PN-ABM-930
80220

CREDIT 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

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July 1990

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LIST OF ACRONYMS

BCCI	Bank of Credit and Commerce International (Swaziland) Limited
CAPM	Commercial Agricultural Production and Marketing Project
CCU	Central Cooperative Union
CDC	Commonwealth Development Corporation
CODEC	Cooperative Development Education Centre
CSRET	Cropping Systems Research and Extension Training Project
EDF	European Development Fund of the European Economic Community
EEC	European Economic Community
FAO	Food and Agriculture Organization (United Nations)
GDP	Gross domestic product
GOS	Government of Swaziland
IFAD	International Fund for Agricultural Development
ITF	Individual title farms
IWG	Inter-ministerial Working Group
MCIT	Ministry of Commerce, Industry, and Tourism
MOAC	Ministry of Agriculture and Cooperatives
NAMBOARD	National Agricultural Marketing Board
NFPM	National Fresh Produce Market
RDA	Rural development area
SASCCO	Swaziland Association of Cooperative Credit Organizations
SDSB	Swaziland Development and Savings Bank
SEDCO	Small Enterprise Development Company
SIDC	Swaziland Industrial Development Corporation
SNL	Swazi Nation Land
SSE	Small-scale enterprise
Swazibank	Swaziland Development and Savings Bank
TDL	Title deed land
USAID	United States Agency for International Development

PREFACE

The agricultural development strategy of the Kingdom of Swaziland is to attain self-sufficiency in food production and to transform the subsistence-level agricultural sector to commercial farming. The development strategy is concentrated on integrated farming systems, irrigation, diversification, improved nutrition, conservation, marketing, and credit.

The Commercial Agricultural Production and Marketing (CAPM) Project funded by the U.S. Agency for International Development was created to contribute to the Government of Swaziland efforts in meeting the agricultural development strategy. The CAPM project, which began on August 15, 1989, has the objective of developing the Swazi Nation Land (SNL) agricultural sector and the small- and medium-scale agribusiness sector through a variety of activities related to the development strategy.

This report addresses one aspect of the development strategy--credit. The report describes the agricultural credit sector existing in Swaziland for the SNL farmer and for the small- and medium-scale agribusiness. The report contains recommendations about the credit sector that concern the Swaziland Development and Savings Bank (Swazibank). The report also describes a CAPM pilot program designed to demonstrate the value of a coordinated, commercial-farming effort involving credit, technical assistance, and marketing.

The authors of the report extend thanks to the CAPM team for their helpful suggestions in the development of the report. Mr. Absalom Dlamini, CAPM team member, proved to be an excellent guide and translator on field trips. The Swazibank provided considerable staff time in accompanying the authors on farm visits.

Despite his busy schedule, Mr. Mphaya Simelane, Director of Special Loan Programs at Swazibank, was especially helpful and responsive in providing information concerning loan programs for SNL farmers. Mrs. Sibongile Mdluli, research director at the Central Bank of Swaziland, assisted in providing banking data. Finally, the authors wish to acknowledge the guidance of the members of their Task Force Committee: Chairman Sam Hlophe, Ministry of Agriculture and Cooperatives (MOAC); J. Dlamini, Swazibank; P.Dlamini, Ministry of Commerce, Industry, and Tourism (MCIT); T. Gebremeskal, MOAC; J. Hunter, International Fund for Agricultural Development (IFAD)/MOAC; K. Kennedy, CAPM/MOAC; J. Mbingo, MOAC; P. Mdladla, MOAC; M. Ngwenya, MOAC; R. Olson, CAPM/MOAC; I. Rossiter, European Economic Community (EEC)/MOAC; A. Shongwe, National Agricultural Marketing Board (NAMBOARD); and M. Simelane, Swazibank.

EXECUTIVE SUMMARY

A. Small Farmers

1. Characteristics

There are an estimated 58,061 Swazi Nation Land (SNL) homesteads in Swaziland. Homestead lands are allocated by local chiefs under traditional tenure arrangements. About 5 percent of homesteads grow neither crops nor raise livestock, but nearly 88 percent of homesteads raise maize, the staple crop. The majority of the population holding homestead land are not farmers by vocation, but are simply those participating in the Swazi heritage of land allocation and raising crops for family subsistence needs. Many homesteads are situated in remote locations, on relatively small plots. The average SNL homestead has only 1.7 ha of cropland, and this may be divided into as many as seven fields, thereby greatly reducing operational efficiency. As a result, efforts to commercialize the "average" homestead may be misdirected. Most families have not chosen agriculture as their primary income source as available off-farm jobs provide more income. Moreover, highly fragmented landholdings are not easily managed for commercial production.

2. Target Group

Crop commercialization efforts should be directed toward the 20,000 or so homesteads that have holdings of 2 hectares or more. Most are already producing a surplus for commercial markets and are receptive to education and market inducements aimed at promoting increased productivity. This target group is consistent with the Commercial Agricultural Production and Marketing Project (CAPM) focus and the findings from the Swaziland Development and Savings Bank (Swazibank) that 1.5 to 2 hectares of maize allow many homesteads to be surplus producers and thus have better repayment capacity.

3. Constraints

This study has shown that credit is not the primary constraint to commercialization. Other constraints must be addressed if credit usage is to be truly productive. The constraints that need to be addressed before addressing the issue of credit are: marketing, transport, institutional and technical factors, and land tenure. Land tenure is the most controversial of these constraints, but will have an effect on all the others. Existing tenure practices have resulted in small, inefficient parcels that are not conducive to commercial production. One only needs to look at title deed land (TDL) farms to see the differences economies of size can make. Consolidation of small holdings could allow commercialization to proceed much more quickly in Swaziland.

Combining credit with a program that addresses the constraints other than land tenure will result in the most productive use of credit for the time being. Such a program is most likely to have the greatest impact on moving the target group more into the commercial sector. The cotton industry is successful because it has a reliable market, addresses transport problems, provides institutional infrastructure that promotes group credit and marketing arrangements, and renders technical help. Because of these attributes, credit usage is widespread and profitable to the small farmer raising cotton. Efforts to assist the SNL farmer need to be based on the experience of the successful cotton program.

4. Model

Robins stated "The CAPM project is intended to play a catalytic role in promoting commercial farming in Swaziland. The identification of markets and linkages with processors, producers, and suppliers is a major component of CAPM activity."[1] Current CAPM efforts involve a redirection of project activities to show more-immediate results in the field. A CAPM model is evolving to establish an organization or a liaison that addresses production, marketing, and credit constraints for small farmers in an integrated approach. This model centers around irrigated production sites, because of the potential production due to the availability of water. Current efforts to assist irrigation sites tend to stop after water is delivered to the farm. The CAPM model is supplementary to current efforts in that it addresses production, transport, and marketing problems. With the CAPM approach, credit can be of meaningful assistance to the small farmers.

B. Factors Influencing Small-farmer Credit

1. Socioeconomic Factors

A variety of socioeconomic factors influence small-farmer credit, and generally reduce the demand for and accessibility to credit.

The fundamental factor responsible for the low demand for credit is the low profit from SNL agriculture. Low returns to labor for traditional crops such as maize relative to other options available to the more-productive labor on a homestead cause such labor to migrate outside the homestead for work. Surveys of typical homesteads reveal that less than 5 percent of

[1]Edward Robins, "CAPM Baseline Study: Primary Baseline Report," Mbabane, CAPM Project, 1990.

overall homestead cash income is derived from agriculture. Marketing difficulties, transport problems, and escalating input costs all underlie the low relative returns to labor in farming.

The generally low returns to labor in agriculture as practiced by the small farmer result largely from low yields and the inefficiencies of small landholdings. Opportunities exist for good returns to labor in irrigated crops, especially tomatoes, summer onions, and potatoes, but marketing and transport problems inhibit increased production of these crops. Low yields and size of landholding must be dealt with in order to increase labor productivity. Increased yields will help a small farmer, but to induce him to utilize all of his labor on the farm, he must have enough land. The present land-tenure system inhibits increased labor productivity because it perpetuates small and inefficient landholding patterns.

2. Interest

Sociological influences, particularly the lack of understanding of the concept of interest and the lack of a fixed-time period in which to repay debt in traditional Swazi culture, cause borrowers to have difficulty accepting bank loan terms. The sense of obligation to repay a loan appears to be more out of fear of collateral seizure than out of contractual duty.

3. Profit

The reason farmers do not borrow money is lack of profitability. It is not profitable for most small farmers to use credit and it is not profitable for banks to extend credit to small farmers.

C. Small-farmer Credit

1. Minimal Credit Use

The SNL farmer uses a minimal amount of credit from the formal sector. Only about 4 percent of the 58,000 farmers have bank loans. The total amount that they borrow is only about 4 percent of the total credit extended by all commercial banks to the agricultural and forestry sector. The typical SNL farmer loan is for the purchase of agricultural inputs, primarily seed and fertilizer. The loan amount is normally less than E1,000 and the loan maturity is for one year with loan repayment from the sale of the crop.

2. Unprofitable Lending

With the exception of Swazibank, commercial banks do not extend credit to farmers on Swazi Nation Land because the small loans are unprofitable. Swazibank makes the loans to SNL farmers because of the Bank's legal obligation under the

Swaziland Development and Savings Bank Order No. 49, of 1973. Order No. 49 states that the object of the Bank is "...to conduct the business of banking in all its aspects, having regard to the needs of the individual citizen of Swaziland and of Swaziland as a whole...it shall...establish or promote agricultural and rural industries...." Swazibank expressed its concern about lending to SNL farmers in the Bank's 1987 annual report, which stated "... serving large numbers of small farmer loans harms the Bank's profitability."

3. Limited Collateral

In principle, there is no bankable security for the SNL farmer except cattle, which has proven to be unsatisfactory and undesirable. The tenure accorded to SNL rules out the possibility of using the land as collateral. From the viewpoint of the local bankers, land tenure is not a particularly meaningful credit constraint since the small SNL farmer loans are unprofitable regardless of the collateral that secures the loan.

The costs involved in lending to SNL farmers are high, resulting in part from the personnel and transport requirements necessary to provide loans to individual borrowers located over a wide geographical area. It is time consuming and costly to monitor cattle on the open range; that is a significant issue because virtually all of the loans are secured by cattle. Added to these costs are loan losses such as those that can result from crop failure.

Swazibank's average administration cost for handling all agriculture loans is E300, according to the Coopers and Lybrand 1988 study of the Bank. Based on that administration cost, it is unprofitable to make loans to farmers on Swazi Nation Land. As of March 31, 1990, the Bank had approximately E1.9 million in loans to 2,056 SNL farmers, equaling an average loan amount of E924. The income on E924 at 14 percent (the present rate) for one year (the average maturity) is E129 plus the loan fee of 10 percent of the amount borrowed each year, equalling E92. Based on these numbers, the Bank loses E79 on the average SNL farmer loan. It is clear that the Bank is subsidizing the SNL farmer loans from its other income sources.

D. Agribusiness Credit

1. CAPM's Objective

Agribusiness is dependent on the farmer, and includes all firms and people involved in the off-farm aspects of agriculture. The particular focus of CAPM's agribusiness activity is on small agribusiness development, and on ways that larger agribusiness can directly service or benefit small farmers. The CAPM project's charge is to work with the private sector to identify, analyze, and develop opportunities to stimulate agribusiness. The project has the additional responsibility of working with the government and the private sector to identify and address agribusiness constraints.

2. Characteristics of Swaziland Agribusiness

Agribusiness in Swaziland is delineated by the same sharp contrast that characterizes the country's agricultural production. On the one hand, there are the large corporate-owned, integrated agribusinesses such as the sugar plantations, which are the major contributors to the country's export earnings. These large firms encompass the complete spectrum of agriculture and agribusiness activity from production and transportation to processing and selling.

On the other hand, small-scale agribusinesses are typically owned by a sole proprietor and include butcher shops, rural hammer mills for grinding maize, vegetable vendors, and produce haulers. These small-scale agribusinesses have limited opportunity for development because small farmers in Swaziland market a limited amount of agricultural goods. The logic of this statement is that agribusiness depends on the farmer, which is another way of saying that commercial agribusiness occurs with commercial production.

There is a third agribusiness sector that is neither in the large nor the small agribusiness sectors. The third sector includes the Swaziland Dairy Board (SDB), the National Agricultural Marketing Board (NAMBOARD), and the Central Cooperative Union (CCU). The third sector also includes a small number of commercially viable agribusiness input supply, processing, and manufacturing plants--hereafter referred to as medium-scale agribusinesses. These medium-scale agribusinesses are owned primarily by sole-proprietor, white Swazis.

Cotton farmers, collectively, are the notable exception to the fact that small farmers in Swaziland market a limited amount of agricultural goods. Cotton is the principal cash crop for more than 9,500 small farmers in rural development areas (RDAs) who produced a total of 20,854 metric tons in the 1987-1988 season. Two large corporations, Cotona and Clark, purchase most of the cotton. These corporations are the agribusiness component of the cotton industry--a situation illustrating the fact that commercial agribusiness occurs with commercial production.

3. Commercial Bank Loans

Commercial banks provide credit to the commercial agribusiness sector through conventional loans as well as lease financing of equipment. Loans are normally secured, often by real estate. The maximum loan amount is usually 60 to 65 percent of the value of the asset which is financed. Working capital loans are made for as long as one year; medium-term loans such as those for the purchase of equipment are normally made for three years; and building loans are from five to seven years.

Based on bank interviews conducted by the authors of this report, small agribusinesses have limited access to credit. No formal source of credit for the undercapitalized, fledgling agribusiness entrepreneur. Several persons interviewed affirmed that Swazibank is the only source of agribusiness credit on Swazi Nation Land, and the loans the Bank makes to entrepreneurs are normally secured by cattle. The Bank does not have concessional loan programs available to rural agribusinesses such as those that exist for small farmers.

4. Business License Constraint

The Commercial Amadoda hinders the development of agribusiness on Swazi Nation Land because it has the authority to grant business permits in the form of consent. Consent is often given on a patronage or other noncommercial basis. The process of receiving consent to start a business on Swazi Nation Land can be interminable. According to reliable sources, there are more than 1,000 applications for consent of one sort or another pending, many of which have been pending for years.

5. Development Opportunity

Development of agribusiness depends on expanded commercial production from Swazi farmers. The most likely source for expanded production is through group efforts including an expanded marketing dimension. Commercial production exists in a group setting through primary societies' operations with integrated input purchasing, product marketing, and farmer credit provisions for cotton, tobacco, sugarcane, and pineapples. The opportunity exists for increased commercialization of fruit and vegetable production by developing a similar integrated agribusiness approach.

The cotton industry is a good model for expanding production because its attributes include credit and marketing through a group setting. Commercial agribusiness occurs with commercial production as illustrated by the cotton industry where more than 9,500 small farmers sell to two large agribusinesses.

SECTION I
SMALL FARMERS

A. Introduction

Based on the 1986 Census of Agriculture, the resident population of Swaziland was 681,000, with 77.3 percent classified as rural residents. Swaziland's small farmers living on Swazi Nation Land represent the dominant rural group, comprising 69.5 percent of the population. Unlike most African countries, these farmers do not live in villages, but reside in family settlements called umuti in SiSwati or homestead in English. Homesteads are defined in the Census of Agriculture as "A group of dwellings, related storage buildings and associated courtyard in which a single family or an extended family resides under the authority of a single head of the homestead." Homesteads on Swazi Nation Land are allocated by the local chief, and are held in traditional-use tenure, rather than in fee-simple ownership. Most of the homesteads are located on Swazi Nation Land, although some are found on title deed land, also known as individual title farms (ITF). Homesteads present on TDL land are usually inhabited by squatters, with the acquiescence of the landowner. Agricultural census reports consolidate these TDL squatter homesteads with SNL homesteads. References to title deed land hereafter in this report will be to land settled by the owner, which includes the modern commercial farms and estates. Some homesteads are not engaged in crop or livestock production, but they only constitute 4.7 percent of all homesteads. (1983-1984 Census of Agriculture)

B. Characteristics of the Small-farmer Sector

The small farmer practices mixed farming, with 94.1 percent of all homesteads producing some crops. Slightly over one-half of the homesteads, 54.8 percent, raise cattle; 31.2 percent raise goats; and 46.7 percent have plow oxen. Sheep are not popular, with only 3.9 percent of homesteads raising them. Maize, the Swazi staple crop, is grown on 87.8 percent of the homesteads. Other crops grown include tomatoes, beans, cabbage, onions, potatoes, cotton, tobacco, and in rare cases pineapple or sugarcane. Crop production on SNL land averaged 4.4 percent of gross domestic product (GDP) from 1984 through 1988 (a reliable source indicates that this is highly overestimated), versus 14.5 percent for commercial title deed land. Since SNL land constitutes 60 percent of the cropland used for agriculture, productivity on it is low. In general, the commercial TDL landholdings are much larger, comprise the more valuable agricultural land in the country, and are well capitalized.

The typical homestead with cattle had an average of 16.6 head of cattle. Homesteads with cattle might not have other farm animals, although it is likely that they do. Those with plow oxen averaged 5.1 head per homestead. Those with goats averaged 16.6 head. During 1983, 82.1 percent of all Swazi cattle were found to be on SNL land.

