

PW-ARM - 600

2000

**INVESTMENT CRITERIA REPORT  
COMMERCIAL AGRICULTURAL PRODUCTION AND MARKETING PROJECT**

Contract No. 645-0229-C-00-9019

Prepared in association with:

United States Agency for International Development

and

The Ministries of Agriculture and Cooperatives;  
Commerce, Industry, and Tourism;  
Education; and Finance  
Mbabane, Swaziland

Prepared by:

Jayne M. Booker

Chemonics International Consulting Division  
2000 M Street, N.W., Suite 200  
Washington, D.C. 20036

June 1990

---

TABLE OF CONTENTS

---

	<u>Page</u>	
SECTION I	INTRODUCTION	
	A. Purpose of the Assignment	1
	B. Methodology	1
SECTION II	ECONOMIC BACKGROUND	2
	A. Recent Economic Performance	2
	B. Prospects for the Future	3
SECTION III	GOVERNMENT AND PRIVATE INVESTMENT	4
	A. Government Attitude Toward Investment	4
	B. Government Policy	4
	C. Existing Foreign Investment	5
	D. Advantages of Investing in Swaziland	5
	E. Government Agencies Involved in Promoting Foreign Investment	6
	1. Ministry of Commerce, Industry and Tourism	6
	2. Swaziland Industrial Development Company	7
	3. Other Ministries	8
	F. The Investment Review Process	8
	G. Incentives to New Investors	9
SECTION IV	INVESTMENT CRITERIA	10
SECTION V	RECOMMENDATIONS FOR IMPROVEMENT	11
SECTION VI	CONCLUSION	13
ANNEX A	TERMS OF REFERENCE	A-1
ANNEX B	LIST OF PERSONS INTERVIEWED	B-1
ANNEX C	FIRST CONSULTANCY REPORT	C-1
ANNEX D	LETTER FROM MCIT ON FIRST INTERMINISTERIAL TASK FORCE MEETING	D-1
ANNEX E	AGENDA AND MINUTES OF FIRST INTERMINISTERIAL TASK FORCE MEETING	E-1

---

SECTION I  
INTRODUCTION

---

A. Purpose of the Assignment

The investment criteria specialist was asked to assist in developing investment criteria for evaluating the seriousness and the developmental impact of proposed investment in Swaziland and to evaluate the investment approval process in the country. The consultant was also asked to assist in facilitating the creation of a National Investment Task Force, a body that would bring together various government ministries involved with investment promotion and approval. The purpose of the task force would be to enhance communication among ministries and to strengthen Swaziland's ability to attract investment.

B. Methodology

The consultant interviewed approximately 25 public and private sector officials from ministries and organizations involved in investment promotion and approval. She sought views on the need for the investment task force, on the composition of the task force and, finally, on the types of investment criteria most appropriate for Swaziland.

In the course of these interviews, she identified a "lead" officer, Thembayena Dlamini, senior planning officer at the Ministry of Commerce, Industry and Tourism, to act as catalyst and organizer for the task force, and prepared a brief synopsis of the results of interviews and a set of draft investment criteria. She worked with Ms. Dlamini and assisted in drafting a letter to suggested members of the task force as well as a provisional agenda. She attended/facilitated the first meeting of the task force, which was held on May 25, 1990 at 9:00 a.m. She then prepared minutes of the meeting and Terms of Reference for the permanent, interministerial investment working group to be established.

---

SECTION II  
ECONOMIC BACKGROUND

---

A. Recent Economic Performance

The Swaziland economy is primarily agro-based: forestry, agriculture, and agro-industry in aggregate account for nearly 43 percent of GDP, with sugar and woodpulp being the largest sectors. Sugar contributes almost half of the country's export earnings and employs some 30 percent of the private sector labor force. British capital, formerly dominant, is being replaced by South African investments which now control much of Swaziland's timber, mineral production, non-agricultural manufacturing, distribution, and construction.

After agriculture, manufacturing is the largest employer of private sector labor. At independence in 1968, manufacturing accounted for only 15.4 percent of total GDP, but has grown rapidly and now contributes nearly 25 percent.

Large resource-based, export-oriented firms dominate the economy, accounting for over two-thirds of formal sector employment. These firms are located close to raw material sources, dispersing industrial activities throughout the country.

The first half of the 1980s was affected by a marked slowdown in the growth of industry. Investment levels declined and in 1985 the World Bank estimated that employment in manufacturing was lower than in 1979. During the period 1981-1984, almost 11.6 percent of formal sector employment was lost. Externalities, such as the world-wide recession and drought in Southern Africa, were major factors in this decline, but internal political problems after the death of King Sobhuza II in 1982 also played a role. Furthermore, the closure of several large industries such as the television and radio assembly plant, as well as smaller companies, hurt the economy. These companies were victims of competition from the South African homelands, which began offering extremely generous incentives to attract new business.

