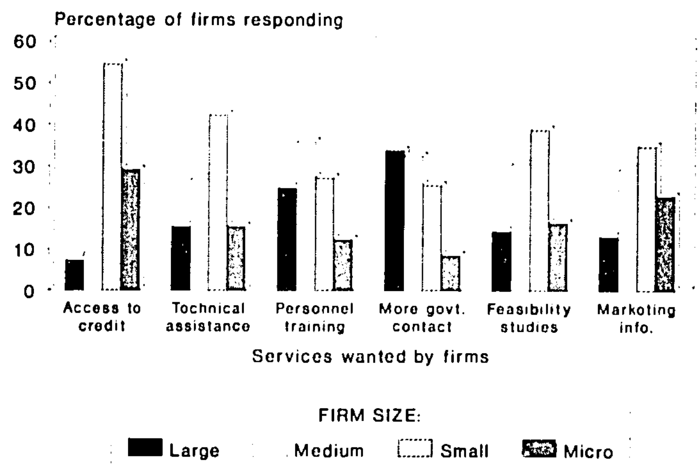
Clearly, while there are business associations in Swaziland, these have not been particularly effective in meeting the needs of the smaller firms. Moreover, they have been ineffective as vehicles for promoting networking and marketing opportunities.

Figure 15
Rating of Business Organizations by Firm Size (Proportion rating organisation as very effective)



SOURCE: Private Sector Diagnosis, 1989

Figure 16
Services Firms Want Organizations to Offer (Proportion of firms interested, by size)



SOURCE: Private Sector Diagnosis, 1989

8

Conclusion

The past few years have seen exceptional interest in investing in Swaziland, but this has largely been, in part, a result of exogenous factors such as the turmoil in South Africa. Swaziland has been able to take advantage of this investment activity, but future development depends on the country's ability to build on its past success.

This report goes some way toward showing how the Swaziland economy works. Whether it continues to work and grow is largely up to the actors identified here. The challenge to Swaziland in the future, is to aggressively attract new investors and to maintain the investment climate and the investors it already has.

This publication does not provide answers as to how development can be maintained. However, it does provide ideas and information on areas that warrant further investigation. It is not the role of this document to prescribe policy. However, one point has emerged regularly: the urgent need for dialogue - dialogue between government and business; between government and donors; between business and educational establishments; between manufacturers and commerce; between banks and potential borrowers; and between large and small firms.

Appendices

A: Glossary of Abbreviations

ASB	Annual Statistical Bulletin
CCU	Central Cooperative Union
CDC	Commonwealth Development Corporation
CMA	Common Monetary Area
CSO	Central Statistical Office
DEG	German Finance Company for Investments in Developing Countries
EPO	Economic Planning Office
FINCOR	Finance Corporation of Swaziland
FMO	Development Finance Company [Netherlands]
FSE	Federation of Swaziland Employers
GDP	Gross Domestic Product
GTZ	Agency for Technical Cooperation [West Germany]
IFC	International Finance Corporation
NATEX	National Textile Corporation of Swaziland Ltd
NDP	National Development Plan
NIDCS	National Industrial Development Corporation of Swaziland
P & T	Post and Telecommunications
PTA	Preferential Trade Area for Eastern and Southern Africa
RSNAC	Royal Swazi National Airways Corporation
SACU	Southern African Customs Union
SDB	Swaziland Dairy Board
SDSB	Swaziland Development and Savings Bank
SEB	Swaziland Electricity Board
SEDCO	Small Enterprise Development Corporation
SIDC	Swaziland Industrial Development Company Limited
SNL	Swazi Nation Land
SNPF	Swaziland National Provident Fund
TDL	Title Deed Land
TVA	Television Authority
WSB	Water and Sewerage Board

B: A Note on Data Availability and Reliability

The Department of Economic Planning and Statistics under the Office of the Prime Minister is split into the Central Statistical Office (CSO) and the Economic Planning Office (EPO). The CSO is charged with providing and maintaining the national statistical record base for the country and coordinating data collection undertaken by other government bodies. As part of its planning process, the Economic Planning Office refines and reworks data put out by the CSO. The Central Bank of Swaziland uses CSO data, but also collects its own information, which is unique in some areas, but duplicates CSO data in others. Extensive discussions were held with the three bodies and attempts were made to plug gaps and resolve inconsistencies in statistics.

It is understood that a report, "Statistics Available for Development Planning in Swaziland," was prepared under the auspices of the German Agency for Technical Cooperation (GTZ) some years ago. Such a report would be invaluable for planning. It is hoped that this document might be updated and made widely available, with a view to attracting comments and assistance in upgrading data collection.

At the time of writing, the most recent Annual Statistical Bulletin (ASB) available was for 1986. Wherever possible, more up-to-date information has been obtained. In general, although the statistics available in Swaziland are of a reasonable standard, three observations must be made with regard to their quality and applicability to this study:

(a) The data are often concerned with physical quantity of output rather than the monetary value thereof.