C. Size and Number of Farms

There is a lack of definition as to what a farm is in Swaziland when discussing farms other than the large and modern commercial farms. The term farm is used interchangeably with the estimated 58,061 total number of homesteads in the 1983-84 Census of Agriculture. In fact, the majority of homesteaders are not farmers by vocation, but are simply participating in the Swazi heritage of land allocation and raising crops for family subsistence needs. A reasonable definition of small-scale commercial farmer would be: "those 20,000 or so farmers on Swazi Nation Land with holdings of at least two hectares plus a few hundred family farms on Title Deed Land where holdings are larger."[1]

The total land area in Swaziland is 1,725,060 ha, divided between 965,080 ha of Swazi Nation Land and 759,980 ha of title deed land. There are 800 TDL farms, but only 543 are active. Of these, 149 are below 100 ha in total size, averaging 25.7 ha. In contrast, the balance of 394 operating TDL farms average 1,287.4 ha in size. A dramatic contrast emerges when one examines cultivated holdings by active TDL farmers, which amount to 68,512 ha. Cultivated holdings below 100 ha are present on 483 farms or 88.9 percent, with an average of 16.1 ha per farm. Any small farmers owning title deed land would be in this group. The 14 farms above 500 ha comprise 2.6 percent of all active TDL farms and average 3,045 ha each. Thus, 88.9 percent of the active TDL farms by number control only 11.3 percent of the cultivated area, while 2.6 percent of the farms control 62.2 percent of the area. The 54,651 SNL homesteads that grow crops have potential access to an average of 17.6 ha each of total land, but this includes communal grazing land of 15.6 ha. This leaves only 1.7 ha of cropland, and 0.3 ha of other land, mainly for buildings. Cropland typically is fragmented into about seven fields per homestead, which severely restricts operational efficiency. Site visits by the authors revealed a wide range of field sizes. Land resources available to the average small Swazi farmer are very limited by size and fragmentation.

[1]"Project Paper, Commercial Agriculture Production and Marketing Project 645-0229," USAID, Mbabane, August, 1988, p.7.

D. Sectoral Composition of Small-farmer Activity

1. Crops

Crop production is the dominant activity on SNL and small TDL holdings. Table 1 illustrates the relative importance of different crops to small farmers on these lands as reported in the 1983-84 Census of Agriculture. Maize predominates, followed after a huge margin by cotton, the primary commercial crop of SNL farmers, and then sorghum and pumpkins. Since the 1983-84 Census of Agriculture, cotton holdings have increased dramatically. According to reliable sources in the cotton industry, about 26,000 ha of cotton were grown in the 1989 to 1990 season which has held at that level since 1987 to 1988. Sources also indicate that there are about 15,000 small cotton growers, which is over three times as many as in 1983 to 1984 (see table 1). Factors responsible for the increase are good returns to labor for cotton and the availability of credit from the ginneries. Estimates are that 22,000 ha of cotton were financed for the 1989 to 1990 crop. Cotton is a commercial crop and serves as an excellent example of how commercial farmers respond to market signals. Table 1 shows the number of hectares of various crops raised in 1983 to 1984 and the number of homesteads involved in production of major crops.

Table 1. Homestead Area Under Various Crops, Number and Percentage of Homesteads Producing Selected Crops, 1983 to 1984

Crop	Land Area		Homesteads Producing	
	Ha	%	No.	%
Maize	68,824	76.2	50,993	87.8
Groundnuts	1,383	1.5		
Cotton	6,834	7.6	4,625	8.0
Sorghum	1,541	1.7		
Jugo beans	770	0.9		
Pumpkins	1,502	1.7		
Beans	1,185	1.3		
Cowpeas	664	0.7		
Sweet potatoes	1,131	1.3		
Tobacco	287	0.3	1,970	3.4
Melons	547	0.6		
Tomatoes	47	0.1		
Orchard & garden crops	982	1.1		
Other crops	4,631	5.1		
Total	90,328	100.0		

Source: 1983-84 Census of Agriculture

2. Livestock

Cattle, although very important in traditional Swazi life, contribute far less to GDP than their potential contributions. Cattle offtake as measured by slaughter divided by holdings has averaged 9.5 percent for the years 1983 to 1987. Estimates are that this level could be easily doubled. Noncrop agricultural production is predominantly cattle and constitutes 4.4 percent of GDP. The 4.4 percent of GDP constitutes about 19 percent of all agricultural GDP (crop production on SNL constitutes only 4.4 percent of GDP). Most Swazi cattle (82.1 percent) are on SNL land. A doubling of offtake through more-intensive utilization of existing cattle resources would have a dramatic effect on SNL small-farmer agricultural income. Table 2 illustrates cattle offtake in Swaziland.

Table 2. Cattle Population and Offtake (1)

Year	Population	Offtake	Percent Offtake
1983	642,447	72,757	11.3
1984	613,529	57,265	9.3
1985	648,332	55,702	8.6
1986	653,222	58,958	9.0
1987	640,901	58,958	9.2
Average	639,686	60,728	9.5

Source: 1987 Annual Statistical Bulletin and 1990/91 to 1992/93 Development Plan
(1) Cattle slaughtered (except imports), plus live exports.

One factor responsible for reduced cattle offtake is that in Swaziland, as is common in Africa, cattle are a store of wealth. They also have great cultural significance and are considered a sign of success and have great ceremonial value for such customs as lobola or dowry. The role of cattle in the Swazi culture, plus the fact that they provide a hedge against inflation, results in holding cattle for periods beyond their peak economic life. The Prime Minister of Swaziland recently called attention to this situation in a speech at a farmer seminar in Manzini. He stated, "Cattle constitute an immensely valuable asset to our Swazi society. To us, cattle do not serve an economic purpose alone, but also fulfill many important cultural and social functions...but we are now living in different times."[2] The 1986 human population of Swaziland (681,000), compared with the cattle number that year (653,222) demonstrates that there is almost one head of cattle for each person. Table 3 illustrates the distribution of animals in Swaziland in 1983 to 1984 and demonstrates the popularity of cattle.

Table 3. Homesteads With Various Animals, and Numbers per Homestead, 1983 to 1984

Animals Type	Number	Homesteads Reporting		No. Per Homestead Holding	All
		No.	%	(1)	(2)
Cattle	527,593	31,788	54.7	16.6	9.1
Plow oxen	137,342	27,135	46.7	5.1	2.4
Goats	300,388	18,128	31.2	16.6	5.2
Sheep	27,260	2,298	4.0	11.9	0.5
Mules/horses	1,316	430	0.7	3.1	0.0
Donkeys	16,881	3,508	6.0	4.8	0.3
Pigs	21,188	8,422	14.5	2.5	0.4
Poultry (3)	n/a	735	1.3	-	-
Dairy (4)	n/a	348	0.6	-	-

Source: 1983-84 Census of Agriculture
(1) Number per homestead for homesteads holding that type of animal
(2) Number per homestead of all 58,061 homesteads
(3) Homesteads selling at least one dozen eggs per day or one dozen broilers per month
(4) Homesteads selling dairy products

The popularity of cattle coupled with the present land-tenure system results in overgrazing in many areas. The Prime Minister recently issued a statement concerning the seriousness of overgrazing.[3]

E. <u>Constraints on the Small-farmer Sector</u>

The constraints discussed here relate to the farmers on Swazi Nation Land, although some may also apply to farmers on title deed land. Small farmers who have been allocated homestead parcels are disbursed throughout Swaziland, many in remote areas difficult to access by vehicle. As stated earlier in this

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[2] "Cattle Wealth Is Now Out of Step with Our Times," <u>The Times of Swaziland</u>, Mbabane, June 11, 1990, p. 3.

[3] "Cattle Warning Is a Really Important Issue," <u>The Times of Swaziland</u>, Mbabane, June 19, 1990 p. 4.

report, most homestead residents have no serious intent of commercial production. They produce only enough food for home consumption and in many cases less than enough. Cultivating the land is necessary to continue their usufruct rights to the parcel. Those who desire to consistently produce a surplus for sale face problems that have a lesser impact on the non-commercial farmer. Two hectares appears to be a reasonable threshold for some commercial activity, although high-value crops could be commercially viable on some smaller parcels. Swazibank officials have found that for maize a typical homestead needs 1.5 to 2 hectares to be considered a surplus producer and thus a better credit risk.

1. Marketing

Effective markets exist for pineapple, sugarcane, and cotton, all high-value crops. The markets for pineapple and cane exist because of estate growing and processing by Swazican and the sugar companies. Cotona Cotton purchases for its ginneries at Matsapha and Big Bend. Clarke Cotton Swaziland has a gin in South Africa and also gins through Cotona. The markets for these high-value crops are well established and reliable. Marketing for other commodities, however, is fraught with problems for the small producer. Farmers interviewed by the authors cited marketing most frequently when asked what constraints they faced.

a. Maize

Official minimum producer prices exist for maize, the most common agricultural commodity. Maize can be delivered to the local CCU depot, or for quantities of 20 bags or more, to the National Maize Corporation at Matsapha. When marketing through these entities, the minimum price, E26 per 70 kg sack in 1989 to 1990, is in reality the maximum price. Farmers stated to the authors of this report that they received E30 per sack for local sales to other homesteads this past season. Unfortunately, the farmers were only able to sell a small portion of their maize in that market.

The CCU acts as an agent for the National Maize Corporation when purchasing maize. Growers generally do not regard either the CCU or the National Maize Corporation as acceptable marketing outlets. The farmers are required to wait several weeks for payment unless they deliver to Matsapha. Delivery can be problematic to the farmer, first in securing transport, and second in gaining acceptance of the maize by the CCU or the National Maize Corporation. Acceptance of the maize is subject to meeting standards for moisture and being free of weevils. If the moisture standard is not met, the maize will be rejected. If weevils are present in the maize, the CCU depot can sell the farmer materials to kill the weevils. The farmer is allowed to do this on the CCU grounds, averting the need to transport the maize to and from the farm again. After the recommended time period, CCU again inspects the maize to determine that the weevils are dead. If that is the case, the lot is then accepted. The same standards apply at Matsapha; however it is doubtful whether they would allow the farmer to treat his maize on-site if it contained weevils.

b. Produce

As with farmers marketing maize through CCU, delayed payment is also a problem for growers marketing produce through the Swaziland National Fresh Produce Market (NFPM) at Nokwane. Additionally, since the produce is consigned to the market at Nokwane, it may fail to be sold either in full or in part, resulting in a loss to the farmer. In a report based on a survey of fresh-produce farmers in Swaziland, Jeebe and Steppe concluded for semicommercial farmers that "Smallholders consider that they have no secure market outlet: Most farmers depend on irregular visits by itinerant traders and Nokwane Market is not yet seen as a secure market outlet."[4] Regarding commercial growers they stated: "...marketing risk is still a major limiting factor. This is said to prevent farmers from expanding their production." Fifty percent of the farmers surveyed indicated that a substantial portion of their produce rots in the field, and the main cause of the problem was stated to be "lack of buyers."

2. Transport

There is a chronic lack of access to transport for small producers. One might think that the problem is due to the farmer's lack of significant financial resources. Actually, it is due to the long and difficult routes to the more-established markets and the lack of sufficient individual production to justify a buyer or a hauler to collect the produce. Transport rates to remote areas are high, as the authors discovered from the farmers. High transport costs make collecting small quantities of farm products unprofitable.

3. Institutional Factors

The sheer number of homesteads and their geographic dispersion is a large constraint to any institution effectively servicing them. Marshalling enough resources to reach even a large portion of the farmers is an expensive proposition. Even in the RDAs, which have a higher concentration of resources, the frequency of farmer contact by extension workers falls short of extension objectives, partly because of the high cost of transport and the problems encountered in maintaining vehicles

[4]M.G. Jeebe and H.M. Steppe, "Marketing of Fresh Produce in Swaziland," Marketing Advisory Unit, Ministry of Agriculture and Cooperatives, Mbabane, March 1990, pp. 4-5.

traveling on rugged roads. Government-supported institutions such as extension and the CCU try their best to carry out their mandate of service to farmers. Private institutions simply choose not to provide services in remote areas because of economic reasons.

4. Labor

Difficulties with labor arise in securing adequate outside labor and tribute labor. Both of these areas seriously affect the commercially oriented small farmer. The subsistence-production level small farmer is less affected by these difficulties because he doesn't depend on outside labor and the tribute labor he provides does not affect his small amount of crops.

a. Peak Period Labor

Swaziland has a relatively high unemployment rate, and one might think that securing additional labor would not be a problem. Flory found in his survey of advanced farmers that two thirds of the farmers needed to hire labor for weeding and harvesting.[5] He further found that half of the farmers were unable to obtain ample outside labor at the "critical times." The labor shortage was due both to lack of funds to pay the labor and the inability to locate people willing to work.

b. Tribute Labor

Tribute labor is the practice of subjects providing free labor for the chief and the king. Flory reports that 91.5 percent of surveyed advanced-farmer homesteads provided labor to the chief, while 80.9 percent provided labor to the king.[6] The average advanced-farmer homestead actually donated a combined total of 64.2 worker days to the chief and king. This may have occurred at a time when the farmer needed that labor the most for his operation. About one-third of the farmers indicated that this practice delayed their work. More farmers were probably affected, but because of the cultural significance of the practice, they chose to give a tactful response. Tribute labor might be looked at as a cost of doing business as an SNL farmer, or a rent of the land. Unfortunately, it likely occurs at the most critical labor time for the farmer.

[5]Bruce Flory, "Land Tenure and Other Constraints to Commercial Agriculture on Swazi Nation Land: A Survey of Swaziland's Advanced Farmers," Land Tenure Center, University of Wisconsin and Ministry of Agriculture and Cooperatives, Mbabane, 1987, p. 41.

[6]Ibid., pp. 28-33.

5. Technical

The small farmer is faced with a number of technical problems, including lack of training and mechanization. Swazi farmers have demonstrated a willingness to adopt new technologies, as is evident with hybrid maize. The difficulty lies in making available profitable new technologies with training and marketing support.

6. Land Tenure

Land issues were listed by producers interviewed in the CAPM Baseline Survey as major constraints.[7] The small size and fragmentation of SNL homesteads has been discussed earlier. The survey, which was directed to commercial farmers, found that 61 percent of the respondents stated that they needed more land to be profitable at commercial agriculture. Fifty-two percent were not sure that they could obtain the added land. It is notable that slightly more individuals cited poor soil as a constraint than did those citing lack of enough land.

Good soil stewardship does not appear to be viewed as a means of increasing production. In the survey, "Long-term, sustainable measures for land improvement and increased production, such as soil control, agroforestry, and improved fallow, are not cited as means to increased production... customary land management practices do not encourage the productive use of land, because lacking formal tenure security, homesteaders are reluctant to improve the land resource."[8]

Reluctance to invest in improvements may be the reason why 83 percent of the respondents indicated that their structures for agricultural purposes are inadequate. It is evident that the present land-tenure system may not be a constraint to production for the noncommercial farmer, since that farmer is not interested in increasing production beyond subsistence. If one considers how commercial farmers are inhibited from investing in agricultural improvements to increase productivity and production, then indeed traditional land tenure is a serious constraint in Swaziland.

7. Credit

Credit to small farmers has not been proven to be a major constraint to increased agricultural production in Swaziland. The authors of this report found that it is not profitable for the Swazibank to make loans to small farmers.

[7]Edward Robins, "CAPM Baseline Study: Primary Baseline Report," CAPM Project, Mbabane, January 1990, p.35.

[8]Ibid., p.28.

Also, it is not profitable for the small farmer to borrow funds for maize production, the predominant SNL crop.

a. Short-term Loans

The typical small-farmer bank loan is for crop inputs; however, there are strict collateral requirements. Because SNL land cannot be mortgaged, cattle are the most common type of collateral. Under the present standard, a loan does not normally exceed one-third of the market value of the cattle pledged as collateral.

The majority of cotton farmers obtain their credit from the gins. Security is the crop, and the gins deduct the loan from the purchase price of the crop. Nearly 85 percent of the cotton crop is financed and is thus the largest sector of finance to SNL farmers.

b. Medium-term Loans

Swazibank does extend medium-term loans to SNL farmers, but loan terms are conservative. A loan for an irrigation pump and engine received by one farmer was amortized over two years. The authors did not conduct a comprehensive analysis of the Bank portfolio, but believe there is a tendency to set the repayment term on a lesser-time period than an intermediate-term loan would normally justify. There are more opportunities for intermediate-term loans than are being served at present. For example, to qualify for a tractor, a borrower must demonstrate that he farms sufficient acreage to justify the investment. This is a sound criteria in most cases, but it rules out providing some loans to private tractor-hire operators.

Several farmers said that they could use fencing, an expense that should be amortized with a loan of several years. They were under the impression that the Swazibank would require repayment in one year. The Bank would be willing to extend a two-year loan on fencing, but would be hesitant to go for a longer maturity. A more serious assessment of intermediate-term loan applications is in order.

c. Long-term Loans

Although, there are some loans made to SNL farmers for purchase of title deed land, appreciable amounts of long-term credit do not exist. Because the SNL farmer does not own his farm, he cannot afford to make capital improvements. Further, since the returns in agriculture are so low he would not be making a rational decision by doing so unless there was an exceptional circumstance. The inability of the farmer to demonstrate feasibility of the investment, plus the lack of means for the bank to secure its loan asset would preclude bank lending.

F. Summary

There are an estimated 58,061 SNL homesteads in Swaziland. Homestead lands are allocated by local chiefs under traditional tenure arrangements. About 5 percent of homesteads grow neither crops nor raise livestock, but nearly 88 percent of homesteads raise maize, the staple crop. The majority of the homesteaders are not farmers by vocation, but are simply participating in the Swazi heritage of land allocation and raising crops for family subsistence needs. Many homesteads are situated in remote locations on small plots. The average SNL homestead has only 1.7 ha of cropland, divided into as many as seven fields, greatly reducing operational efficiency, as highly fragmented land-holdings are not easily managed for commercial production. As a result, efforts to commercialize the average homestead may be misdirected. Most families have not chosen agriculture as their primary income source as available off-farm jobs provide more income.