This economic deterioration was suddenly reversed in 1985 when Swaziland began to enjoy a mini-boom caused by the injection of substantial amounts of foreign, mainly South African, capital. The first declaration of South Africa's State of Emergency in July 1985 and continued unrest, combined with fears that economic sanctions would increase, led to a dramatic upturn in the number of investment inquiries and resulted in substantial new investment in Swaziland. A large textile firm and a major Coca-Cola investment were only two of a number of substantial new investments.

Reflecting its economic diversity and the extent of backward and forward linkages, the percentage of Swaziland's manufactured goods as a percentage of total exports (16.1 percent) is second in the region only to Zimbabwe's, while its exports as a proportion of GDP (53 percent) is the highest.

B. Prospects for the Future

In the context of Africa, Swaziland stands out like a shining light. Economic growth rates since the mid 1980s have been high. Balance of payments projections for the next five years are favorable and the government is running a near balanced budget. The recent high levels of investment may or may not continue as South Africa moves toward political reconciliation. Swaziland is blessed with positive national ingredients-- political stability, proximity to markets, a pro-private sector government, and an attractive natural resource base. However, Swaziland is still a small country economically dependent on South Africa. The economic and political dislocations in South Africa make Swaziland highly vulnerable. Swaziland may be attractive to those wishing to leave South Africa but the region as a whole remains unstable and the prospects for attracting extra-regional investors remains questionable.

---

SECTION III  
GOVERNMENT AND PRIVATE INVESTMENT

---

A. Government Attitude Toward Investment

Swaziland's attitude to business is unabashedly capitalistic. The private sector dominates almost all aspects of the monetary economy, accounting for 54.7 percent of GDP in 1986. Investment policies have not been incorporated into any specific investment code or legislation. The government's basic strategy is to encourage development of resource-based, export-oriented, labor-intensive industries. To this end, it seeks to avoid disincentives to investment rather than promote growth by means of special subsidies or incentives.

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

Direct government participation in the economy is fairly small at 7 percent. Indirect participation in the economy by government and the crown is fairly substantial, however. The Swazi nation's economic interests are advanced through Tibiyo TakaNgwane. Tibiyo was established in 1968 by King Sobhuza II to reinvest Swaziland's mineral royalties for the benefit of the nation. Tibiyo generally takes minority interests in new ventures in Swaziland. The major Tibiyo investments are valued at E54.7 million spread across agriculture, mining, construction, tourism, and transport. In 1983 Tibiyo was certified as a development agency. This is discussed further below.

B. Government Policy

The Government of Swaziland encourages private investment as part of its development strategy. All areas of the economy are open to foreign capital with the exception of sectors that are wholly-owned by government parastatals. Since his coronation in April 1986, King Mswati III has reaffirmed Swaziland's commitment to a policy of free enterprise. In recent public statements, he has assured foreign investors of their right to operate freely in Swaziland and to make a profit on their investments. In practice, few obstacles are placed in the way of private sector activity within the Kingdom. Registration and licensing of companies are easily accomplished and minimal controls are exercised on business operations.

Swaziland will not approve investment requests submitted by companies that it suspects will use it to circumvent sanctions imposed on South Africa.

In the mid 1970s, the government had no clearly defined investment promotion program and accepted, under fairly loose conditions, any investor willing to establish an operation in Swaziland. This largely remains the prevailing policy today--but by design not default--and the government's open-door approach has combined with other factors to make Swaziland an attractive investment choice.

Swaziland does not have an investment code regulating new investment in the country.

#### C. Existing Foreign Investment

There is no published estimate available on the total value of direct foreign investment in Swaziland. A gross estimate of foreign investment is around US\$800 million, split fairly evenly among British and South African investors. Total cumulative private U.S. investment as of 1988 is estimated at only US\$10 million, representing less than 5 percent of total foreign investment. This is perhaps because British and South African interests have dominated the economy and because U.S. investors have not been made aware of Swaziland's potential.

Swaziland has experienced a "mini-boom" in foreign investment since 1985. Several major investments, including Coca-Cola and Cadbury-Schweppes, were attracted to Swaziland, with major positive impacts on employment and government income.

#### D. Advantages of Investing in Swaziland

Swaziland presents a number of strong advantages to potential investors. Briefly, they are:

- o The government is pro-private sector and exercises minimal controls on businesses
- o The Kingdom is politically stable
- o Financial incentives include generous tax allowances and deductions
- o The registration and licensing of companies is relatively simple
- o Expropriation and nationalization are prohibited by law
- o There are no foreign exchange problems or exchange controls

- o Dividends and profits are freely repatriated
- o Infrastructure is good, labor is relatively inexpensive, and there is little union agitation
- o Swaziland has preferential access to world markets through the Southern African Customs Union (SACU), the Lomé Convention, the Preferential Trade Area (PTA), and the Southern Africa Development Coordination Conference (SADCC)

Combined with a pleasant living environment, many prospective investors have chosen Swaziland as an investment location.