(b) The method of collecting data is generally through questionnaires. This raises problems, as not all will be returned and those returned may not be accurately completed. However, the dominance of a few large firms in some sectors has meant that, if they provide reliable information, then the statistics for these sectors can be regarded as accurate.

(c) One major problem encountered when examining the share of GDP of sectors and subsectors was in the availability and consistency of data. There was a period in the 1970s when no new national accounts were available, and the 1977-1980 Annual Statistical Bulletins give data for the years 1975-76. In 1980 the National Accounts were constructed for the missing years. A detailed account of the methodology used is contained in the report "National Accounts 1975-1981." In order to observe the real trends in the national accounts, the figures were put in real constant 1980 prices using the implicit GDP deflator prepared by the Central Statistical Office.

Although manufacturing industry has become one of the major growth sectors in Swaziland, statistics on this subsector are very sparse, and subject to the same delays inherent in other statistical survey publications. It is consequently very difficult to analyse expansion and investment in manufacturing industry. Therefore, a very useful addition to the economic database would be the compilation of an up-to-date version of the type of survey of manufacturing firms undertaken by USAID in 1984. This would necessarily have to be conducted on a more direct basis than the questionnaire approach used by CSO. The survey should aim to include information on the basic ownership structure of firms in industry, in the form of a "who owns who" guide. Such a publication would enable investors, donor agencies and analysts to understand the economic development potential of industry in Swaziland clearly.

Official publications of the Department of Economic Planning and Statistics consulted for the report are listed in the Bibliography (Appendix C).

C: Bibliography

Barclays Bank. Swaziland: A Businessman's Profile, Mbabane, 1986.

Capricorn Africa Economic Associates. A Description of the Private Sector in Swaziland, Mbabane, 1989.*

Capricorn Africa Economic Associates. Employment in Swaziland, prepared for USAID/Swaziland, Mbabane, 1989.*

Coopers and Lybrand. Private Sector Diagnosis: Swaziland, Mbabane, 1989.*

Robert H. Davies, Dan O'Meara and Sipho Dlamini. The Kingdom of Swaziland: A Profile, Zed Books Ltd., London, 1985.

Fion de Vletter. "Footloose Foreign Investment in Swaziland" in Alan W. Whiteside (ed.), Industrialisation and Investment Incentives in Southern Africa, Natal University Press, Pietermaritzburg, 1989.

The Economist Intelligence Unit. Country Profile 1988-89: Botswana, Lesotho, Swaziland.

Frost and Sullivan Inc. Political Risk Services. "Measurement of the Investment Climate for International Business". A special report prepared for the United States Agency for International Development, Washington D.C., September 1988.

International Monetary Fund. International Financial Statistics 1988, Washington DC, 1989.

Labat-Anderson Incorporated and J.E. Austin Associates. Manual for Action in the Private Sector (MAPS): Summary Report of Phases I-V, prepared for USAID/Swaziland by Office of Market Development and Investment, Bureau for Africa, Agency for International Development, Arlington VA, 1989.*

Margo Russell. "The Rural Swazi Homestead in its Context: A Review of the Literature and Thoughts for Future Directions", in Fion de Vletter (ed.), The Swazi Rural Homestead, University of Swaziland Social Science Research Unit, July 1983.

Michael F. Stephen. "'Small is Beautiful': an overview of the Swazi Economy" in John Daniel and Michael F. Stephen (eds.), Historical Perspectives on the Political Economy of Swaziland : Selected Articles, Social Science Research Unit, University of Swaziland, 1986.

The Swaziland Industrial Development Company Ltd. "SIDC" brochure (undated).

Tibiyo Taka Ngwane: A Nation in Progress, an undated brochure produced by the Projects Division of Tibiyo Taka Ngwane in collaboration with the Swazi Observer and Jubilee Printing and Publishing.

* Internal USAID documents

Government of Swaziland Official Publications

Annual Statistical Bulletins 1968 to 1986.

Agriculture:

Agriculture Sample Census (Swazi National Land) 1971/72

Agricultural Sample Census 1983/84 Phase 1

Census of Agriculture 1983/84

Annual Survey of Swazi National Land: 1976/77; 1977/78; 1978/79; 1979/80; 1980/81; 1981/82; 1982/83

Census of Individual Tenure Farms: 1975/76; 1979/80; 1980/81; 1983/84.

Industry

Census of Industrial Production 1976-1983.

Employment

Employment and Wages Survey 1969-1987

Annual Reports of the Labour Department.

Population Census.

Report on the 1966 Swaziland Population Census.

1976 Population Census Report.

Highlights of the 1986 Population Census.

Economy

Economic Reviews and Outlook 1970/71-1989

Swaziland National Development Plans. Second Plan, Third Plan, Fourth Plan.

National Accounts Data 1975-1981; 1976-1982; 1977-1983; 1978-1984; 1979-1985; 1980-1986.

Annual Treasury Expenditure Reports.