Crop-commercialization efforts should be directed toward the 20,000 or so homesteads that have holdings of two hectares or more. Most are already producing a surplus for commercial markets and are receptive to education and market inducements aimed at promoting increased productivity. This target group is consistent with CAPM's focus and the evolving findings of Swazibank that one and one-half to two hectares of maize allow many homesteads to be surplus producers and thus have better repayment capacity. Because lack of credit is not the primary constraint to commercialization, other constraints must be addressed if credit usage is to be productive, constraints such as marketing, transport, institutional factors, technical issues, and land tenure. Land tenure is the most controversial of these, but has an effect on all the others, and has resulted in small, inefficient parcels that are not conducive to commercial production. One needs only to look at TDL farms to see the differences economies of size can make. If land tenure were addressed, commercialization could proceed much more quickly in Swaziland.

Combining credit with a program that addresses the constraints other than land tenure will result in the most productive use of credit for the time being. Such a program is most likely to have the greatest impact on moving the target group more into the commercial sector. The cotton industry is successful because it has a reliable market, addresses transport problems, provides institutional infrastructure, and renders technical help. Because of these attributes, credit usage is widespread and profitable to the small farmer raising cotton. Efforts to assist the SNL farmer need to be based on the experience of the successful cotton program.

Robins stated, "The CAPM project is intended to play a catalytic role in promoting commercial farming in Swaziland. The identification of markets and linkages with processors, producers, and suppliers is a major component of CAPM activity."[9] Current efforts underway in CAPM involve a redirection of project activities to show more immediate results in the field. A CAPM model is evolving to establish an organization or a liaison that addresses production and marketing constraints for small farmers in an integrated approach. This model centers around irrigated production sites, because of the potential for increased production due to the availability of water. Current efforts of assistance to irrigation sites have the tendency to stop after water is delivered to the farm. The CAPM model is supplementary to current efforts in that it addresses production, transport, and marketing problems. With the CAPM approach, credit can be of meaningful assistance to the small farmers.

[9] Ibid., p. 2.

SECTION II
SOCIOECONOMIC FACTORS AFFECTING CREDIT DEMAND AND ACCESSIBILITY

A. Introduction

In Swaziland, many parties question why farmers are not utilizing more credit. Swazibank has funds allocated for small farmers that are not being used, and lending to small farmers has declined in both numbers of loans and in the real value of funds provided. For the year ending March 31, 1990, Swazibank's concessional portfolio to small farmers stood at E1.7 million with 1,887 loans, compared to E1.48 million and 5,081 loans on March 31, 1981. If inflation had averaged just 10 percent per year over that time period (it was much higher), the 1981 portfolio would have increased to E3.49 million by 1990. Not only has the number of loans dropped by more than 60 percent, their real value in terms of purchasing power has diminished accordingly. Sociologic and economic factors both influence demand for and access to credit by small farmers in Swaziland.

B. Sociological Factors

1. Cultural Influence

Cultural traditions in Swaziland reward noncompetitive and nonaggressive behavior.[1] Copying something that exists is preferable to going into an entirely new venture. With farming, adoption of new crops or technology is slow until someone else has tried it. In business, this conservative behavior is evident in the proliferation of butcheries, bottle stores, and retail shops rather than new businesses. SNL farmers tend be conservative and cannot afford to take significant risks.

a. Planning and Wealth Accumulation

Planning horizons have been based on the agricultural cycles, which are short term and thus longer-term

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[1]Kahnya Gamedze and Sylvie Kamalkhani, "Swazi Culture and Small Business Consultancy Part II: Money, Wealth, Credit and Competition," Swaziland Training for Entrepreneurs Project (USAID), Mbabane, July 1989, p. 1.

planning is not common.[2] Having just enough money to meet day-to-day needs is the primary concern, and accumulation of a surplus is not seen as important. Accumulation of individual wealth is not highly regarded in Swaziland, and those who have managed to accumulate wealth normally hide it to avoid the envy and suspicion of neighbors. Cultural factors have a dampening affect on demand for credit by the average homestead member, but might not affect demand for credit by the commercial homesteader.

b. Traditional Credit Concepts

The concept of credit in traditional Swazi culture is very different from that espoused by the commercial banks. First, there is no equivalent of interest. Items borrowed, be they cash or in kind, are repaid without additional charges, irrespective of the time required to do so. Gamedze states regarding lobola or dowry: "Payment of lobola, whether it takes ten or twenty years, if parties agreed on ten head of cattle the figure does not change, or if a family borrows a sack of maize they repay the same amount without addition."[3] Besides the difference in the concept of interest, traditionally a Swazi has no time limit for repaying his debt. Hence there would be little concern by a Swazi whose loan was past due to a bank, since he could still have the intent of paying it someday. Lack of concern about an overdue loan was evident in the attitudes of two past-due borrowers of Swazibank interviewed by the authors. Both of these individuals had the capacity to liquidate their debts, but chose instead to either divert the crop proceeds into planting the following year's crop, or delay marketing the crop. Borrowers interviewed by the authors were clearly confused by the interest and other charges assessed by Swazibank. Many felt that interest charges exceeded the principal originally borrowed.

Besides the traditional Swazi idea of credit, Kunene reports that during the early years of the Swazibank, "It was not uncommon to find influential people saying, in public places, that...since this was a government-created bank, repayment of the loan should not be obligatory."[4] In March of this year, the Government of Swaziland (GOS) did in fact pay off delinquent loans of some borrowers (see section III, F.). The payment has caused dissatisfaction for borrowers who have always repaid their loans. The government may have relayed the wrong signal to borrowers through this action. The attitudes toward government, plus the traditional concept of credit, could explain why late loan payment tends to not bother Swazi borrowers except for the fear of collateral seizure. Because the traditional idea of credit is not favored by bankers, they adopt tougher credit standards to protect themselves, hence reducing the availability

[2]Ibid., p.3.

[3]Ibid., p.10.

of credit. At the same time, farmers clearly do not appreciate the banks' commercial concept of credit, and accordingly many refrain from bank borrowing, thus reducing the demand for formal credit. A big factor causing this aversion to credit is the fear that the bank will seize the borrower's cattle in the event of default. Unfortunately the seizure of cattle collateral from flagrantly delinquent borrowers has received undue adverse publicity in the media.

2. Traditional Land Tenure

The issue of the affect of tenure on agricultural credit and production on Swazi Nation Land is a controversial subject. A recent land-tenure study by the University of Wisconsin concluded that "land tenure is not a major constraint on the growth in agricultural production under present circumstances. Those present conditions include relatively low returns to labor in agriculture, which constitute a more important limitation on increases in production than tenure factors."[5] Many people, including the author of the CAPM Primary Baseline Report disagree with the conclusion of the Wisconsin study.[6] The main constraint to increased production on most Swazi Nation Land discovered in this credit study first appeared to be the relatively low returns to labor in agriculture. The small-scale landholdings and insecure tenure characteristic of the traditional tenure system inhibits capital investment in agriculture and may well be the primary reason for the low returns to labor. Tenure appears to be a major constraint to commercial agriculture.

a. Tenure and Credit in General

When the issue of traditional land tenure is related to credit, the authors find that it reduces the demand for and availability of credit to SNL farmers. Banks other than Swazibank are unwilling to extend loans to these farmers partially because the farmers lack real estate to pledge as collateral. More fundamental reasons are the small amounts of credit presently needed by small farmers, the high servicing costs of this type of loan, and the low profitability of most

[4]A.V. Kunene, "Progress in Small Farmer Credit," Royal Swaziland Society of Science and Technology, Vol. 3 No. 1, November, 1980, p. 22.

[5]John W. Bruce and Mark Marquardt, "Summary of Research Findings and Review of Policy Options, Research project on Changes in Agricultural Land Use in Swaziland," Ministry of Agriculture and Cooperatives, Mbabane, August, 1988, p. 49.

[6]Edward Robins, "CAPM Baseline Study: Primary Baseline Report, CAPM Project, Mbabane, January 1990, pp. 27-28.

small farms. Bankers consider profitability of an enterprise as being much more important than loan collateral. The authors do not believe that lending to SNL farmers would immediately increase if the farmers were given ownership of their holding. Over a period of time, however, more-progressive farmers could purchase additional land and need more credit.

b. Tenure, Credit, and Commercial Farmers

Although not a constraint for subsistence farmers, traditional land tenure can be a significant obstacle for the SNL farmers who seek to become commercial. Such farmers are reluctant to make capital improvements to land that might not remain in their control. Other practices such as corrective fertilizer usage might not be adopted. Intensifying production through mechanization is also inhibited. The farmer is inhibited from added investment both by the uncertainty of tenure and the lack of real estate to pledge as security.

3. Informal Credit and Remittances

a. Informal credit

According to Gamedze, entrepreneurs are increasingly utilizing money lenders for working capital requirements.[7] The authors of this report suggest that the availability of funds from informal lenders, particularly in small amounts, may be satisfying some of the credit demand by SNL farmers. Legislation is now pending in Parliament to regulate the informal credit sector. The Money-Lending and Credit Financing Act of 1989 is designed "to regulate money-lending and credit financing by persons other than recognized financial institutions."[8]

b. Remittances

In Swaziland, according to Russell, there is a widespread availability of income from the remittances of homestead members who work away from the homestead.[9] Remittances reduce credit demand from formal sources. Since nearly every homestead has a member working for wages either in Swaziland or Southern Africa, remittances are common.

[7]Gamedze, Swazi Culture, p. 9.

[8]"Money-lending and Credit Financing Act, 1989 (Bill No. 13 of 1989)," The Government Printer, Mbabane, 1989, p. S1.

[9]Margo Russell, "Beyond Remittance, The Redistribution of Cash in Swazi Society," Research Paper No. 12, Social Science Research Unit, University of Swaziland, Kwaluseni, 1984.

C. Economic Factors

1. Returns to Labor

The March 1990 Board of Inquiry Report on Escalating Farm Input Costs stated, "...under normal conditions and reasonably expected average yields, maize growers are possibly receiving approximately one-third of the amount per man-day received by persons with similar skill levels in other sectors... If a more realistic position is considered, where past data on the recorded annual yields is used in calculating returns per man-day...maize producers realize very much less for their labor when compared with persons employed in other sectors of the economy."[10] Analysis of current data indicates a return to labor for the 1989 to 1990 maize crop of E4.12 per man-day. The return to labor is based on 1984 to 1988 average yields of 1.8 metric tons per hectare for RDAs (see annex D).

When a farmer can plant less maize area without reduced production, he can more productively work outside the farm if he wants more cash. Low reported in 1983,"...for the labor supply beyond this (self-sufficiency), the choice is cash cropping... or wage employment. Over the last decade wage employment has been an available and attractive choice."[11] The authors of this report did not find evidence that wage labor is any less attractive or less available than in 1983. Price increases within any reasonable level would have little impact on returns to labor, since prices for maize are already well above South African maize prices. Improved labor productivity is necessary for significant increases in returns to agricultural production for maize. Increased yields and larger tracts conducive to mechanization are required for higher labor productivity.

Yields must be slightly over three tons per hectare in order to generate returns to labor necessary to be competitive with semi-skilled wage incomes (see annex D). If the maize producer wanted to equate his income with an annualized outside wage potential for some skilled workers (about E3,800 per year), 6.7 hectares of maize would be necessary with a three-ton yield (261 man-days/39 man-days per hectare). This suggests that until increased returns to labor are available to farmers, they will not be demanding additional credit to expand production of maize.

[10]Report of the Board of Enquiry Established to Investigate the Cause and Effects of Escalating Costs of Farming Inputs in Swaziland," Ministry of Agriculture and Cooperatives, Mbabane, March, 1990, p.23.

[11]Fion DeVletter et al., "the Swazi Rural Homestead," Social Science Research Unit, University of Swaziland, Kwaluseni, July, 1983, p. 155.

Crops other than maize have much better potential returns to labor of as high as E31 per man-day. However, for crops other than cotton, production, marketing, and transport constraints inhibit most farmers from commercial production. The authors of this report find that low returns to labor for the small farmer have reduced demand for credit for financing agricultural production.

2. Outside Sources of Income

The CAPM Baseline Survey of commercial homesteads found that 75 percent of the respondents cited crop and livestock sales as their most important sources of income. This contrasts with figures the Baseline cited from previous surveys for average homesteads in which almost 60 percent of total homestead income was found to be from cash wages and other cash sources. Although 32 percent of total income was in-kind from agriculture, less than 5 percent of cash income was from agriculture. Homesteads in general could be viewed as part-time farms that require outside income to supplement agricultural production income. Compared to other developing countries, Swaziland has an abundance of opportunities for wage income that exceed returns to labor in agriculture. The availability of outside income reduces the demand for credit by the average homestead. The commercial homestead demand for credit will not be affected as much, since it is less dependent on outside sources of income.

The authors noted in field trips to SNL borrowers who were delinquent on their 1988 to 1989 Swazibank loans that these borrowers were able to pay for 1989 to 1990 crop expenses with their own resources. Funds came from selling part of the crop and some cattle. Cattle and crop income, along with nonfarm income, probably accounts for the bulk of input purchases. Cattle in fact may reduce the demand for credit as they can be sold in time of need.

3. Marketing

Marketing problems were cited by the SNL farmers interviewed by the authors, as their most significant problem. For vegetable growers, the Nokwane market has not been as helpful as expected. Assembling the produce and getting it to the market is a problem for farmers. (NAMBOARD does have a service to pick up the produce from farmer assembly areas for a fee of approximately 25 percent of the actual cost of transport, but this does not appear to have solved the problem.) In any case, the next difficulty is that produce is only accepted on a consignment basis. The farmer retains title to the produce and therefore the risk as the produce awaits sale in the market. Fees currently assessed against the produce include: agent commission of 7 1/2 percent, NAMBOARD market-user charge of 5 percent, and the cost of any required packaging material. If the produce is not sold, or if it deteriorates, the farmer suffers partial or total loss of income. Farmers do not like to wait two to three weeks to be paid. After receiving checks for the produce sold, farmers have to travel to a bank to cash the checks, which adds to their expenses.

The authors of this report found that producers prefer to sell to people who buy at the farmgate. In Piggs Peak, farmers are selling tomatoes directly to buyers from Durbin who come to the farms. Prices received are less than the farmers would like, but the payment is in cash and the risks associated with consignment are eliminated.

Credit demand is affected by marketing difficulties in that producers will not increase production in an environment where their additional investment is subject to uncertain marketing.

4. Transport

All of the farmers interviewed by the authors of this report identified transport as a major constraint. The farmers said that transport was difficult to secure, and prohibitively expensive. During the past season, official maize prices were E26.0 per 70 kg bag. The lowest transport cost reported was E2.5 per bag, with E3.5 being the most frequently reported price. One woman farmer reported that her maize transport costs were E4.28 per sack or 16 percent of the official price. The lowest transport price paid by a farmer was 10 percent of the price of the maize. Growers who hire transport are forced to pay these rates or market their crop to local buyers. Higher prices are realized for maize sold to local homesteads for family consumption. These local sales have the advantage of not requiring outlay for transport, and were negotiated at about E30.0 per sack this past season. Unfortunately, sales at this level represent only a fraction of total maize sales for the farmers interviewed.

The transport problem for perishable farm products has an added dimension in that it needs to be timely. Farmers interviewed who were part of irrigation schemes reported that sometimes produce spoiled in the fields because of a lack of transport. In such situations, small farmers would likely refrain from added production because of the high transportation costs and lack of ready access to transport. In this situation, demand for credit will be less than if the producer would expand production.

5. Escalating Input Costs

During interviews by the authors, the most severe problem after marketing cited by farmers was the escalating cost of farm inputs. Bankers interviewed cited rising input costs as more critical to small farmers than the availability of credit. A recent report by the Board of Inquiry appointed by the Minister of Agriculture to investigate escalating farm input costs in Swaziland found that the average annual price increase for a mix of farm inputs was 13.5 percent for the past seven years. This compares with an average annual rate of increase of 13.1 percent for farmer maize prices during the same time period. Since the 1985 to 1986 crop year, the rate of increase for inputs has been much higher than that for maize. Farmers feel their margins being reduced and are reluctant to borrow for these higher-priced inputs. They fear that the cattle pledged as collateral would be seized in the event of crop failure. One female Swazibank borrower, interviewed by the authors of this report, used only one-sixth of the recommended fertilizer application for her maize because of the fear of crop failure. The possibility of drought was too severe in her estimation to risk borrowing for the incremental fertilizer.

6. Costs and Risks for Formal Lenders

For a lending activity to be profitable to a lender, it must be self-sustaining, or, lacking that, be subsidized by outside sources. Nongovernment commercial banks are not in the SNL lending business because of the lack of profitability in SNL loans. As long as SNL business is not profitable, lenders will not extend credit to that sector.

D. Summary

A variety of socioeconomic factors influence the small farmer demand for and access to credit. Generally, these factors have the effect of reducing the demand for and accessibility to credit.

The fundamental factor responsible for the low demand for credit is the low profit in SNL agriculture. Low returns to labor for traditional crops such as maize relative to other options available to the more-productive labor on a homestead cause more productive labor to migrate outside the homestead for work. Surveys of typical homesteads reveal that less than 5 percent of overall homestead cash income is derived from agriculture. Marketing difficulties, transport problems and escalating input costs all underlie the low relative returns to labor in farming.

The generally low returns to labor in agriculture as practiced by the small farmer result largely from low yields and the inefficiencies of small landholdings. Opportunities exist for good returns to labor in irrigated crops, especially tomatoes, summer onions, and potatoes, but marketing and transport problems inhibit increased production of these crops. Low yields and size of landholding must be dealt with in order to increase labor productivity. Increased yields will help a small farmer, but to induce him to utilize all of his labor on the farm, he must have enough land. The present land-tenure system inhibits increased labor productivity because it perpetuates small, inefficient landholding patterns.

Sociological influences, particularly the lack of understanding of the concept of interest and the lack of a fixed-time period in which to repay debt in traditional Swazi culture, cause borrowers to have difficulty accepting bank loan terms. The sense of obligation to repay a loan appears to be more out of fear of collateral seizure than out of contractual duty.