On the other hand, Swaziland has several drawbacks as an investment site:

- o Lack of skilled technicians and management personnel
- o Lengthy delays in obtaining work permits and residence permits
- o In agriculture and agribusiness, the Ministry of Agriculture's lack of commercial orientation and prevailing land tenure policies
- o Infrastructure (factory space, electricity, water) that is becoming overstrained
- o Political volatility in the Southern African region as a whole
- o Complex export procedures requiring multiple approvals and government documents

In addition, the lack of a formal investment code that specifies the investment criteria used by the government to evaluate investment proposals, and a rather informal investment approval process that sometimes fails to secure sound investment proposals, combine to deter some investment in Swaziland.

#### E. Government Agencies Involved in Promoting Foreign Investment

Unlike many countries, Swaziland does not have a centralized investment promotion agency. There are a number of government ministries and organizations with a role in investment promotion and approval. They are discussed below.

##### 1. Ministry of Commerce, Industry and Tourism

The main government body responsible for investment promotion is the Industrial Division of the Ministry of Commerce,

Industry and Tourism (MCIT). It encourages the establishment of commercial activities on industrial estates. Currently the MCIT only sells and services estate plots, and has no substantive role in investment promotion or approval.

## 2. Swaziland Industrial Development Company

Among other organizations involved in the promotion of industry in the Kingdom, the most important is the Swaziland Industrial Development Company Limited (SIDC), a private development finance organization. SIDC was established in 1987 by the government to mobilize financial resources to finance private sector projects in the industrial, mining, agribusiness, tourism, commercial, and service sectors. Its shareholders include the government, the Commonwealth Development Corporation, the German Finance Company for Investments in Developing Countries, the International Finance Corporation, the Netherlands Development Finance Company, Barclays Bank, and Standard Chartered Bank.

SIDC can provide both equity and loan finance to new projects, up to a maximum 50 percent participation. The maximum SIDC participation in any single venture is currently E3 million; the minimum is E100,000. SIDC offers medium- and long-term loans with terms of up to ten years denominated in local or foreign currency with a fixed interest rate. SIDC will participate only in projects that are technically, financially, and economically viable, and gives priority to investments that will:

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

SIDC also owns and operates industrial sites at the Matsapha Industrial Park.

In practice, SIDC acts as Swaziland's first point of contact for prospective investors. SIDC is the investment promotion arm of the Kingdom, in the absence of a formal investment promotion agency. SIDC's project promotion section offers prospective investors general advice and information on the investment climate and assists with marketing surveys and feasibility studies.

The reliance on SIDC as an investment promotion agency has its drawbacks. SIDC cannot be expected to bear total responsibility for investment promotion since promotion is a secondary priority for the organization. Secondly, SIDC, as a profit-making entity, is fundamentally concerned with the

economic/financial viability of an investment project, rather than broad national economic objectives. Therefore, its investment promotion activities are more reactive than proactive.

### 3. Other Ministries

The Ministry of Finance (MOF) is responsible for granting permission for the income tax holiday. After a company has set up operations, it applies to the MOF for approval of the tax holiday. MOF refers the request to MCIT and to the Income Tax department for vetting, then writes to the company to grant or deny the tax holiday.

The Ministry of Agriculture and Cooperatives (MOAC) is also involved in investment related to agriculture agribusiness. When a new agricultural investment requires land, MOAC must grant the necessary approvals.

The Ministry of Natural Resources becomes involved when there is an issue of land purchase or utilization. If a manufacturing concern wishes to buy land, it negotiates with MCIT's Industry Office, which prepares a deed of sale. MCIT then refers the request to the minister of natural resources for final approval. After his signature and approval, MCIT receives payment for the land (in four equal installments over a one-year period). Following receipt of a final payment, Natural Resources prepares the final deed of sale and the investor receives crown grant or title deed to the land.

### F. The Investment Review Process

All major investments must be reviewed by the government and by the King. The review process is generally cursory and royal approval is granted expeditiously for bona fide investments that serve Swazi national interests. Registering and forming a company in Swaziland is a relatively simple and straight-forward process, one of Swaziland's advantages as an investment location.

There have been complaints levied against the government relating to the time it takes to secure a decision on investment. Delays are not uncommon, especially for investments that will use the Kingdom's mineral resources, agribusiness investments, or investments in which both the traditional and administrative governments are concerned.

Many in Swaziland believe that the "receiving structure" in the country could be improved. By that they mean that government departments could improve Swaziland's overall investment attractiveness by performing administrative tasks and procedures more efficiently. Specifically, many investors complain about the protracted period required to obtain work and residence permits as well as final confirmation of land transfers.

In addition, communication among government ministries could be improved. There have been several recent examples of investments that were approved by one ministry and subsequently held up by another. For example, a prospective flour milling operation received permission from the Ministry of Agriculture to begin operations, but the investment was delayed by MCIT in granting a trading license. Pioneer Seed Company has been talking with the government for over a year about starting a seed operation.

#### G. Incentives to New Investors

The basic policy of the Government of Swaziland is to avoid disincentives to investment rather than to influence specific projects through special incentives and subsidies. The government believes it would be financially impossible to compete with the range and extent of subsidies offered in the South African homelands. Compared to many other countries in Africa (including Lesotho and South Africa), Asia, and Central America, Swaziland's incentives package is austere.

Swaziland's liberal open-door policy, lack of a focused, aggressive promotional campaign, and limited use of investment subsidies have been criticized by some. However, business executives generally feel that the absence of government involvement in directing the course of industrial development is a large reason why Swaziland has been so successful in attracting investment.

The basic incentives offered are a five-year income tax holiday and depreciation allowances for the purchase of initial capital equipment (50 percent). The tax holiday introduced in 1975 was initially only available to the first company in an industry established in the country. In 1988, the government amended the legislation to make the tax holiday available to all export-oriented industries. (The Ministry of Finance has established a tax review committee to analyze whether the tax holiday should be further extended.) Companies can also deduct training expenses and carry forward losses against tax liability indefinitely. There is a 10 percent local preference given on all public tenders.

---

SECTION IV  
INVESTMENT CRITERIA

---

At present, Swaziland has no formally-established criteria for the government to review and/or approve new investment. SIDC gives priority to investments meeting certain criteria, as described in section III.E.2. However, SIDC's primary criteria relate to the economic and financial viability of the investment.

Since there is no central investment promotion or approval agency in government, Swaziland has not formulated investment criteria that are strictly or regularly applied.

In the course of interviews, each interviewee was asked to suggest criteria that would result in attracting the most useful kinds of investment. The most frequently mentioned criteria were:

- o The investment should be local resource based. Wherever possible, new investment should utilize local raw materials.
- o The investment should be export oriented. Since the Swazi domestic market is small, significant new investments should be export oriented and generate foreign exchange for the country.
- o The investment should be labor intensive. Since rapid population growth is one of Swaziland's biggest challenges and problems for the future, the country should seek new investment that is labor intensive. However, this criteria should not be applied in isolation.
- o Investment by indigenous Swazis should be encouraged. A growing political issue in Swaziland is the lack of support provided to indigenous Swazi entrepreneurs. Many Swazi business people feel the government does little for local businessmen. As a result, many of those interviewed felt that priority should be given to the encouragement of local business.

At the first meeting of the national investment task force on May 25, the group discussed the issue of formulating and applying investment criteria (see annex E). While agreeing with the criteria noted above, the group felt that the most important priority was the establishment of a process to promote investment in Swaziland. This structure must exist before any systematic screening and application of criteria could be undertaken.

---

SECTION V  
RECOMMENDATIONS FOR IMPROVEMENT

---

From the interviews conducted, it was clear that there is very strong support for the concept of a working group comprised of various ministries to enhance intergovernmental cooperation and communication with respect to new investment.

However, most interviewees felt that the most pressing need was to create a "one-stop" investment promotion shop to coordinate investment promotion. They felt that the formulation of investment criteria was a second step in the process, that the GOS first needed to inaugurate coordinated investment promotion efforts instead of allowing SIDC to bear the sole responsibility.

There was strong support for the formation of an interministerial working group and all felt the MCIT should take the lead in its formation.

The consultant worked with officers of MCIT to organize the first meeting of the working group, helping to prepare an invitation letter and a draft agenda. The first meeting was held at 9:00 a.m. on May 25, 1990.

The meeting confirmed interest in a permanent working group on investment promotion and the role of MCIT as the lead ministry. The consultant was asked to prepare a draft Terms of Reference for the working group and minutes of the first meeting. These were distributed to all who attended the first meeting (see annex E).

The consultant met with Thembayena Dlamini, the senior planning officer, following the May 25 meeting and discussed the Terms of Reference, how to proceed with the formation of the working group, and the formulation and use of specific investment criteria. The draft terms of reference follow.

The interministerial working group on investment in Swaziland will:

- o Liaise with, and provide guidance and insights to the UNIDO consultant(s) retained to formulate a national industrial policy.
- o Review the detailed Terms of Reference for the UNIDO consultant(s) and recommend modifications, if necessary.