The reason farmers do not borrow money is profitability. It is not profitable for most small farmers to use credit and it is not profitable for banks to extend credit to small farmers.

SECTION III
SMALL-FARMER CREDIT

A. Introduction

The SNL farmer uses a minimal amount of credit from the formal sector. Only about 4 percent of the 58,000 homesteads have bank loans. Although an informal credit sector is said to exist, the study of that sector is beyond the scope of this report.

The formal credit sector is regulated by the Central Bank of Swaziland, previously known as the Monetary Authority of Swaziland.[1] The Monetary Authority of Swaziland was established on April 1,1974, to promote monetary stability and foster financial conditions conducive to the orderly and balanced economic development of the country. The name of the Monetary Authority was changed to Central Bank of Swaziland on July 20, 1979. The Central Bank regulates and influences the financial market through policy measures and various monetary instruments. The Bank also administers directives issued from time to time by the Minister of Finance and is the regulatory authority of the commercial banks. The Central Bank of Swaziland has a standard minimum liquidity requirement of 17.5 percent of deposits and other liabilities; this requirement was reduced to 10 percent for Swazibank.

B. Commercial Banks

Of the six commercial banks in Swaziland, only one, Swazibank, makes loans to farmers on Swazi Nation Land. The six banks are:

- Bank of Credit and Commerce International Swaziland Limited
- Barclays Bank of Swaziland Limited
- International Bank for Swaziland Limited
- Standard Chartered Bank
- The Union Bank of Swaziland
- Swaziland Development and Savings Bank

[1] King's Order-in-Council, The Monetary Authority of Swaziland Order, 1974, King's Order-in-Council No. 6, Mbabane, 1974.

The Bank of Credit and Commerce has a branch in Manzini and one in Mbabane. The International Bank of Swaziland is located in Mbabane, and has no branches. Barclays Bank has branch offices in the following locations:

- Big Bend
- Bulembu
- Manzini(2)
- Matsapha
- Mbabane(2)
- Mhlambanyatsi
- Mhlume
- Nhlangano
- Piggs Peak
- Royal Swazi Sun Hotel
- Simunye
- Tshaneni
- Usutu Pulp Mill

Union Bank has two branches, both located in Mbabane. Standard Chartered Bank has branches in the following locations:

- Big Bend
- Manzini
- Malkerns
- Mankayane
- Matsapha
- Mbabane(2)
- Mhlambanyatsi
- Ngognini
- Riverside
- Siteki
- Usutu Pulp Mill

Swazibank is a full-service commercial bank with branches in Manzini, Mbabane, Nhlangano, Piggs Peak, Simunye, and Siteki. The Bank has agencies in Bhunya, Big Bend, Hlatikulu, Mathanjeni, Mbuluzi, Mhlume, Lavumisa, and Vuvulane. Additionally, credit supervisors from Swazibank district offices visit certain rural development centers one day each week to receive loan applications from the extension agents and to service loans.

1. Bank Ownership

Tibiyo Taka Ngwane, the investment organization for the Swazi Nation, has a 45 percent interest in the Bank of Credit and Commerce International Swaziland Limited. The government has a 40 percent participation in Barclays Bank of Swaziland Limited and Standard Chartered Bank, and the chairmen of the boards of directors of both banks are government appointees. The government has a 10 percent share in The Union Bank of Swaziland and is a shareholder in the International Bank for Swaziland

Limited. Swazibank is a statutory body, wholly owned by the government, whose directors are appointed by the government.[2]

2. Swaziland Development and Savings Bank's Role

Swazibank's regulation, The Swaziland Development and Savings Bank Order No. 49 Of 1973, states that the object of the Bank is "...to conduct the business of banking in all its aspects, having regard to the needs of the individual citizen of Swaziland and of Swaziland as a whole...it shall...establish or promote agricultural and rural industries, including in addition to other such industries, tobacco, dairying and similar industries, and the cultivation, sale and marketing of fruit and vegetables...."[3] Part IV, Loans, of Order No.49 states that the Bank may lend money "...upon a hypothec of crops or other agricultural or natural produce...."[4] No provision is made for unsecured loans, or for loans made under a loan guarantee agreement.

C. Loan Funds

The banks in Swaziland, particularly those other than Swazibank, have an abundance of money to lend, or more accurately, they have a low loan-to-deposit ratio. The Central Bank Quarterly Review reported that the banking system had E616.8 million in deposits and E360.0 million in loans as of March 31, 1990.[5] Loans, as a percent of total deposits, were 58.4 percent. The deposit and loan figures include those of Swazibank which were E79.1 in deposits and E50.9 in loans, a ratio of 64.3 percent. The following table shows the total loans and the total deposits of all banks and Swazibank for the past six years.[5]

[2]"Ministry of Finance, The Swaziland Development and Savings Bank Order No. 49, Mbabane, 1973.

[3]Ibid.

[4]Ibid.

[5]Central Bank of Swaziland, Quarterly Review, Mbabane, March 31, 1990.

TABLE 4. COMMERCIAL BANK LOANS AND DEPOSITS (E000,000)
(as of March 31)

	All Banks			Swazibank		
	Loans	Deposits	Ratio%	Loans	Deposits	Ratio%
1985	154.8	211.8	73.1	33.6	40.3	83.3
1986	150.8	242.1	62.3	38.2	46.9	81.4
1987	167.7	297.7	56.4	38.4	51.6	74.4
1988	175.0	363.8	48.1	41.6	53.9	77.1
1989	246.4	528.8	53.0	46.9	66.1	70.9
1990	360.0	616.8	58.4	50.9	79.1	64.3

Source: Central Bank of Swaziland, Quarterly Review (Mbabane: Central Bank of Swaziland, March 31, 1990) and Swaziland Development and Savings Bank, Annual Report (Mbabane: Swaziland Development and Savings Bank, 1988, 1989).

A loan-to-deposit ratio of 70 percent is common in commercial banking in the United States. Because loans are the primary earnings asset of commercial banks, aggressive banks normally have higher loan-to-deposit ratios then do conservative banks in the same economic setting. There are situations, in Indonesia for example, where loan-to-deposit ratios are nearly 100 percent and banks must be regular borrowers from other banks in the overnight funds market to meet the demands of deposit customers. Such banks can make terrific earnings or, with loan losses, experience financial calamity.

D. Agricultural Loans

1. General Lending

The Central Bank reports loans made by the commercial banks for agricultural and forestry purposes as a combined total. During the quarter ending March 31, 1990, this figure increased by E6.8 million, due mainly to lending for sugarcane growing, to E47.3 million, which was 13.1 percent of total commercial bank loans. The agricultural sector and the forestry sector contributions to the GDP of Swaziland are reported separately by the Department of Economic Planning and Statistics.[6] Data published in January 1990 showed that in 1988, agriculture contributed 23.3 percent to the GDP, whereas forestry contributed 4.4 percent.

[6]Department of Economic Planning and Statistics, Development Plan 1990/91-1991/93, Prime Minister's Office, Mbabane, 1990.

The total loan portfolio of Swazibank was E50.9 million as of March 31, 1990. That amount included E15.1 million of agricultural loans, which is 29.6 percent of the Bank's total loans. Swazibank's agricultural loans included E1.7 million of concessional loans made to SNL farmers. Swazibank officials estimate that about 25 percent of the amount shown below in the Bank's cattle and livestock loan category was for loans made to farmers on SNL. Total loans to SNL farmers were about E1.9 million, which is the total of the concessional loans plus E169,000 of cattle and livestock loans. The figure of E1.9 million is less than 4 percent of Swazibank's loan portfolio as of March 31 The loans to SNL farmers totaled about 4 percent of the total amount of credit extended by all commercial banks to the agricultural and forestry sector as of March 31. Following is a list of the E15.1 million of agricultural loans in the Bank's portfolio:

o Cattle and livestock	E 679,849
o Concessional	1,741,377
o Cotona	2,581,096
o Farm equipment	669,222
o Farm purchase	2,794,073
o Non performing	3,345,530
o Other agricultural purposes	199,649
o Seasonal inputs	3,C56,617

2. Concessional Loan Programs

There are several concessional loan programs funded by donor agencies and administered by Swazibank on behalf of SNL farmers. The minimum loan size is E300 and virtually all loans are secured by cattle. The interest rate for the concessional programs ir 14 percent compared to the prevailing commercial rate of around 20 percent and the prime rate of about 14.5 percent. The Bank charges a 10 percent loan fee, up to a maximum of E100, to help defer the administrative costs incurred in making the loans. Borrowers are required to contribute an amount equal to 25 percent of the loan amount to a savings account, which is to be pledged as collateral for future loans. According to Bank officials at the Piggs Peak branch, the Bank has not yet begun paying interest on the savings accounts. Borrowers who inquire about the rate are said to be told that an administrative decision concerning the rate has not been made. However, Bank officials at the Manzini branch told the authors of this report that the Bank is paying 8 percent interest on the savings accounts.

By the end of March, 1990, the number of loans in the concessional credit programs had declined 24 percent from the previous year. The loans numbered 1,887 as compared to 2,493 on March 31, 1989, when the total outstanding loan amount was also E1.7 million. The March 31, 1989 figure for the number of loans was 16 percent less the figure for the previous year. As of March 31, 1988, there were 2,957 loans and the amount outstanding was E1.8 million.

The number of Bank loans to SNL farmers is equal to about 4 percent of the number of homesteads. The 4 percent figure consists of 1,887 concessional loans plus an estimated 169 SNL farmers with loans in Swazibank's cattle and livestock loan category. The E1.7 million in concessional loans were funded from the following sources:

o Agricultural Advisory Credit Scheme	E 1,836
o Development Agricultural Loans	8,323
o European Development Fund (EDF)	647,612
o International Fund for Agricultural Development (IFAD)	717,991
o People's Participation Project	7,139
o Women in Development	60,876
o Stabex Revolving Fund	257,601

The principal concessional loan programs are the one funded by the IFAD and the one funded by the EDF of the European Economic Community (EEC).[7] The undisbursed portion of the funds for those two programs as of March 31, 1990 was E1.7 million and E31,000, respectively.

a. <u>International Fund for Agricultural Development</u>

The IFAD Smallholder Credit and Marketing Project, funded through Swazibank, began in 1985 to assist SNL farmers on irrigated schemes and those operating under rainfed conditions in the RDAs. Swazibank reported that as of March 31, 1990, there had been 4,276 loans made under the IFAD program totaling E2.1

[7] Mphaya Simelane, "Concessional Loans," internal Bank memorandum, Swaziland Development and Savings Bank, Mbabane, June 7, 1990.

million.[8] During the year ending March 31, 1990, 460 loans had been made in the total amount of E376,488. Loans overdue on that date totaled E438,415, which is 21 percent of the total amount loaned during the life of the program. The number of overdue loans was also reported to be 21 percent on that date.

The large amount of overdue loans has resulted in increased collection efforts by Swazibank and in fact the Bank has been dubbed "Bank grab-a-cow" by the local press.[9] Swazibank officials report that the collection campaign is long overdue and will result in a more viable loan program as the borrowers become better educated about credit.

Increased lending activity in the IFAD program is projected by Swazibank for the 1990 to 1991 crop season because of increased cooperation between the Bank's credit supervisors and the MOAC extension workers. The credit supervisors depend on the extension workers for helping the farmers complete the loan applications and also rely on the extension workers' opinions regarding the credit worthiness of the farmers.

b. European Development Fund

The EEC established the EDF in 1985. This revolving fund, administered through Swazibank, is targeted to SNL farmers who cultivate 20 ha or less. The revolving fund provides credit for:

- Noncotton farmers who need more than E1,000 to finance seasonal inputs

- Cotton farmers who need between E300 and E1,000 to finance inputs

- Loans for tractors, implements, and farm improvements

Swazibank reported that for the year ending March 31, 1990, the EDF was the largest provider of credit to SNL farmers who sell agricultural products and, as such, are designated commercial farmers. The fiscal year marked the first time that the amount loaned through the EDF program exceeded the amount loaned under the larger IFAD program. During the year, 165 EDF loans were approved in the amount of E584,221.

At the end of the March 31, 1990 fiscal year, there were 227 loans outstanding in the total amount of E647,612. There have been 417 loans made during the life of the fund in the total amount of E1.4 million.

[8] Ibid.

[9] The Times of Swaziland, May 15, 1990.

The loan delinquency ratio was not available at the time of this report. Swazibank officials explained that the ratio would take some time to calculate because unlike the IFAD fund some of the loan maturities exceed 12 months.

The increase in the credit demand for the EDF loan program resulted from the following changes in Swazibank policy:

- The loan limit for seasonal inputs was increased from E1,000 to E2,000
- Financing of used tractors was introduced based on a maximum loan of 50 percent
- Financing of seasonal inputs for TDL farmers who cultivate 50 hectares or less was introduced
- Financing of small-farmer dairy projects was introduced

Swazibank reported that the credit demands of smallholder commercial farmers are projected to increase during the 1990 to 1991 crop season because of the growing number of farmers in the EDF program.

E. Loans to Swazi Nation Land Farmers

With the exception of Swazibank, commercial banks do not extend agricultural credit to farmers on Swazi Nation Land because the loans are unprofitable. According to local bankers, the costs involved in granting and servicing small loans such as those required by SNL farmers would be prohibitive to a lender.

Swazibank, however, is legally compelled to provide credit to farmers on Swazi Nation Land. Swazibank is obligated by Order No. 49 to conduct agricultural banking for SNL farmers, a burden that is not shared by other commercial banks. Swazibank expressed its concern to lending to the SNL farmers in the Bank's 1987 annual report which stated "... serving large numbers of small farmer loans harms the Bank's profitability."[10] Two years later, the author of a report concerning the Bank's IFAD Smallholder Credit and Marketing Project made a telling assessment of the economics of SNL farming. He stated, "Homestead farming is a subsistence occupation: it is practiced with minimum interest and skill, it attracts no-one because, apart from providing the bare necessities, its rewards are minimal. Lending to subsistence farming for food self-sufficiency may raise the reward slightly but insufficiently to remove the constant concern for borrower and lender alike about repayment--the farmer's family obligations will always exercise a higher priority over repayment."[11]

F. Loan Constraints

In principle, there is no bankable security for the SNL farmer except cattle, which has proven to be unsatisfactory and undesirable. Too often, according to Swazibank officials, the Bank has encountered impediments such as imprecise title to cattle, plus difficulties in monitoring and identifying the hypothecated cattle, in the absence of branding, and the danger of loss through drought and disease. The commercial bankers, other than Swazibank, interviewed by the authors of this report stated that they do not have the facilities or the manpower necessary to monitor and collect loans secured by cattle on Swazi Nation Land.

The tenure accorded to Swazi Nation Land rules out the possibility of using the land as collateral. Local bankers describe the SNL tenure system as a constraint to effective lending because land is normally the most valuable rural asset and, unlike cattle, does not require monitoring. However, from the viewpoint of the local bankers, land tenure is not a particularly meaningful credit constraint since the small Swazi Nation Land farmer loans are unprofitable regardless of the collateral securing the loan.

Transportation is a constraint to lending to SNL farmers because of the long distances that a Bank credit supervisor must travel to service loans. The authors of this report chose six farmers to visit in the Bank's Piggs Peak branch territory and another six in the Manzini branch territory. The farmers, borrowers in the concessional loan programs, were selected from the loan journal at the Bank headquarters in Mbabane without any idea where they were located other than the fact that they were in the two branch territories. Visits to the six homestead sites in the Piggs Peak area resulted in a 300-kilometer trip over rough dirt roads, and a similar trip of 276 kilometers in the Manzini area. The Piggs Peak trip included a long difficult walk down a mountain to visit a homestead and an even longer walk back up the mountain. The Manzini trip included terrain that could not be traversed by car. In two instances, a pickup truck and walking were required to visit the homesteads.

[10]Swaziland Development and Savings Bank, Annual Report, Mbabanne, 1987.

[11]Biotechnology Consultants Limited, Swaziland Smallholder Credit and Marketing Project Supervision and Credit Report, Berkshire, England, 1989.

An unusual but very real constraint to effective lending to SNL farmers is the poor attitude concerning loan repayment, an attitude that the government fostered by its recent repayment of delinquent drought-affected loans. Borrowers who repaid their loans, in spite of the drought, are said to feel cheated by the government's action. Some borrowers with outstanding loans question why they should pay their loans when the loans come due now that the government has paid some delinquent loans. The following table shows the number and amount of loans that the government has paid to Swazibank since November 1989.

Table 5. GOVERNMENT PAYMENT TO SWAZILAND DEVELOPMENT AND SAVINGS BANK FOR 1981-1983 DROUGHT AFFECTED LOANS (as of March 27, 1990)

Beneficiary	No. Loans	E Total	E per Beneficiary
Central Cooperative Union	1	1,342,000	1,342,000
Maize Farmers	176	87,511	497
Small Cotton Farmers	383	261,310	682
Commercial Cotton Farmers	20	347,647	17,382
Total	580	2,038,468	n/a

Source: Mphaya Simelane, "Government Payments to Swazibank for Drought Affected Loans," internal memorandum, Swaziland Development and Savings Bank, Mbabane, June 7, 1990.

Despite the significant constraints to lending to SNL farmers, Swazibank does provide credit to that marginal economic sector. Loans are made directly to farmers chiefly through concessional loan programs provided by donor-loan funds. The Bank also supports the SNL farm economy by providing funds to Cotona, the largest cotton buyer in Swaziland, to purchase the farmers' cotton. Cotona is said to be the principal source of small-farmer agricultural credit in Swaziland as it provides inputs and cash for labor to more than 9,500 small farmers.

G. Loan Costs

The costs involved in lending to SNL farmers are high, resulting in part from the personnel and transport requirements that are necessary to provide loans to individual borrowers located over a wide geographical area. The loan-servicing costs are high because credit supervisors require reliable transport to make the farm visits--at least four a year--that are required for sound agricultural lending. It is time consuming and costly to monitor cattle on the open range. This is a significant issue since virtually all of the loans are secured by cattle. Added to these costs are losses resulting from crop failure.