- o Conduct a literature search on investment policies and promotional efforts (including incentives) in other African countries (Botswana, Zimbabwe, Lesotho, South Africa); prepare a series of working papers for the UNIDO consultant(s).
- o Analyze and recommend policies, investment priorities, and incentives for foreign investment. For example, should new investment be channeled to other geographical locations (excluding Matsapha) in Swaziland.
- o Analyze financial incentives needed to spur indigenous Swazi business.
- o Further specify and define investment priorities for Swaziland. Formulate investment criteria which should be applied to new investment in Swaziland to evaluate the seriousness and developmental impact of investment projects and to serve as a basis for approving investment proposals.
- o Determine whether Swaziland should draft a formal investment code.
- o If an investment code is advised, determine how it should be formulated and recommend specific provisions.
- o Clarify the investment approval process and institutional procedures which should be observed for new investment in Swaziland.
- o Ascertain the advantages and disadvantages of a "one-stop" investment promotion agency for Swaziland. If the formation of a one-stop agency is endorsed, recommend goals, budget, structure, responsibilities, and operating procedures.

---

SECTION VI  
CONCLUSION

---

The consultancy achieved its mandate of working with the Government of Swaziland to analyze and recommend improvements in the investment approval and review process in Swaziland. There is strong support for the formation of a permanent intergovernmental group that would improve communication and coordination among the ministries and address the following issues:

- o Investment promotion and approval
- o The formulation of investment criteria to evaluate the seriousness and developmental impact of new investment
- o The incentive structure for new investment

The work of this group will be integrated with the development of a national industrial strategy for Swaziland to be undertaken by UNIDO.

There is strong interest in creating a "one-stop" investment promotion agency that would centralize and coordinate efforts to attract new investment, focus on spurring indigenous Swazi investment, and evaluate new investment proposals according to specific investment criteria in line with the nation's economic development objectives. If established, this group would be based in the Ministry of Commerce, Industry and Tourism.

Consensus was reached on the broad contour of investment criteria relevant to the Swazi economic and political situation. The interministerial working group will address the issue further as it defines its work program.

**ANNEX A**

---

**TERMS OF REFERENCE**

## TERMS OF REFERENCE

### SHORT TERM CONSULTANCY DEVELOPMENT OF INVESTMENT CRITERIA COMMERCIAL AGRICULTURAL PRODUCTION AND MARKETING AND GOVERNMENT OF SWAZILAND

#### OBJECTIVE/OUTPUT

This consultancy will provide the Government of Swaziland (GOS), Chemonics, and USAID/Swaziland with investment criteria for evaluating the importance and development impact of proposed investments. This will include: determining the appropriate individuals and ministries to be involved in developing the criteria; forming a temporary Interministerial Investment Task Force (IITF) to review the issues related to the formulation of investment criteria; suggesting possible criteria for review; recommending ways and means of insuring the use of the criteria; suggesting additional issues for the task force to consider regarding the enhancement of the investment climate in Swaziland. The specialist will work closely with all relevant private sector and GOS personnel to develop and ensure understanding of and commitment to the criteria.

The development of the investment criteria is being conducted under the Commercial Agricultural Production and Marketing (CAPM) Project, a joint effort of Chemonics International, USAID/Swaziland and the Government of Swaziland (GOS). Chemonics, as the prime contractor, will be responsible for the output of the consultancy.

#### STATEMENT OF WORK

The specialist will be briefed on the current status of the project by the Chief of Party (COP) and provide the necessary background documentation. The specialist will work closely, throughout the study, with the CAPM/Agribusiness Specialists and counterparts in the Ministry of Commerce, Industry and Tourism (MCIT) and the Ministry of Agriculture and Cooperatives (MOAC) and officials in the Ministry of Finance, Department of Economic Planning and Statistics (DEPS), Ministry of Natural Resources and other appropriate agencies and organizations to produce a work schedule for the duration of the assignment. It is anticipated that the specialist will use the CAPM central office as a base of operations.

The specialist will prepare a report which details the Investment Criteria and how it will be used by GOS officials. Recommendation will also be made on how to best ensure understanding and commitment to the utilization of the criteria. Suggestions will be made regarding additional activities suitable for investigation by the IITF.

#### DURATION AND TERMS OF ASSIGNMENT

This consultancy will require approximately four (4) weeks, to begin during the last two weeks of March 1990.

#### QUALIFICATION

The specialist should have an M.B.A. or its equivalent and a strong background in investment promotion and economic development related activities in developing countries. He or she must have experience in working with top officials representing the private and public sectors.

ANNEX B

---

**LIST OF PERSONS INTERVIEWED**

LIST OF PERSONS INTERVIEWED

Scott Reid, Managing Director, Khalipha Investments  
Bruce Lowry, U.S. Embassy  
Bob Olson, CAPM  
Jim Bunnell, CAPM

Ministry of Agriculture and Cooperatives

Frank Buckham, Principal Secretary  
Noah Nkambule, Under Secretary  
Dickson Khumalo, Sr. Technical Officer

Ministry of Commerce, Industry and Tourism

Thembayena Dlamini, Senior Planning Officer  
Dumisile Magagula, Head of Industry  
Abner Khumalo, Trade Promotion Unit  
John Paton, Trade Promotion Unit  
Jane Maseko, Trade Promotion Unit  
Wellington Dlamini, Trade Promotion Unit  
Susan Magagula, Senior Assistant Planning Officer  
Phumelele Dlamini, Assistant Planning Officer

Department of Economic Planning and Statistics

Geoffrey West, Chief Economic Planning Officer  
Ncane Dlamini, Assistant Planning Officer

Ministry of Finance

Joyce Dlamini, Senior Assistant Secretary  
Charles Mdluli, Assistant Secretary, Finance Section  
Lucy Goodhart, Advisor

Swaziland Industrial Development Company

Peter Thamm, Director of Operations  
Mayson Dlamini, Senior Operations Executive  
Satch Khumalo, Investment Promotion Executive

Small Enterprise Development Company

Paul Thabede, Projects Manager  
Sipho Ntshalintshali, Personnel Manager

**ANNEX C**

---

**FIRST CONSULTANCY REPORT**

FIRST CONSULTANCY REPORT  
APRIL 23, 1990

INVESTMENT CRITERIA PROJECT  
COMMERCIAL AGRICULTURAL PRODUCTION AND MARKETING PROJECT

I. BACKGROUND

Under the auspices of the CAPM project, a consultant was brought to Swaziland to assist in developing investment criteria for evaluating the seriousness and developmental impact of proposed investment in Swaziland and to evaluate the investment approval process in the country. The consultant was also asked to assist in facilitating the creation of an National Investment Task Force, that would bring together various government ministries involved with investment promotion and approval. The purpose of the task force would be to enhance communication among ministries and to strengthen Swaziland's ability to attract investment.

The consultant interviewed a number of officers from various ministries seeking views on the need for the investment task force, on the suggested composition of the task force and, finally, on the types of investment criteria most appropriate for appraising new investment in Swaziland.

II. GENERAL CONCLUSIONS

From the interviews conducted, it is clear that there is very strong support for the concept of a national investment task force that would have as its purpose the enhancement of cooperation and communication in the evaluation and approval of investment proposals.

During the interviews, it also became evident that a number of people see the need to investigate the potential for the creation of a Government investment promotion center that would act as a "one-stop" shop for new investment.

III. SUGGESTED PARTICIPANTS IN THE NATIONAL INVESTMENT TASK FORCE

As suggested by officers in various ministries, the Ministry of Commerce, Industry and Tourism (MCIT), as the ministry responsible for investment, should be the lead ministry responsible for constituting and managing the task force. The consensus was that the composition of the task force should be primarily public sector, drawn from the following ministries and organizations:

- o Ministry of Commerce, Industry & Tourism (MCIT), Trade Promotion office, Industry and Planning

- o Ministry of Agriculture and Cooperatives (MOAC)
- o Ministry of Finance (MOF), Customs and the Department of Finance
- o Department of Economic Planning & Statistics (DEPS)
- o Ministry of Natural Resources
- o Central Bank of Swaziland

There were also views expressed that the Small Enterprises Development Company (SEDCO) and the Swaziland Industrial Development Company (SIDC) should be represented on the task force. SEDCO, the parastatal responsible for assisting small business development and indigenous entrepreneurship, would represent that sector on the task force. SIDC, although a private company with GOS participation, is at present, responsible for investment promotion in the country.

With respect to private sector involvement in the task force there were differing views amongst those interviewed. Perhaps the best approach is to address the issue of private sector involvement at the first meeting of the task force, when it is convened. If the private sector is incorporated into the task force, members could be drawn from the Chamber of Commerce, the Federation of Employers, and/or Sibakho.

#### IV. INVESTMENT CRITERIA

The consultant asked those interviewed what criteria should be applied to new investment in Swaziland. The most commonly mentioned criteria were:

- o The investment should be resource based. Wherever possible, new investments that will utilize local raw materials should be given preference.
- o The investment should be export oriented. Since the internal Swazi market is small, significant new investments which will provide greatest benefit to Swaziland should plan to export their production.
- o The investment should be labor intensive. Since one of Swaziland's major development issues is the growing number of school leavers and the estimated 8,500 new job seekers coming to the market each year. Therefore, investments that will employ large numbers of people should be encouraged.

- o Investment by indigenous Swazis should be encouraged.  
This may involve the creation of additional incentives to spur this development and argues for the inclusion of SEDCO on the task force.

The national investment task force should analyze, discuss and recommend relevant investment criteria to be applied to new investment as well as the process by which new investment is approved.