The income produced by the small loans is not adequate to cover the loan costs. The minimum loan size to a SNL farmer is E300 (about US $112). Two Philippine commercial banks, interviewed by an author of this report earlier this year, stated that the minimum loan size for a profitable loan is $16,500 and $25,000, respectively. There are enough similarities in the lending procedures between those two banks and Swazibank to cause one to consider the similarities of loan costs and conclude that small loans are unprofitable.

1. <u>High Loan Costs to Farmers</u>

The typical SNL farmer loan is for the purchase of agricultural inputs, primarily seed and fertilizer. The loan amount is normally less than E1,000 and the loan maturity is for one year with loan repayment from the sale of the crop.

The high loan costs associated with the SNL farmer loans has been recognized by Swazibank for some time. In 1987, in an effort to offset some of their loan costs, Swazibank required that farmers pay a service charge of E45 in cash before a loan was approved. The farmers objected, and in January 1988 the Bank modified the procedure by adding the fee to the loan. At that time, the interest rate on concessional loans was 12 percent. The total cost to the farmer on a 12-month, E300 loan was E45 plus E36 which amounted to a loan cost of 27 percent. At the present time, Swazibank charges 14 percent interest plus a 10 percent loan fee on the amount borrowed each year, up to a maximum of E100.

The loan cost of 24 percent that the SNL farmer pays is higher than the prevailing commercial interest rate of around 20 percent. For the small farmer the credit costs are a major part of his operating expense and can be greater than the additional income that the loan produces. Small borrowers often hedge against drought and high production costs, including interest, by not applying the recommended amount of inputs.

2. <u>High Cost of Making Loans</u>

Swazibank's average administration cost for handling all agriculture loans is E300, according to the Coopers and Lybrand 1988 study of the Bank.[12] It is not clear whether net funds costs and loan losses are included in the study's administrative cost calculations. However, based on the administration cost of E300, it is very unprofitable to make loans to farmers on Swazi Nation Land. As of March 31, 1990, the

[12]Coopers and Lybrand Associates, <u>Swaziland Development and Savings Bank Financial Administration and Cost Structure Study</u>, Mbabane, 1988.

Bank had approximately E1.9 million in loans to 2,056 SNL farmers, which equals an average loan amount of E924. The income on E924 at 14 percent, the present rate, for one year, the average maturity, is E129 plus the loan fee of 10 percent of the amount borrowed each year which would be E92. Based on these numbers the Bank loses E79 on the average SNL farmer loan. It is clear that the Bank is subsidizing the SNL and farmer loans from its other income sources.

Swazibank is seriously concerned about the high cost of making individual loans on Swazi Nation Land but sees little opportunity for reducing its administrative costs. The EDF agricultural credit adviser suggested that the possibility of group lending be explored, although the previous attempt at group lending under the Food and Agricultural Organization (FAO) of the United Nations People Participation Program was disappointing according to the program director.

Profit is a powerful incentive to be efficient in business and Swazibank is no exception to the rule. Because the loans are unprofitable, the loan-approval process for loans to SNL farmers has been slowed down. Swazibank management took away the lending authority from the Bank's branches in 1988 and since that time all loans must be approved at the Bank headquarters in Mbabane, which is a time-consuming process. The ability of Swazibank to make loans to SNL farmers is also slowed by a lack of transport. At the present time, all five of the motorcycles at the Piggs Peak branch, which are intended to be used by the credit supervisors who make the loans, are inoperable. Two of the three motorcycles at the Manzini branch are inoperable. In spite of these observations, considering the complexities involved in providing credit to the SNL farmer, the authors of this report feel that Swazibank is doing a creditable job in a difficult environment.

H. Summary

The SNL farmer uses a minimal amount of credit from the formal sector. Only about 4 percent of the 58,000 farmers have bank loans, and the total amount they borrow is only about 4 percent of the total credit extended by all commercial banks to the agricultural and forestry sector. The typical SNL farmer loan is for the purchase of agricultural inputs, primarily seed and fertilizer. The loan amount is normally less than E1,000 and the loan maturity is for one year with loan repayment from the sale of the crop.

With the exception of Swazibank, commercial banks do not extend credit to farmers on Swazi Nation Land because the small loans are unprofitable. Swazibank makes the loans to SNL farmers because of the Bank's legal obligation under The Swaziland Development and Savings Bank Order No. 49, of 1973, stating that the object of the Bank is "...to conduct the business of banking in all its aspects, having regard to the needs of the individual citizen of Swaziland and of Swaziland as a whole...it shall...establish or promote agricultural and rural industries...." Swazibank expressed its concern to lending to SNL farmers in the Bank's 1987 annual report which stated "... serving large numbers of small farmer loans harms the Bank's profitability."

In principle, there is no bankable security for the SNL farmer except cattle, which has proven to be unsatisfactory and undesirable. The tenure accorded to SNL rules out the possibility of using the land as collateral. Local bankers describe the SNL tenure system as a constraint to effective lending because land is normally the most valuable rural asset and, unlike cattle, does not require monitoring. However, from the viewpoint of the local bankers, land tenure is not a particularly meaningful credit constraint since the small SNL farmer loans are unprofitable regardless of the collateral which secures the loan.

The costs involved in lending to SNL farmers are high, in part from the personnel and transport requirements necessary to provide loans to individual borrowers located over a wide geographical area. It is time consuming and costly to monitor cattle on the open range, which is a significant issue since virtually all of the loans are secured by cattle. Added to these costs are loans' losses such as those resulting from crop failure.

Swazibank's average administration cost for handling all agriculture loans is E300, according to the Coopers and Lybrand 1988 study of the Bank. Based on that figure it is very unprofitable to make loans to farmers on Swazi Nation land. As of March 31, 1990, the Bank had approximately E1.9 million in loans to 2,056 SNL farmers, which equals an average loan amount of E924. The income on E924 at 14 percent, the present rate, for one year, the average maturity, is E129 plus the loan fee of 10 percent of the amount borrowed each year, which would be E92. Based on these numbers the Bank loses E79 on the average SNL farmer loan. It is clear that the Bank is subsidizing the SNL farmer loans from its other income sources.

SECTION IV
AGRIBUSINESS CREDIT

A. Introduction

1. Agribusiness

A good starting point for a discussion about agribusiness is to define the term. According to the CAPM project, "Targeted and eligible agribusiness includes anything related to agriculture with potential to increase value added: agroprocessing, input supply, agricultural implement manufacture, transport and hauling, packaging, export marketing."[1]

Agribusiness is dependent on farmers, and includes all firms and people involved in the off-farm aspects of agriculture. The particular focus of CAPM's agribusiness activity is on small agribusiness development, and on ways that larger agribusiness can directly service or benefit small farmers. The CAPM project's charge is to work with the private sector to identify, analyze, and develop opportunities to stimulate agribusiness. The project has an additional responsibility of working with the government and the private sector to identify and deal with agribusiness constraints.

Agribusiness in Swaziland is delineated by the same sharp contrast that characterizes the country's agricultural production. On the one hand are the large corporate-owned agribusinesses such as the sugar and citrus estates, which are the major contributors to the country's export earnings. These large firms encompass the complete spectrum of agriculture and agribusiness activity from production to transportation to processing to selling. On the other hand, small-scale agribusinesses are typically owned by a sole proprietor and include butcher shops, rural hammer mills for grinding maize, vegetable vendors, and produce haulers. Because small farmers market a limited amount of agricultural goods, these small-scale agribusinesses have limited opportunity for development. Commercial agribusiness occurs with commercial production.

There is a third agribusiness sector that is neither in the large nor the small agribusiness sectors. The third sector includes the SDB, the NAMBOARD, and the CCU. The third sector

[1]Chemonics International Consulting Division, "Proposal to Provide Technical Assistance to the Government of Swaziland Under the Commercial Agricultural Production and Marketing Project," RFP No. 89-001, Washington, D.C., April 7, 1989, p. 18.

also includes a small number of commercially viable agribusiness input sales, processing, and manufacturing plants--hereafter referred to as medium-scale agribusinesses. These medium-scale agribusinesses are owned primarily by sole-proprietor white Swazis.

Cotton farmers, collectively, are the notable exception to the fact that small farmers in Swaziland market a limited amount of agricultural goods. Cotton is the principal cash crop for more than 9,500 small farmers in RDAs who produced a total 20,854 metric tons in the 1987 to 1988 season. Two large corporations, Cotona and Clark, are the agribusiness component of the cotton industry--a situation illustrating the fact that commercial agribusiness occurs with commercial production.

2. <u>Credit</u>

No shortage of credit exists for the commercially viable medium and large-scale agribusinesses in Swaziland. Commercial banks provide loans and leases. Tibiyo Taka Ngwane and the Commonwealth Development Corporation (CDC) are major investors in large agribusinesses. Equity capital and loans are available to medium-scale agribusinesses from the Swaziland Industrial Development Corporation (SIDC) within the limitations described in this report.

Small agribusinesses, however, have limited access to credit. Credit is available at commercial banks for commercially viable small agribusinesses with adequate equity and collateral; equipment leases, properly supported by profit and losses statements documenting sufficient cash flow, can be available to the commercially viable small agribusiness.

There is no formal source of credit for the undercapitalized fledgling agribusiness entrepreneur. Swazibank is the only bank that makes loans to agribusinesses located on Swazi Nation Land. The Bank does not have concessional loan programs available to rural agribusinesses such as those existing for small farmers.

3. <u>History of Agribusiness in Swaziland</u>

The establishment of large agribusiness enterprises in Swaziland dates back to the early 1950s. Originally, the major agribusiness enterprises were wholly foreign owned, mainly by British and South African interests. At independence, the principal agricultural and forestry industries were already established. The 1970s saw commissioning of a fruit-canning factory and establishment of a fertilizer factory, which closed a few years later. The commissioning of the third sugar pulp mill in 1980 further increased the importance of the export-based agribusiness industries.

In the recent past, the Tibiyo Taka Ngwane Trust Fund has acquired substantial stakes in the manufacturing sector, including the sugar industry, on behalf of the Kingdom of Swaziland. In the past two years, the SIDC has acquired interests on behalf of the government in smaller industrial ventures including four that involve agriculture.

The top management of almost all medium- and large-scale agribusiness enterprises is non-Swazi. Concern for the local management issue was addressed by the Minister of Commerce, Industry, and Tourism Senator Nkomeni Ntiwane at a meeting of the managerial staff at Peak Timbers on June 21, 1990. The Minister said that Swazis should be given full participation in the management of foreign-owned companies located in Swaziland in order to give Swazis a sense of being a part of the company.

4. Customs Union

Membership in the Customs Union with South Africa, Botswana, and Lesotho means that Swaziland is part of a common market that allows the free flow of all goods and services, with the partial exception of labor. However, the Customs Union provides that member countries can manage imports of agricultural products for the purpose of maintaining orderly marketing institutions to promote production of local produce.

Nevertheless, membership in the Customs Union removes the constraint of small market size and some important local industries have derived their viability from the Customs Union and from its regional markets. For example, the major market for sawn and mine timber--important export products of Swaziland--is in South Africa. South Africa is also a major outlet for the local pulp industry, accounting for one-third of total pulp exports. Stable marketing arrangements using South African infrastructure has supported the development of small-farmer cotton and tobacco production. A number of small farmers export fresh tomatoes to the Durbin, South Africa market.

5. Agribusiness Manufacturing

The definition that agribusiness includes all firms and people involved in the off-farm aspects of agriculture is useful in considering the magnitude of agribusiness. In Swaziland, the manufacturing sector is dominated by large agricultural and forestry-based industries.

According to the Ministry of Commerce, Industry, and Tourism, agribusiness accounts for about 75 percent of the total manufacturing production. The agricultural sector and the forestry sector contributions to the GDP of Swaziland are reported separately by the Department of Economic Planning and

Statistics.[2] Data published by the department in January 1990 showed that in 1988, agriculture contributed 23.3 percent to the GDP whereas forestry contributed 4.4 percent.

Major agribusinesses are three sugar mills, one citrus and pineapple canning factory, a pulp mill, and three sawmills. A fourth sawmill will be reopened before the end of 1990. These few enterprises provided 68 percent of sectoral value added and 45 percent of sectoral employment.

6. Important Parastatal Agribusiness Operations

a. Swaziland Dairy Board

The SDB was founded in 1971 as authorized by the Dairy Act No. 28 of 1968. The SDB is considered to be a public enterprise under the Public Enterprise Act of 1989. The original purpose of the SDB was to regulate the dairy industry. The broad powers granted to SDB include buying and selling cows and entering into agreements regarding the production and sale of dairy products. The result of SDB activities was that it became the dairy industry. Acting under the government's mandate to divest itself of commercial activities, the SDB disposed of two of its farms beginning in 1988. However, the SDB has not yet divested itself of the management of Swaziland's only feed mill and milk-processing plant. The SDB has not been successful in stimulating growth of the dairy industry. A number of small dairies avoid dealing with the SDB by selling milk on the informal market.

b. National Agricultural Marketing Board

NAMBOARD was created by Act No. 13 of 1985. It is considered to be a parastatal under the MOAC with reporting responsibilities to the Public Enterprise Unit. In order to promote orderly marketing of domestic goods, NAMBOARD is authorized to charge levies on imports, and control issuance of permits on scheduled products to prevent dumping of imported produce.

This authorization provides the basis for promoting development of local agricultural production by maintaining reasonable producer price levels for domestic produce and restricting imports during periods of high availability of domestic produce.

[2] Department of Economic Planning and Statistics, Development Plan 1990/91-1992/93, Prime Minister's Office, Mbabane, 1990.

7. Cooperative Agribusiness Activity

a. Central Cooperative Union

The CCU is the principal agribusiness for SNL farmers. The CCU is the major supplier of farm inputs to small farmers and is one of the main marketing outlets for maize, which is the most widely grown small-farmer crop. The CCU was founded under the provisions of the Co-operative Societies Legislation of 1964 as the apex organization of the cooperative movement in Swaziland. Although nominally the CCU is the apex organization, in fact it operates as an input supply and marketing cooperative through 20 rural development centers and local farm depots.

The primary reason for creating cooperatives in Swaziland was for the provision of input and product marketing services to small-farmer agricultural production. The cooperatives continue to serve that important role. There is a common misunderstanding that cooperatives are owned by the government. The fundamental characteristic of a cooperative is that it must be owned, run, and controlled by its members. A hierarchy exists--the farmers own the primary societies, the primary societies own the district cooperative unions, and the district cooperative unions own the CCU.

Credit is no longer available at the CCU. Previously, the CCU sold farm inputs on credit through primary societies but discontinued that practice after delinquent accounts resulted in a large loan loss at the Swazibank. Within the past six months, the government paid E1.3 million to Swazibank for loan losses associated with drought, losses which the Bank had incurred from CCU.

The government's action in repaying the loan losses has been counterproductive to Swazibank's loan-collection efforts, as borrowers who repaid their loans in spite of the drought are said to feel cheated by the government's action. Some borrowers with outstanding loans question why they should pay their loans when the loans come due now that the government has paid some delinquent loans.

Because of their previous experiences in providing credit to farmers through primary societies, CCU officials are adamant about not wanting to extend credit. Credit is available to primary societies in the cotton industry because it is provided by the cotton purchasers. CCU would be the logical choice to provide in-kind credit--primarily seed and fertilizer--to farmers if credit were to be provided. The CCU depots are strategically located and are the principal source of small-farmer inputs. However, a finding of the small-farmer study in this report was that credit is not the primary constraint preventing further small-farmer commercialization. Moreover discussion with CCU and

MOAC officials associated with cooperative development expressed their opposition to CCU again providing credit to SNL farmers.

b. Primary Societies

The Co-operative Societies Legislation of 1964 provides for the registration of primary societies that have the object of promoting the economic interests of its members in accordance with cooperative principles. To become a primary society, a farmer group registers with the Commissioner of Cooperatives in the MOAC. A major advantage of a primary society is provision 67 of the legislation providing that the Commissioner of Cooperatives can exempt a primary society from trading license requirements (see Commercial Amadoda). As a primary society, the farming income is exempt from income tax.

Primary societies are often formed by groups of small farmers for commercial production activities. Primary societies operate with integrated input purchasing, product marketing, and farmer credit provisions for cotton, tobacco, sugarcane, and pineapples.

Primary societies are the dominant method of commercial activity in the cotton industry. More than 9,500 SNL cotton farmers form primary societies or other associations to engage in cotton production--a situation where the inputs, including credit for labor, are supplied by the purchaser of the cotton. Agricultural inputs and cash for labor are provided through a credit arrangement between the primary society and the purchaser of the cotton--Clark or Cotona--who deducts the loan payment from the proceeds of the sale price of the cotton.

B. Fund Sources for Agribusiness

1. Banks

The formal credit sector is regulated by the Central Bank of Swaziland, which is charged with the promotion of monetary stability and the fostering of financial conditions conducive to orderly and balanced economic development of the country. The Central Bank regulates and influences the financial market through policy measures and various monetary instruments. The Bank also administers directives issued from time to time by the Minister of Finance and is the regulatory authority of the commercial banks.

The banking sector comprises the Central Bank and the six commercial banks: Bank of Credit and Commerce International Swaziland Limited, Barclays Bank of Swaziland Limited, International Bank for Swaziland Limited, Standard Chartered Bank, The Union Bank of Swaziland, and Swaziland Development and Savings Bank.

The commercial banks provide credit to the commercial agribusiness sector through conventional loans as well as lease financing of equipment. Loans are normally secured, often by real estate. The maximum loan amount is usually 60 to 65 percent of the value of the asset financed. Working capital loans are made for as long as one year, medium-term loans such as those for the purchase of equipment are normally made for three years, and building loans are from five to seven years.