ANNEX D

---

**LETTER FROM MINISTRY OF COMMERCE, INDUSTRY, AND TOURISM  
ON FIRST INTERMINISTERIAL TASK FORCE MEETING**

SWAZILAND



GOVERNMENT

Date: 2 May, 1990

Our Ref:

Tel. (0194) 43201

Telex: 2232 WD

Ministry of Commerce,  
Industry and Tourism,  
P.O. Box 451,  
MBABANE.

The Managing Director  
SEDCO  
P. O. Box A186  
Swazi Plaza

Dear Sir,

RE: INVESTMENT CRITERIA PROJECT

Under the auspices of the Commercial Agricultural Production and Marketing Project (CAPM), a consultant has been brought to Swaziland to assist in facilitating the creation of a national investment criteria for evaluating the developmental impact of proposed investment. In addition, she would assist in facilitating the creation of a national investment task force that would bring together government ministries and/or departments as well as the private sector organizations concerned with investment promotion.

It has been suggested that a national investment task force which would enhance cooperation and communication in promoting, evaluating and approving investment proposals should be formed.

The first task force meeting will be held on May 23, 1990, at 10.00 a.m. in the Ministry of Commerce and Industry's conference room. Your organization is kindly invited to attend.

The provisional agenda for the meeting is attached. Also attached is a paper prepared by the constant on the issue.

  
T. A. DLAMINI (Dr)

For: PRINCIPAL SECRETARY

**ANNEX E**

---

**AGENDA AND MINUTES OF  
FIRST INTERMINISTERIAL TASK FORCE MEETING**

AGENDA OF FIRST INTERMINISTERIAL TASK FORCE MEETING  
MAY 25, 1990

- A. BACKGROUND TO THE FORMATION OF THE NATIONAL INVESTMENT TASK FORCE
- B. COMPOSITION OF THE TASK FORCE
- C. INVESTMENT APPROVAL PROCESS AND INTERMINISTERIAL COOPERATION AND COORDINATION
- D. INVESTMENT CRITERIA FORMULATION TO BE USED IN EVALUATING THE SERIOUSNESS AND DEVELOPMENTAL IMPACT OF NEW INVESTMENT
- E. INVESTMENT PROMOTION EFFORTS AND STRUCTURES
- F. ANY OTHER BUSINESS

26

MINUTES OF FIRST NATIONAL INVESTMENT TASK FORCE MEETING  
MAY 25, 1990  
9:00 A.M.  
MINISTRY OF COMMERCE, INDUSTRY AND TOURISM

A. Background

The meeting was called by the principal secretary of the Ministry of Commerce, Industry and Tourism. Unfortunately, he did not attend because of a visit of American investors to Swaziland. In his absence, Abner Khumalo, Head of the Trade Promotion Unit, took over as chairman for the meeting.

A copy of the May 2, 1990 letter inviting the various ministries to the meeting, the agenda, and the CAPM consultancy report which served as the basis for discussion is attached.

B. Participants

Ministry of Commerce, Industry and Tourism

Abner Khumalo, Export Development Officer 1  
Marcel Boogaerts, Advisor  
Phumelele Dlamini, Assistant Planning Officer  
Dumusile Magagula, Assistant Secretary Industry  
Susan Magagula, Senior Assistant Planning Officer

Department of Economic Planning and Statistics

Geoffrey West, Chief Economic Planning Officer  
Ncane Dlamini, Assistant Planning Officer  
Vusi Kunene, Assistant Planning Officer

Small Enterprise Development Company

Paul Thabede, Projects Manager

Ministry of Finance

Joyce Dlamini, Senior Assistant Secretary

Commercial Agricultural Production and Marketing Project

Jayne Booker, Consultant

C. Summary

1. Purpose of the Group

Mr. West asked about the purpose of the task force and questioned whether "task force" was an appropriate term.

He said the issues to be addressed by the group fell into three categories:

- o Promotion/approval
- o Investment criteria to be applied to new investment in appraising proposals
- o Incentives

He believed that the first two items should be handled by a standing committee, a permanent interministerial body, rather than a task force, which implies a group with a specific task of a finite duration. Mr. West felt that the subject of incentives was a matter for a task force.

## 2. National Industrial Policy

The overwhelming consensus was that there is a need for a standing committee or permanent working group that would bring ministries together to address the issues surrounding investment promotion. The group concurred on the compelling need for greater interministerial coordination. Several people reiterated the hope that the outcome of the committee would be a decision to create a one-stop investment promotion agency for the country.