Based on bank interviews, small agribusinesses have limited access to credit. There is no formal source of credit for the undercapitalized, fledgling agribusiness entrepreneur. Several persons interviewed affirmed that Swazibank is the only source of agribusiness credit on Swazi Nation Land. The loans the Bank makes to entrepreneurs on Swazi Nation Land are normally secured by cattle; the Bank does not have concessional loan programs available to rural agribusinesses such as those existing for small farmers.

Interviews with traders, vegetable vendors, and butchery proprietors revealed that Bank collateral requirements--real estate is said to be the preferred collateral--prohibit borrowing. Relatives are an important source of credit for those who do not meet Bank collateral requirements.

2. Nonbank Financial Institutions

a. Tibiyo Taka Ngwane

A national trust fund known as Tibiyo Taka Ngwane is a major contributor to the development of large-scale agribusiness in Swaziland. Tibiyo Taka Ngwane was created by King Sobhuza II on August 19, 1968, as the national development agency of Swaziland. The initial capital for Tibiyo was provided by Swazi Nation mineral royalties. The injection of mineral royalties continued until 1975 by which time Tibiyo was financially well established.

Tibiyo has a wide variety of activities and investments. Because of national interests, Tibiyo is a major investor in projects involving the natural resources of minerals and agriculture. The major Tibiyo agricultural investments are in sugarcane production. The Tibiyo Agricultural Division also has investments in projects involving maize, cattle, tobacco, forestry, rice, vegetables, and fruit production.

The Projects Division of Tibiyo researches and formulates proposals for commercially viable agriculture projects and solicits experienced local and foreign investors as potential joint venture partners. Tibiyo has no rigid rules concerning the distribution of equity in a joint venture. However, Tibiyo requests the joint venture partner to provide technical expertise and professional management as Tibiyo does not have sufficient expertise itself.

b. Swaziland Industrial Development Corporation

The most important source of funding for new enterprises, including agribusinesses, is the SIDC, a private development finance company established by the Government of Swaziland to finance private sector projects in the industrial, mining, agribusiness, tourism, commercial, and service sectors. The Government of Swaziland is the major shareholder. The other shareholders are:

- The CDC
- The German Finance Company for Investments in Developing Countries (DEG)
- The International Finance Corporation
- The Netherlands Development Finance Company
- Barclays Bank of Swaziland Limited

The SIDC is able to provide both loans and equity capital to a qualified client. The amount of financial support the SIDC can provide is limited to an amount exceeding 50 percent of the total financial requirements of the enterprise. The maximum SIDC participation in any single venture is E3 million. The minimum loan amount is E100,000. The SIDC's equity position in an enterprise may not exceed 35 percent of the capital stock. SIDC does not participate in the management.

The financial services offered by SIDC are limited to locally incorporated companies. Loans with maturities as long as 10 years are offered with the interest rate fixed for the term of the loan. Prospective clients are required to furnish SIDC with a detailed business plan describing the project, management, investment details, financing requirements, production and marketing plan, and financial projections.

At the end of 1989, the SIDC had invested a total of E65 million as follows: 24 equity finance projects, 25 loan finance projects, and 35 industrial premises. Four of the projects were for agribusiness enterprises. The agribusiness enterprises included cattle feed-lot financing with assistance from the European Investment Bank.

3. Finance-oriented Parastatal

The Small Enterprise Development Company (SEDCO) is a parastatal under the Ministry of Commerce, Industry, and Tourism. SEDCO operates seven industrial estates that offer subsidized facilities for small entrepreneurs. SEDCO also offers business counseling and training for small entrepreneurs. In the past, SEDCO offered small business loans but that practice was discontinued due to loan losses that resulted in a lack of funds.

4. Foreign Institutional Investor

The CDC was established by an act of the British parliament and is accountable to the British government. The CDC has been in Swaziland for nearly 40 years and has had a profound role in the economic progress of the country. CDC has an interest in 15 projects in Swazi agriculture, industry, and public utilities involving either equity, loans, or a combination thereof in the amount of E155 million. Additionally, CDC manages or seconds management staff to six projects in which it has invested.

The CDC is a major contributor to large agribusinesses in Swaziland. The CDC is also a source of equity capital and loans for medium-scale agribusinesses through the SIDC to whom it is both stockholder and lender.

The largest proportion of CDC's investments are in the growing and processing of sugarcane and timber. Three CDC projects, Inyoni Yami Swaziland Irrigation Scheme, Mhlume Sugar Company, and Vuvulane Irrigated Farms, provide employment for more than 5,000 people. Shiselweni Forestry Company at Nhlangano in Southern Swaziland is a wholly owned subsidiary of CDC and produces mining timber, timber for pulp and particle board, and eucalyptus oil.

CDC provided financing for the agricultural-related business, National Textile Corporation of Swaziland. CDC is contributing to the development of the meat industry through its investment in Swaziland Meat Industries Ltd.

C. Constraints to Small Agribusiness Development

1. Credit

The local banks lend money to viable agribusinesses. Borrowing from a commercial bank requires generous amounts of equity and collateral that are generally beyond the means of small firms. Moreover, small loans, such as those required by small agribusiness, are expensive for a bank to administer, and are often perceived as high risk and are therefore not attractive to lenders.

The rural-based small agribusinesses such as the maize mill operators are not able to borrow from any bank other than Swazibank. The Bank's mandate to provide credit to rural agribusiness under Bank Order No. 49 Of 1973 states that the object of the Bank is "...to conduct the business of banking in all its aspects, having regard to the needs of the individual citizen of Swaziland and of Swaziland as a whole...it shall...establish or promote agricultural and rural industries...."

2. Collateral

Collateral is normally a major constraint for a small entrepreneur, agribusiness or otherwise, because small entrepreneurs are notoriously undercapitalized. Collateral deficiency is more acute for a small entrepreneur if he is located on Swazi Nation Land, because the possibility of using the land as collateral is ruled out.

Swazibank, as is normal for commercial banks, commonly requires that the value of the collateral securing the loan be 150 percent of the loan amount. Cattle are the most common collateral for SNL borrowers. For collateral purposes, Swazibank values adult cattle at E300 a head. (The present market value of a cow is around E800.) The Bank values equipment less than one-year old at 60 percent of its purchase price. Older equipment has a lesser value.

3. Institutional

An institutional constraint to entrepreneurial development, including agribusiness, is the fact that SEDCO does not have any funds to lend. In the past, SEDCO offered loans to small businesses but that practice was discontinued due to mismanagement and loan losses.

As stated earlier in this report, the most important source of funding for new enterprises, including agribusiness, is the SIDC. The institutional constraint posed by the SIDC to the small entrepreneur is the minimum loan size of E100,000. The SIDC equity position in an enterprise may not exceed 35 percent of the capital stock.

An additional constraint is the SIDC limitation of 50 percent of the total financial requirements of a business. Stated another way, the SIDC will not make a larger financial contribution to the business than the one the owner makes. That particular limitation is common in commercial banking in Swaziland and elsewhere.

4. Legal

The Commercial Amadoda poses a legal constraint to the development of small rural agribusiness.[3] The Commercial Amadoda was established by King Sobhuza II in 1947, for the purpose of encouraging and regulating the development of commerce in and upon Swazi Nation Lands. The King's rationale in creating the Commercial Amadoda was that "... he had seen that the Swazis were ignored in commerce by the white settlers and there was no way to unite the two parties so that they could share the common goal in trade and profits."[4] The organization has steadily grown throughout the country, "... there are nine branches and two sub-branches ...which control about 650 stores and 420 hawkers and peddlers."[5]

The legal constraint posed by the Commercial Amadoda is the control the organization has over business, as set forth in articles 11 and 12 of the "bye-laws." The consent provision hinders the development of agribusiness on Swazi Nation Land because consent for a business license is often given on a patronage or other noncommercial basis. The process of receiving consent to start a business on Swazi Nation Land can be interminable. According to a number of reliable sources from both the government and the private sector, there are more than 1,000 pending applications for consent, some pending for more than 10 years.

The "Bye-Laws, Article 11. Conditions For Trading Rights," states: "No person shall acquire any trading right, business or concession in or upon Swazi Nation Lands unless and until he shall have:

(a) procured the consent of the chief in his Libandla,
(b) procured a certificate of consent from the council, and
(c) complied with all customary requirements of the council."

"Article 12. Cancellation Of Consent," provides: "The consent of the Council to the carrying on of any business or trade may be cancelled or suspended at any time should the Executive Committee decide that the continuance of such trade or business may be or become a nuisance or annoyance to any other member or members or to the community at large or any section thereof and upon being notified that such consent has been

[3]Commercial Amadoda, "Constitution of The Swazi Commercial Amadoda," Manzini: Commercial Printers, undated.

[4]Swazi Commercial Amadoda (Traders). Kwaluseni: University of Swaziland, Social Science Research Unit, Private Bag, undated.

[5]Ibid.

cancelled or suspended the member shall thereupon cease to carry on his business or trade... provided always that the member shall have the right to appeal to and be heard by the King's representative and the Executive Committee before such suspending or cancellation is declared final...."

D. Current Developments

1. Incentives

Minister of Finance Sibusiso Dlamini declared during a June 26, 1990 Senate debate on the Income Tax (amendment) Bill that Swazi entrepreneurs are entitled to the same five-year tax holiday presently being enjoyed in Swaziland by foreign industries.

The minister informed the Senate that the tax holiday was established as part of the government's concerted drive to attract investment into the country. He said that the government tries to accommodate the small Swazi businessmen by providing the same benefits offered to foreign investors.

2. Informal Lenders

The informal lending sector has recently come under scrutiny, and "Shylocks" can be prosecuted for charging excessive interest rates if a proposed bill becomes law. The "Money Lending and Credit Financing Bill of 1990" was introduced to the House of Assembly on June 27, 1990 by Minister of Finance Sibusiso Dlamini.

The bill stipulates that, for loans up to E500, the annual rate of interest must not be more than 10 percent above the Central Bank discount rate, while for loans over E500 the rate must not exceed the Central Bank discount rate by more than 8 percent. The bill is said to have received mixed reactions from the members of Parliament, with some members rejecting the bill and others accepting it with the hope that it will stop what they said is a widespread rip-off by informal money lenders.

3. Taxes and Duties

A recent parliamentary report has recommended that the government abolish all taxes and duties on agricultural inputs, if it aims to reduce the escalating costs of farming products.[6] The report did not identify any other tax constraints. The report was compiled by a Parliament-commissioned board of inquiry appointed by Minister of Agriculture and Cooperatives Sipho Mamba.

The study included a recommendation that most of the duties and sales tax on diesel fuel be eliminated in an effort to reduce transportation costs. Reduced transportation costs would assist in developing more-effective input supply and market services. The report concluded that the proposals were necessary to promote economic independence although they might be contrary to the Customs Union agreements.

The study reported that the major reason for the escalation in agricultural production costs was to be found in the deterioration in the rate of exchange. A large proportion of agricultural inputs has to be paid for with foreign exchange. Since 1985, the lilangeni/rand has deteriorated dramatically in terms of the currencies of Swaziland's major partners. Since 1981, the lilangeni has deteriorated on average by 19.8 percent per year against a composite of European currencies. A similar deterioration, approximately 13 percent, has occurred against the U.S. dollar. The following average agricultural input increases for the past eight years, according to the study, have been: tractors, 19.5 percent; implements, 15.6 percent; fertilizer, 13.4 percent; fuel, 4.2 percent; maintenance, 13.8 percent; and, average of all inputs, 13.5 percent.

4. Loan Guarantee Program

The Central Bank of Swaziland is presently developing a loan guarantee fund of E1.0 million, which was accumulated from USAID section 416 funds. Central Bank Deputy Governor Martin Dlamini announced that the fund will guarantee loans made through local lending institutions for small enterprise development. The objectives of the fund is to encourage participating financial institutions to increase lending to small-scale enterprises by reducing the financial risk to be taken by those institutions. The target group for the fund has been initially identified as all small-scale Swazi enterprises already engaged in industry, services, and commerce including small-scale building contractors. The present draft of the proposed fund stipulates that the lending rate of interest will be no more than the rate charged to prime customers. The proposed maximum loan maturity is 10 years.

[6] Ephraim S.F. Magagula, et al., "Report of the Board of Enquiry established to investigate the causes and effects of escalating costs of farming inputs in Swaziland," Mbabane, Ministry of Agriculture and Cooperatives, March 1990.

E. Findings and Recommendations

1. Findings

a. Credit

The availability of credit for the small agribusiness entrepreneur is limited. Borrowing from a commercial bank requires generous amounts of equity and collateral generally beyond the means of small firms. Collateral deficiency is more acute for a small entrepreneur if he is located on Swazi Nation Land, because tenure accorded to Swazi Nation Land prohibits using land as collateral. Rural-based small agribusinesses are not able to borrow from any bank other than Swazibank.

b. Business License Requirements

The Commercial Amadoda hinders the development of agribusiness on Swazi Nation Land because it has the authority to grant business permits in the form of consent. Consent is often given on a patronage or other noncommercial basis. The process of receiving consent to start a business on Swazi Nation Land can take years, and according to reliable sources, there are currently more than 1,000 pending applications for consent of one sort or another.

The consent is required for a business license, which the Ministry of Commerce, Industry, and Tourism issues. The Commercial Amadoda by-laws state: "No person shall acquire any trading right, business or concession in or upon Swazi Nation Lands unless and until he shall have: (a) procured the consent of the chief in his Libandla, (b) procured a certificate of consent from the council, and (c) complied with all customary requirements of the council."

c. Development Opportunity

Development of agribusiness depends on expanded commercial production from Swazi farmers. The most likely way to expand production is through group efforts that include an expanded marketing dimension.

Commercial production exists in a group setting through primary societies' operations with integrated input purchasing, product marketing, and farmer credit provisions for cotton, tobacco, sugarcane, and pineapples. The opportunity exists for increased commercialization of fruit and vegetable production by developing a similar integrated agribusiness approach.

The cotton industry is a good model for expanding production because its attributes include credit and marketing through a group setting. Commercial agribusiness occurs with commercial production as illustrated by the cotton industry where more than 9,500 small farmers sell to two large agribusinesses.

2. Recommendations

a. Credit

In order to foster small agribusiness development by making credit more available, there is a need to define the target borrower group for the Central Bank loan guarantee program as follows:

Small-scale (1-15 employees) Swazi enterprises in the private sector who are engaged in anything related to agriculture having potential to increase value added, including agroprocessing, input supply, manufacturing, transportation, and marketing. Typical borrower characteristics are:

- The borrower is engaged in the production of goods utilizing a proven technology
- The goods produced by the borrower have an existing domestic market
- The owner of the business is actively engaged in the management of the business

The loan guarantee program should be conducted through Swazibank as it is the only bank that provides credit to small rural agribusinesses. The germane points of the proposed loan guarantee program and recommended revisions are contained in annex E.

b. Business License Requirements

In order to foster small agribusiness development on Swazi Nation Land there is a need for a parliamentary order authorizing the Ministry of Commerce, Industry, and Tourism to issue all permits required for a business license. The Ministry issues all business permits except for permits to businesses located on Swazi Nation Land, which presently are under the authority of the Commercial Amadoda. The Ministry issues all business licenses.

c. Development Opportunity

In order to foster agribusiness development there is a need for the CAPM project to proceed with an integrated credit and marketing model designed to expand local fruit and vegetable production by Swazi smallholders. The proposed model, annex F, is based on the successful attributes of the cotton industry where small-farmer agricultural production is linked to large agribusiness through credit and marketing on a group basis.

The model emphasizes marketing and includes group lending facilitated by a guaranteed loan to an agribusiness entity.

F. Summary

1. CAPM's Objective

CAPM's agribusiness activity is focused on small agribusiness development, and ways larger agribusiness can service or benefit small farmers. The CAPM project's charge is to work with the private sector to identify, analyze, and develop opportunities to stimulate agribusiness. The CAPM project will also work with the government and the private sector to identify and address agribusiness constraints.

2. Characteristics of Swaziland Agribusiness

Agribusiness in Swaziland is comprised of, on the one hand, large corporate-owned agribusinesses such as the sugar plantations, and, on the other hand, the small-scale agribusinesses typically owned by a sole proprietor and having limited opportunity for development.

A third agribusiness sector includes the SDB, the NAMBOARD, and the CCU. This third sector also includes a few medium-scale, commercially viable agribusiness input supply, processing, and manufacturing plants, which are owned primarily by sole proprietor white Swazis.

Small-farmer commercial production of cotton is an exception to the fact that small farmers in Swaziland market a limited amount of agricultural goods. Cotton is the principal cash crop for more than 9,500 small farmers in RDAs who produced a total 20,854 metric tons in the 1987 to 1988 season. Two large corporations, Cotona and Clark, are the agribusiness component of the cotton industry.

3. Commercial Bank Loans

The commercial banks provide credit to the commercial agribusiness sector through conventional loans as well as lease financing of equipment. Loans are normally secured, often by real estate. The maximum loan amount is 60 to 65 percent of the value of the asset financed. Working-capital loans are made for as long as one year, medium-term loans such as those for the purchase of equipment are normally made for three years, and building loans are from five to seven years.

Small agribusinesses have limited access to credit and there is no formal source of credit for the fledgling agribusiness entrepreneur. Swazibank is the only source of agribusiness credit on Swazi Nation Land, and these loans are normally secured by cattle. The Bank does not have concessional loan programs available to rural agribusinesses such as those existing for small farmers.

4. Business License Constraint

The Commercial Amadoda hinders the development of agribusiness on Swazi Nation Land because it has the authority to grant business permits in the form of consent, which is often given on patronage or other noncommercial basis. The process of receiving consent to start a business on Swazi Nation Land can take years.