Dumisile Magagula spoke of the upcoming UNIDO consultancy which will produce a national industrial policy for Swaziland. She felt that no committee should be formed until the UNIDO consultant finished his report, stating that she planned to propose a coordinating committee to include Customs Immigration, and Finance. The group discussed the UNIDO project at some length and came to the conclusion that the creation of a standing committee or working group should not wait on the UNIDO consultant, but rather should be constituted immediately. Furthermore, it was felt that the committee could play an important role in structuring and implementing the work of the UNIDO consultant, including the preparation of background working papers. Dumisile Magagula confirmed that there are not yet any detailed terms of reference for the UNIDO consultant. Following the formulation of the National Industrial Strategy, the committee could assist in the process of developing consensus for the national industrial strategy. Susan Magagula said that the process of developing a Swaziland industrial strategy had been dragging on, and was particularly strong in her view that an interim committee or working group should be established.

## 3. Task Advisory Committee

The tax advisory committee currently reviewing tax incentives was discussed. It was felt that the investment working group would not duplicate this committee because not all interested organizations are represented on the tax advisory committee. However, it was stated that the tax advisory

committee could further the work of the investment criteria committee/group. Susan Magagula asked whether the terms of reference for the tax committee could be expanded, but the group agreed that it would not be appropriate to do so because the tax advisory committee covers tax issues much broader than those related to new investment.

#### 4. Investment Criteria

The group reviewed the four criteria outlined in CAPM's first report. These criteria were suggested criteria to be used to evaluate the seriousness and developmental impact of proposed investments in Swaziland. The proposed criteria were:

- o The investment should be local resource based. Wherever possible, new investments that will utilize local raw materials should be preferred.
- o The investment should be export oriented. Since the internal Swazi market is small, significant new investments of greatest benefit to Swaziland should plan to export their production.
- o The investment should be labor intensive. Since one of Swaziland's major development issues is the growing number of school leavers and the estimated 8,500 new job seekers coming to the market each year. Therefore, investments that will employ large numbers of people should be encouraged.
- o Investment by indigenous Swazis should be encouraged. This may involve the creation of additional incentives to spur this development and argues for the inclusion of SEDCO on the task force.

The group discussed the criteria briefly. While agreeing with the criteria, the group felt that the most important issue was the establishment of a process to promote investment in Swaziland. This structure must exist before any systematic screening and application of criteria could be accomplished.

#### 5. Follow Up

Phumelele Dlamini asked who would follow up after Ms. Booker's departure, maintaining that the issues were broader than agribusiness, which is the sole mandate of the CAPM project. The group decided that the investment working group to be formed was not donor driven, nor was it project driven, that it would assume an overall national perspective and broad-based sectoral promotional programs.

Those present discussed the need for an interministerial working group with responsibility for dealing with issues related to investment promotion and approval in Swaziland. Paul Thabede asked whether the purpose of the national investment task force was duplicative of the Committee on Industrialization Strategies. He was told that the Committee on Industrialization Strategies was moribund.

D. Future Actions

It was decided that the Senior Planning Officer at MCIT, Thembayena Dlamini, should take the lead in coordinating the investment working group in the future.

It was further decided that Jayne Booker, CAPM Consultant, should draft terms of reference for the investment committee and review them with Thembayena before Miss Booker's departure.

It was decided that the following organizations should be represented on the committee:

Ministry of Commerce, Industry and Tourism  
Ministry of Finance  
Department of Economic Planning and Statistics  
Central Bank  
Ministry of Natural Resources  
SEDCO  
SIDC

The group did not believe that the private sector should be represented on the committee, at least not initially.

E. Terms of Reference

Some initial thoughts on the terms of reference for the interministerial working group are provided below. The interministerial working group on investment in Swaziland will:

1. Liaise with, and provide guidance and insights to the UNIDO consultant(s) retained to formulate a national industrial policy.
  - o Review the detailed Terms of Reference for the UNIDO consultant(s) and recommend modifications, if necessary;
  - o Conduct a literature search on investment policies and promotional efforts (including incentives) in other countries (Botswana, Zimbabwe, Lesotho, South Africa); prepare a series of working papers for the UNIDO consultant(s);

2. Analyze and recommend policies, investment priorities, and incentives for foreign investment. For example, should new investment be channeled to other geographical locations (than Matsapha) in Swaziland?

3. Analyze financial incentives needed to spur indigenous Swazi business.

4. Further specify and define investment priorities for Swaziland. Formulate investment criteria which should be applied to new investment in Swaziland to evaluate the seriousness and developmental impact of investment projects and to serve as a basis for approving investment proposals.

5. Determine whether Swaziland should draft a formal investment code.

- o If an investment code is advised, determine how one should be formulated and recommend specific provisions.

6. Clarify the investment approval process and institutional procedures which should be observed for new investment in Swaziland.

7. Ascertain the advantages and disadvantages of a "one-stop" investment promotion agency for Swaziland. If the formation of a one-stop agency is endorsed, recommend goals, a budget, structure, responsibilities, and operating procedures for the proposed agency.