5. Development Opportunity

Development of agribusiness depends on expanded commercial production from Swazi farmers. The most likely source for expanded production is through group efforts including an expanded marketing dimension. Commercial production exists in a group setting through primary societies' operations with integrated input purchasing, product marketing, and farmer credit provisions for cotton, tobacco, sugarcane, and pineapples. The opportunity exists for increased commercialization of fruit and vegetable production by developing a similar integrated agribusiness approach. The cotton industry is a good model for expanding production because its attributes include credit and marketing through a group setting.

SECTION V
CONCLUSIONS AND RECOMMENDATIONS

A. Agricultural Production Credit

1. Conclusions

There are approximately 58,000 homesteads in Swaziland but only about 20,000 have holdings of two hectares or more. Two hectares is considered to be a minimum size for commercial viability, except for land producing some specialty crops. About four percent of the homesteads have agricultural loans through the Swazibank. Government and donor agencies have questioned why more credit is not used by these small farmers. More credit is not used by small farmers because it is not profitable to borrow for maize, the predominant small-farmer crop in Swaziland. Furthermore, lending to small farmers is not profitable for banks in Swaziland. Lack of profitability for both parties explains why there is not more credit usage by small farmers in Swaziland.

A 1987 study for AID revealed the following necessary conditions for a small-farmer credit program to successfully stimulate agricultural development:[1]

- o Market demand and government pricing policies favorable to increased production of project-supported crops
- o Profitable and appropriate technology for the target group
- o Adequate agricultural support services and marketing facilities for the increased production
- o Availability of the necessary land and labor resources to invest in the recommended technology

In Swaziland, profitability, agricultural support services, marketing facilities, and necessary land are all limiting factors for the small farmer. Noncredit constraints must be addressed if credit usage is to be truly productive, constraints such as marketing, transport, institutional and technical factors, and land tenure. Land tenure, the most controversial of these constraints, has an effect on all the others. Traditional land tenure has resulted in small, inefficient parcels that are not conducive to commercial production. One only needs to look at

[1] "Credit Programs for Small Farmers: A Project Manager's Reference," AID Evaluation Special Study No. 47, AID, Washington, D.C., June 1987.

TDL farms to see the differences. If land tenure were addressed, commercialization could proceed more quickly in Swaziland.

Low returns to labor for traditional crops such as maize relative to other options available to the more-productive labor on a homestead cause more-productive labor to migrate outside the homestead for work. The generally low returns to labor result from low yields and the small inefficient size of land holdings. Opportunities exist for good returns to labor in irrigated crops, especially tomatoes, summer onions, and potatoes, but marketing and transport problems inhibit increased production of these crops. Low yields and size of landholding must be dealt with in order to increase labor productivity. Increased yields will help a small farmer, but in order to induce him to utilize all of his labor on the farm, he must have enough land to do so. The present land-tenure system inhibits increased labor productivity because it perpetuates small and inefficient landholding patterns.

Combining credit with a program that addresses the constraints other than land tenure will result in the most productive use of credit for the time being. Such a program is most likely to have the greatest impact on moving the small farmers into the commercial sector. The cotton industry is successful because it has a reliable market, addresses transport problems, provides institutional infrastructure, and renders technical help. Because of these attributes, credit usage is widespread and profitable to the small farmer raising cotton. Default on cotton credit extended by the gins is limited because the gins control the marketing and thus are able to deduct loans from proceeds due the farmer. This control eliminates the additional expense of taking cattle for collateral to secure the credit. Efforts to assist the SNL farmer need to be based on the experience of the successful cotton program.

Current efforts underway in the CAPM project involve a redirection of project activities to show more immediate results in the field. A CAPM model is evolving to establish an organization or a liaison that addresses production and marketing constraints for small farmers in an integrated approach. This model centers around irrigated production sites, because of the potential for increased production with water availability. Current assistance to irrigation sites fail to address the farmer's problems after water is delivered to the site. The CAPM model is supplementary to current efforts in that it addresses production, transport, and marketing problems. With the CAPM approach, credit can be of meaningful assistance to the small farmers.

Small farmers need to be educated in the proper use of credit before credit is given to them. Sociological influences, particularly the lack of understanding of the concept of interest and the lack of a fixed time period in which to repay debt in traditional Swazi culture, create confusion between borrowers and lenders. The authors observed difficulties, even in educated Swazis, in understanding credit, an observation emphasizing the need for credit education. Borrowers become suspicious of banks that demand payment of interest and principal in a timely fashion, and banks become conservative when faced with borrowers who do not share their values of how loans should be repaid.

With the exception of Swazibank, commercial banks do not extend credit to farmers on Swazi Nation Land because the small loans are unprofitable. Swazibank makes the loans to SNL farmers because of the Bank's legal obligation under The Swaziland Development and Savings Bank Order No. 49, of 1973. The tenure accorded to Swazi Nation Land rules out the possibility of using the land as collateral. Local bankers describe the SNL tenure system as a constraint to effective lending because land is normally the most valuable rural asset and the easiest collateral for a lender to monitor. However, from the viewpoint of the local bankers it is not a particularly meaningful constraint since the small SNL farmer loans are unprofitable regardless of the collateral securing the loan.

The costs involved in lending to SNL farmers are high, resulting in part from the personnel and transport requirements necessary to provide oans to individual borrowers located over a wide geographical area. It is time consuming and costly to monitor cattle on the open range; this is a significant issue since virtually all of the loans are secured by cattle. Added to these costs are loans losses such as those resulting from crop failure. Estimates are that Swazibank loses E79 on the average SNL farmer loan. It is clear that the Bank is subsidizing the SNL farmer loans from its other income sources.

Because of the high cost of extending credit to SNL farmers, group lending is necessary to reduce costs. This is not as easy as it appears. Swaziland does not have the characteristics of other areas where group lending has been economical. Widely scattered homesteads inhibit group formation. The sense of independence of homesteaders also renders group formation difficult. Unless the groups are formed in response to a need of the members, chances of groups functioning effectively for credit are slim.

There are existing groups in Swaziland that could be used for extending credit, especially those located on irrigation sites. Irrigation groups have emerged from the SNL farmers who are the best prospects for increased production and the best candidates for efficient credit programs. CAPM's interest in assisting irrigation groups is well directed. USAID may be especially interested in the fact that irrigation groups tend to have a high proportion of women members.

2. Recommendations

a. Pilot Credit Program

A pilot credit program should be included in the CAPM integrated field production and marketing model now in the initial stages. Since the model addresses the production, marketing, and profitability constraints, credit can serve a useful role in expanding or establishing production. A successful credit program will require the following:

(1) Integrated Assistance

Prior to the introduction of credit, there needs to be support to establish viable markets, coordinate production, and provide technical training to the farmers in irrigated crop production. Integrated assistance is simply the application of the six CAPM guidelines identified in the technical proposal.

(2) Site

A group irrigation site with a minimum of 25 members now operating is required. An irrigation specialist is required to assist CAPM in the site selection to ensure that adequate water is available and that there are no design faults that render the site unviable. Two sites are recommended for the beginning of the program. Mashobeni site in Hhohho District is recommended to be considered as the first site. The 34-hectare site has ready access to good roads, has approximately 60 members, and is adapted to mechanization. The extension agent serving the group farming at the site confirmed that minimal credit is used at the scheme. Access to good roads is an important criteria and should be considered when choosing the other site.

(3) Group Lending

Economies of scale necessary to reduce loan costs demand group lending, or individual lending to members of a group who are accessible at one site. A loan to the group through an official group leader, who will prepare a schedule of individual credit requests, is preferable. All members of the group must agree on the integrated-assistance package delivered to the group. Two conditions of that package are: agreement to produce specified crops for market, and agreement to allow deductions for loan repayment from proceeds of those crops. Regardless of the method of marketing, whether through an outside buyer or a CAPM-initiated marketing company, the deduction mechanism needs to be enforced with banishment from the irrigation group if crop sales are diverted elsewhere.

(4) Repayment Mechanism and Collateral

Loan repayment must be addressed before credit is extended. First, the crop selected must be readily marketable and, second, it must be profitable. Irrigated tomatoes appear to be the most profitable crop, followed by irrigated onions. Actual crops financed will be determined with the cooperation of the growers at each site. Ensuring that a profitable crop is financed and that controls are placed on crop proceeds are more important considerations than collateral. Collateral will not be required, but crop proceeds will need to be carefully monitored, and the deductions made before the farmer receives his payment. This mechanism has served to minimize repayment problems for loans extended by the cotton gins.

(5) Personnel

A U.S. Peace Corps volunteer and a field agent will be posted at each group site according to CAPM plans. These two individuals will assist in coordinating credit requests of the group members, and will also be involved in organizing production. Although the two will be facilitating credit distribution, an employee of the planned CAPM agribusiness marketing entity should disburse the credit. Loan supervision will consist of, first, monitoring the crops raised by the farmers, and second, ensuring that the loan is deducted from crop proceeds before the farmer is paid.

(6) Funding Mechanism and Funds Required

The Swazibank has unused concessional loan funds of E1.7 million. Funds should be loaned by Swazibank to the planned CAPM agribusiness marketing entity. Officers of the Bank have said that a loan of this type could be made at a slightly lower rate than regular SNL loans because of the economies that would be realized in extending larger sums of money. The marketing entity should mark up the money to reflect its cost of administering the loans to the farmers. Because the marketing entity will not have financial strength, a guarantee would be necessary for the Bank to extend it credit. The guarantee mechanism would function as described in the recommendations on agribusiness credit.

Large amounts of funds would not be required for production credit. Based on the Mashobeni sites' 34 hectares, and using the production costs per hectare for tomatoes of approximately E1,300, then E44,000 would be necessary. A situation where all the site would be planted to tomatoes would never happen. This example is useful in that it illustrates that funds of E50,000 should be ample to begin production at Mashobeni.

(7) Borrower Education

Prior to any credit disbursal, all borrowers need an orientation on the productive use of credit and their responsibility in repaying the loan. This can be accomplished through the Peace Corps volunteer and the field agent. Concepts discussed should include crop budgets, additional profits that can be realized with wise credit use, and the importance of repayment in ensuring availability of future credit.

b. Assistance to Swazibank

(1) Government Policy Decision

The fundamental issue in Swaziland regarding credit to SNL farmers is that for most farmers it is not profitable to borrow and it is likewise not profitable for banks to extend credit to the small farmers. Donor agencies and the Government of Swaziland have not recognized this basic fact. Swazibank has repeatedly stated that the small-farmer loan program was losing money and that the program was being subsidized by Swazibank's other programs. Since the Bank is mandated by law to serve the small-farmer sector, it was unable to discontinue unprofitable small-farmer lending as did the nongovernment banks. Although Swazibank's small-farmer loan program was not discontinued, it was considerably slowed down. A policy decision is necessary to determine who will pay for small-farmer lending. In the past, the Government of Swaziland and donors have insisted on continued lending to small farmers. If this lending is to continue, the government or the donors need to compensate Swazibank for the extra costs involved with these loans. Continuation of present programs without compensating Swazibank for the added costs will result in the continued financial weakening of Swazibank.

(2) Credit Manual

The IFAD Smallholder Credit and Marketing Project will provide an advisor to Swazibank for one year beginning in July 1990. The advisor will assist Swazibank with the concessional loan program based upon the recommendations of the IFAD's 1989 Supervision and Credit Programming Mission Report. The advisor's role has been well defined but does not specify work on a credit manual. CAPM could provide Swazibank a valuable supplement to the credit advisor's efforts through a five-month consultancy for design and implementation of a credit manual. A credit manual containing policies, procedures, and requirements for extending credit is needed to ensure uniformity in lending among the Swazibank branches. The existing manual, dating from the early 1970s, is of little practical use. Directives are issued from the head office in Mbabane via circulars and although they could be filed in a single folder, organizing the circulars is a problem. Consolidating the directives into a properly indexed manual would help correct lack of uniformity in credit administration from branch to branch, a lack that was noted by the authors of this report.

A system to regularly update the manual as changes occur needs to be institutionalized when the manual is implemented. Institutionalization would involve designating a person in the head office who would be responsible for developing manual updates, securing management approval of the updates, and sending the updates to the branches. A person would be designated in each branch to place updates in all credit manuals for that branch. The consultancy for creating and implementing a credit manual would be most helpful if scheduled approximately two months before the completion of the IFAD consultancy. The consultants could then collaborate so the manual could include any changes to credit procedures undertaken during the IFAD consultancy. At the completion of the consultancy for the credit manual, a one-day training session should be presented by the consultant and the head office person designated to be responsible for updating the manual. The training session should cover how to use the manual and the importance of keeping it updated. All credit supervisors and branch managers should attend the training session.

(3) Cost Study

Portions of two studies of Swazibank have estimated costs of the small-farmer lending program. These studies have not been precise, and did not identify in full which cost elements were included in the cost estimates. A two-month cost study is necessary to determine the extent to which the small-farmer portfolio is losing money and also to determine the appropriate charges to assess any credit extended to a CAPM-integrated production and marketing entity. Quantifying the exact costs would help the GOS determine the extent to which the small-farmer program hampers the Bank's profitability. The study should include all costs related to small-farmer lending including, but not limited to, costs of money, personnel, transportation, supplies, and loan losses. Special attention should be paid to the cost of concessional funds to the bank as identified by Mr. Kuhlase.[2] He contended that because Swazibank was bearing exchange rate risk, Swazibank was paying in real terms more for concessional funds than it was paying for regular deposits.

[2] S.S. Kuhlase, "Accessibility of the Credit Market to Small Businessmen: Assessing the Credit Worthiness of Small Enterprises in Swaziland." Text of a speech delivered to the Economics Association of Swaziland, Mbabane, 1990.

(4) Education and Training

(a) Borrower

The authors of this report found commercial bank credit to be very different from the traditional ways Swazis have handled credit. Prior to receiving a loan for the first time, borrowers need to be instructed as to the proper use of credit and their obligations regarding loan repayment. The training should be done in a group setting and include simple crop budgets, the concept of interest and how it is calculated, and how the loan repayment period is determined. Advantages of early voluntary payment to reduce interest charges should be emphasized. This training should be delivered by agricultural extension workers with assistance from Swazibank credit supervisors.

(b) Credit Supervisor Training

Several Swazibank credit supervisors expressed the wish for more training and education in accounting and loan analysis to help prepare them for more-responsible roles within Swazibank. They also need training in working with groups so they can help provide training to borrowers regarding the proper use of credit as discussed above. Any extension workers who would be involved in training borrowers should also receive the training in working with groups.

(5) Group Lending

Because SNL homesteads are scattered geographically, servicing costs are very high. Lending to groups is not always easy, but it is one of the best ways to reduce administrative costs per loan. Swazibank should pursue loans with groups of individuals who have demonstrated an ability to work together and are willing to utilize profitable technologies. The groups should be selected based upon ability to work together, profitability, and presence of a ready market for the production. Irrigation groups would be one type of group that could be served.

c. Other Issues

(1) Land-tenure Reform

Land-tenure reform, the subject of much controversy in the past decade, was the focus of a recent study by the University of Wisconsin. The basic finding of the Wisconsin study was that the tenure system did not present a major constraint to increased agricultural production at the time of the study.

The Wisconsin study did not concentrate on commercial farms. The land-tenure issue needs to be reassessed with a focus on the limited number of commercial farms that have potential for increased agricultural production. Farmers interviewed in the CAPM Baseline Survey cited land issues as major problems. Commercially oriented farmers are hampered from increased agricultural production by the present tenure system. The farmers cannot make medium- and long-term improvements to their land and be certain that they will retain ownership long enough to recoup the additional investment. Examples of improvements are concrete irrigation canals, irrigation wells, and processing or storage buildings. The SNL farmer lacks the real estate collateral that would be required by a prudent bank for medium- and long-term loans.

The considerable effort in Swaziland to create a favorable investment climate in order to attract investment has not focussed upon the SNL sector. The large-scale modern farms of the estate sector indicate the type of investment that is possible with private ownership of real estate. The commercially oriented SNL farmer is restrained from increased agricultural production by the existing tenure system.

B. Agribusiness Credit

1. Findings

a. Credit

The availability of credit for the small agribusiness entrepreneur is limited. Borrowing from a commercial bank requires generous amounts of equity and collateral, generally beyond the means of small firms. Collateral deficiency is more acute for a small entrepreneur if he is located on Swazi Nation Land because the tenure accorded to SNL rules out using land as collateral. Rural-based small agribusinesses are not able to borrow from any bank other than the Swazibank.

b. Business License Requirements

The Commercial Amadoda hinders the development of agribusiness on Swazi Nation Land because it has the authority to grant business permits in the form of consent, often given on a patronage or other noncommercial basis. The process of receiving consent to start a business on Swazi Nation Land can take years, and according to reliable sources there are currently more than 1,000 pending applications for consent.

The consent is required prior to receiving a business license issued by the Ministry of Commerce, Industry, and Tourism. The Commercial Amadoda by-laws state: "No person shall acquire any trading right, business or concession in or upon

Swazi Nation Lands unless and until he shall have: (a) procured the consent of the chief in his Libandla, (b) procured a certificate of consent from the council, and (c) complied with all customary requirements of the council."

c. Development Opportunity

Development of agribusiness depends on expanded commercial production from Swazi farmers. The most likely source for expanded production is through group efforts that include an expanded marketing dimension.

Primary societies' integrated input purchasing, product marketing, and farmer credit provisions for cotton, tobacco, sugarcane, and pineapples is illustrative of commercial production functioning in a group setting. The opportunity exists for increased commercialization of fruit and vegetable production by developing a similar integrated agribusiness approach. The cotton industry also serves as a good model for expanding production because it provides credit and marketing facilities through a group setting.

2. Recommendations

a. Credit

In order to foster small agribusiness development, by making credit more available, there is a need to define the target borrower group for the Central Bank loan guarantee program as follows:

Small-scale (1-15 employees) Swazi enterprises in the private sector who are engaged in anything related to agriculture that has potential to increase value added--including agroprocessing, input supply, manufacturing, transportation, and marketing. Typical borrower characteristics are:

- The borrower is engaged in the production of goods utilizing a proven technology
- The goods that the borrower produces have an existing domestic market
- The owner of the business is actively engaged in the management of the business

The loan guarantee program should be conducted through the Swazibank because it is the only bank that provides credit to small rural agribusinesses.

b. Business License Requirements

In order to foster small agribusiness development there is a need to put into law a parliamentary order authorizing the Ministry of Commerce, Industry, and Tourism to issue all permits required for a business license. The ministry currently issues all business permits except for permits to businesses located on Swazi Nation Land, which are presently under the authority of the Commercial Amadoda. The ministry issues all business licenses.

c. Development Opportunity

In order to foster agribusiness development there is a need for the CAPM project to proceed with an integrated credit and marketing model designed to expand local fruit and vegetable production by Swazi smallholders. The proposed model, annex F, is based on the successful attributes of the cotton industry where small farmer agricultural production is linked to large agribusiness through credit and marketing on a group basis. The model emphasizes marketing and includes group lending facilitated by a guaranteed loan to an agribusiness entity.

ANNEX A
INDIVIDUALS AND ORGANIZATIONS CONTACTED

Individual	Organization
Mr. Dale Allen	Agribusiness Entrepreneur
Mr. B. C. Barkataki	General Manager, BCCI
Mr. Marcel Boogaerts	Adviser, MCIT
Mr. Donald J. Brosz	Extension Irrigation Specialist, Research Division, MOAC
Mr. Frank Buckham	Principal Secretary, MOAC
Mr. James E. Bunnell	Agribusiness Specialist, CAPM Project
Ms. Nancy Bender Caiola	Project Director, CARE
Mr. Peter J. Capozza	Financial Director, Khalipha Investments
Mr. John Canty	Manager, CDC
Mr. Samuel Gumedze	Credit Union Promotion Officer, CCU
Mr. Taffara DeGuefe'	Adviser, SDSB
Dr. James Diamond	CSRET Project
Mr. Absalom Dlamini	Assistant Commissioner, Cooperative Development Department, MOAC
Mr. Elijah Dlamini	Chairman, Mphetseni Pineapple Growers Cooperative
Mr. Enock Dlamini	Farmer, Velezizweni Vegetable Growers Association
Mr. J.J. Dlamini	Deputy General Manager, SDSB
Mr. Leo Dlamini	Marketing Manager, CCU
Mr. Martin G. Dlamini	Deputy Governor, Central Bank of Swaziland
Mrs. Phumelele Dlamini	Assistant Senior Planning Officer, MCIT
Mrs. Thembayena Dlamini	Senior Planning Officer, MCIT
Mrs. Sibongile Dlamini	Vegetable Vendor, Mbabane
Mr. Brian Duncan	Consultant
Mr. Steven Enderby	Operations Executive, SIDC
Dr. Conrad F. Fritsch	Policy Advisor, Chemonics
Mr. E. Geledard	Acting General Manager, Simunye Sugar Estates
Mr. A.B. Ginindza	Executive President, Sibakho Chamber of Commerce and Industry
Mrs Verona Groverman	FAO Consultant, People's Participation Project
Mrs. Bellina T. Gumede	Proprietor, West End Butchery, Mbabane

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Dr. Xolile P. Guma	Director, Social Science Research Unit University of Swaziland
Mr. Sam Gumedze	Credit Union Promotion Officer
Ms. Zakhe Hlanze	Research Officer, MOAC
Mr. Andrias Hlophe	Regional Commercial Officer, MCIT
Mr. Sam Hlophe	Head, Economic Analysis and Planning Unit, MOAC
Mr. John Hunter	Coordinator, IFAD Smallholder Credit and Marketing Project
Mr. Brian W. Hurr	Deputy Managing Director and Secretary, Barclays Bank of Swaziland Limited
Mr. M.G. Jeebe	Marketing Advisory Unit, MOAC
Mr. Charles Jenkins	Private Sector Development Officer, USAID
Mr. J. Johnstone	Farmer, Ngwempisi RDA
Mr. Kimball Kennedy III	Chief of Party, CAPM Project
Mr. B.S.M. Khumalo	Investment Promotion Executive, SIDC
Mrs. Poppy Khoza	Publisher of Dzadze Magazine
Mr. S.S. Kuhlase	General Manager, SDSB
Ms. Nonhlanhla Kunene	Accounts and Audit Officer, CODEC
Mr. Joe Lattuada	Technical Consultant, CARE
Mr. Peter Linsey	Financial Controller, CCU
Mr. Welcome Lomahoza	Senior Credit Supervisor, SDSB Manzini Branch
Mr. Mathew Mabuza	Vice Chairman, Mphetseni Pineapple Growers Cooperative
Mrs. Susan Magagula	Assistant Senior Planning Officer, MCIT
Mr. Levai Z. Makhanya	Vice Chairman, Sibonelo Savings and Credit Cooperative Union
Mr. Boy Masina	Farmer and Vegetable Vendor, Ezulwini
Mr. Jack Mbingo	Commissioner, Cooperative Department, MOAC
Mrs. Sibongile Mdluli	Research Director, Central Bank of Swaziland
Mr. W.G. Meyer	General Manager, Cotona Cotton
Mr. Bhekilanga Mkhonta	Farmer, Mavulandlela Irrigation Scheme
Mr. Joshua Mkhonta	Credit and Marketing Instructor, CODEC
Mr. Buick Mndawe	Credit Supervisor, SDSB Piggs Peak Branch
Mr. Absalom Mntshali	Principal, CODEC
Ms. Cynthia Ndlangamandla	SASCCO Coordinator
Mr. Jerome Ndzinisa	Deputy Commissioner, Cooperative Department, MOAC

Mr. Azon Nhlengetfwa	Farmer, Velezizweni Vegetable Growers Association
Mr. Timothy Nhlengetfwa	Farmer, Velezizweni Vegetable Growers Association
Ms. Thandie Nkomo	Secretary, Mphetseni Pineapple Growers Cooperative
Mr. Edward Nonjola	Senior Credit Supervisor, SDSB Piggs Peak Branch
Mr. Robert Ntshalintshali	Farmer, Ngwempisi RDA
Mrs. Amy Nxumalo	Commercial Officer, MCIT
Mr. Robert E. Olson	Marketing Specialist, CAPM Project
Dr. Neil Patrick	Agricultural Economics Advisor, Research Division, MOAC
Dr. Charles Pitts	Team Leader, CSRET Project
Mr. Nolan Quickelberge	Manager, Mbabane Branch, Union Bank of Swaziland Ltd.
Mr. Scott A. Reid	Managing Director, Khalipha Investments
Mrs. Mary Reynolds	Librarian/Information Officer, CODEC
Mr. Ian Rossiter	EEC Advisor, MOAC
Mr. Bill Shaner	Farming Systems Advisor, Research Division, MOAC
Mr. Dennis Sharma	Agricultural Development Officer, USAID
Mr. Aubrey Shongwe	Executive Secretary, NAMBOARD
Mr. Clifford Shongwe	Farmer, Usuthu Young Farmers
Mr. Maqhawe Shongwe	Extension Agent, Northern Rural Development Area
Mr. John Simelane	Senior Credit Supervisor, SDSB Manzini Branch
Mr. Mathanda Simelane	Acting CCU Depot Manager, Ntfonjeni
Mr. Mphaya Simelane	Assistant Manager, Special Funds, SDSB
Mr. Noah T. Simelane	Chief Executive Officer, Central Cooperative Union
Mr. Leonard Sithebe	Deputy Assistant Representative, CDC
Ms. Dumile Sithole	Manager, NAMBOARD
Mr. Derrick Von Wissell	Chairman, SWAKI
Dr. P.J. van Blokland	Visiting Professor of Agribusiness Management, CAPM Project
Mr. H.C. van den Burg	Marketing Analysis Unit, MOAC
Mr. Chris Vickery	Farmer and partner in Swazi Spice Works
Mr. Jon Wynne-Williams	Managing Director, Biotechnology Consultants Limited

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Mr. John Weatherson	Managing Director, ADAS, Manzini
Mr. Anthony Zwane	Trader (Hawker), Mbabane
Mrs. Maggie Zwane	Secretary to the General Manager, SDSB
Mr. Richard Zwane	Education and Training Director, CODEC

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ANNEX B
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ANNEX C
TERMS OF REFERENCE

AGRICULTURAL PRODUCTION CREDIT
Commercial Agricultural Production and Marketing (CAPM) Project

SWAZILAND

Objective/output

The objective of the consultancy is to review and assess the suitability and adequacy of the credit programs of financial institutions providing loan capital for agriculture in Swaziland for financing medium and small scale commercially oriented farmers with potential for intensifying and expanding their enterprises.

The approach considers ways of shifting from emphasis on collateral based lending to emphasis on repayment capacity as well as farmer management capability as the basis for loans. The approach emphasizes training for the staff members of credit institutions, farmers and farm organizations in the proper use of production credit. This includes covering the costs of operating the programs on commercial terms so that the institutions can maintain the credit facility for the targeted group indefinitely and expand it in pace with the expected increase in commercial agriculture in Swaziland.

The expected output is the development and evaluation of options for creating or improving credit programs and institutions to effectively provide financing for small and medium scale farm enterprises throughout the country. The intent is that the conclusions of the consultant would be the basis of an "action-analysis" leading directly to an improved environment for development of commercial agriculture.

Statement of Work

The work includes a review and assessment of:

(1) the current financial intermediary sector in Swaziland;

(2) repayment capacity of various farm enterprises in Swaziland; and

(3) socioeconomic factors impacting on credit demand and accessibility;

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as they relate to investment in medium and small commercial farm enterprises.

The consultant will consider seasonal production credit, intermediate credit (e.g. for machinery or milk cows) and long term credit (e.g. for a building) provided by institutions and the roles played by merchant credit and equity capital in investment for agricultural production in Swaziland. He will utilize the existing consultancy reports on production credit such as those relating to programs of Swazibank and draw upon the experience those who have been involved in small holder credit programs in the country. It is not intended that the consultant would perform a detailed and comprehensive assessment of the financial intermediary sector but a focussed one sufficient to identify the options for improvement in small holder credit programs.

The consultant will review research and other data on socio-economic factors in relation to profitability of farm enterprises and experience with agricultural credit in Swaziland. This will include consideration of the implications for credit programs of the different land tenure systems in Swaziland and the role of the chiefs in the management of Swazi Nation Land.

The consultant will review the profitability of agricultural enterprises and their requirements for credit in consultation with the MOAC units concerned with crop and livestock production, research and extension. He will also review the status of marketing institutions and marketing practices as they relate to agricultural credit in cooperation of with the MOAC Marketing Advisory Unit. In addition a small number of medium and small scale farmers will be interviewed. The sample would be composed of farmers similar to the ones included in the CAPM primary baseline survey. From this work credit and financial services now being used will be explored. The results should reveal what services are needed and wanted, and farmers' perceptions regarding the performance of existing credit programs.

The findings will be applied to specify options for the consideration by the Government of Swaziland and the managements of financial institutions. It is expected that the options will be spelled out after consultations with the numerous "players" involved in agricultural credit programs and commercial agriculture in Swaziland and presented in a written report and at a seminar to be organized near the end of the consultancy. The emphasis will be on options that are suited to conditions in Swaziland and, therefore, proposed for action by the relevant authorities.

The work will be undertaken simultaneously with that of an Agribusiness Finance consultant and in cooperation with the members of the CAPM Inter-Ministerial Working Group (IWG) and the institutions relating to agricultural production, credit and marketing business investment in Swaziland, including but not limited to the Ministries of Finance, Agriculture and Cooperatives, and Commerce Industry and Tourism; the Central Bank, the commercial banks, Swaziland Industrial Development Corporation, Swaziland Enterprise Development Corporation, the Commonwealth Development Corporation, and farmer organizations including cooperatives.

The two consultants will work jointly on the assessment of the financial intermediary sector (1 above) and the Agricultural Credit Specialist will conduct the work on repayment capacity and socio-economic factors (2 and 3 above).

Duration and Timing of Assignment

This consultancy will require eight weeks beginning in early April 1990.

Qualifications

The consultant should have M.S. or higher degree in agricultural economics or a B.S. or higher degree in agriculture supplemented by post graduate training in agricultural credit. The consultant should have 10 years or more of relevant experience in agricultural credit activities. Experience is required in designing and implementing successful investment and credit schemes for small and medium scale commercial farmers. For example, desirable experiences would be serving as manager of an agricultural credit portfolio lending primarily to small or medium scale farmers or supervising the development and administration of similar agricultural credit programs. Such experience in Africa would be desirable, but not mandatory.

AGRIBUSINESS FINANCE
Commercial Agricultural Production and Marketing (CAPM) Project

SWAZILAND

Objective/output

Potential appears to exist in Swaziland for greatly increasing the value of agricultural output. The means seen for realizing the potential are private enterprises that can effectively intensify their crop and livestock operations or add value to farm commodities.

Development of the agribusiness sector is essential to support an increase in commercialization of agriculture in Swaziland. Therefore, one of the strategies of the CAPM project for stimulating commercialization of the agricultural sector is facilitating the development of agribusiness enterprises, including cooperatives, which supply small holders with inputs, purchase their products or involve them in production through outgrower contracts.

The objective of the consultancy is to review and assess the suitability and adequacy of sources of equity and loan capital for financing the development of the medium and small scale business enterprises which are needed to support the expansion of commercial agricultural production in Swaziland. The expected output is the development and evaluation of options for creating or improving equity and loan programs and institutions to effectively provide financing for small and medium scale agribusiness enterprises (including co-operatives) throughout the country. The intent is that the conclusions of the consultant would be the basis of an "action-analysis" leading directly to an improved environment for agribusiness development.

The approach is to consider alternative ways of financing the targeted types of enterprises with emphasis on payback potential and management capability. This includes staffing credit institutions with people trained in both "banking" practices and in the characteristics of the agribusiness enterprises. This means tailoring of the terms of the financing to take into account unique features of agribusiness enterprises such as seasonality and annual and cyclical output and price volatility. The options would also include ways of improving the management of financial institutions in serving this segment of the market, e.g. in evaluation of opportunities, portfolio supervision and in the case of credit, collection of interest and principal.

Statement of Work

The work includes a review and assessment of:

(1) the current financial intermediary sector in Swaziland
(2) legal factors and legislation impacting on equity finance and credit
(3) sources of equity capital potentially available for investment in agribusiness

as they relate to investment in medium and small agribusiness enterprises.

He will utilize the existing consultancy reports on equity and loan financing of small and medium sized that may have application to agribusiness in Swaziland. He will draw upon the experience of those who have been involved in small business credit programs in the country. It is not intended that the consultant would perform a comprehensive and detailed analysis of the financial intermediary but a focussed one sufficient to identify the options for broadening and improving the opportunities for small agribusiness enterprises to obtain capital.

The findings will be applied to specify options for the consideration by the Government of Swaziland and the managements of financial institutions. It is expected that the options will be spelled out after consultations with the numerous "players" involved in the investment process in Swaziland and presented in a written report and at a seminar to be organized near the end of the consultancy.

The work will be undertaken simultaneously with that of an Agricultural Production Credit Consultant and in cooperation with the members of the CAPM Inter-Ministerial Working Group (IWG) and the institutions relating to agribusiness investment in Swaziland, including but not limited to the Ministries of Finance, Agriculture and Cooperative, and Commerce Industry and Tourism; the Central Bank, the commercial banks, Swaziland Industrial Development Corporation, Swaziland Enterprise Development Corporation, the Commonwealth Development Corporation.

The two consultants will work jointly on the assessment of the financial intermediary sector (1 above). The Agribusiness Finance Specialist will conduct the work on legal factors and equity capital sources (2 and 3 above).

Duration and Timing of Assignment

This consultancy will require three months beginning in early April 1990. It is essential that the work of the consultant

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be carried out jointly with that of the consultant on farm production credit cited above and at the same time.

Qualifications

The consultant should have M.S. or higher degree in business administration or economics with a finance specialty or a baccalaureate degree supplemented by post graduate training in finance. The consultant should have 10 years or more of relevant experience in activities successfully financing agribusiness. For example, desirable experience would be serving as manager of a venture capital or loan portfolio in an institution financing medium or small scale agribusiness enterprises and developing or supervising finance programs. Experience in designing and evaluating successful investment and credit schemes in developing countries is required. Such experience in Africa would be desirable, but not essential.

ANNEX D
RETURNS TO LABOR FOR SELECTED CROPS

Table D-1: Cotton Returns Over Variable Costs, Except Labor, 1989 to 1990 (E Per Hectare)

Item	0.75 m ton	1 m ton
E/ton	1295	1295
Total Income	971	1295
Seed	30	30
Fertilizer	90	120
Herbicide	20	30
Insecticide	100	110
Spraying	0	20
Diesel	90	100
Transport	46	61
Total Variable Costs (without labor)	376	471
Return Over Variable Costs (without labor)	595	824
Returns to Labor per Man-day	8.88	12.30

Source: Cotona Cotton

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Table D-2: Returns Over Variable Costs Except Labor, 1989

Crop	Price(1)	Yield			Hectares			Returns Per
	E	mt/ha	0.1	0.3	0.5	0.7	1	Man-day, E(3)
			Total Returns					
Irr. potatoes	6.83	10	-16	-47	-78	-109	-156	
(15 kg pocket)		15	192	577	961	1346	1923	
		20	400	1200	2000	2801	4001	
(2)		25	608	1824	3040	4255	6079	11.64
	7.17	10	7	21	35	50	71	
		15	226	679	1131	1584	2263	
		20	445	1336	2227	3118	4454	
Irr. Cabbage	3.98	10	-62	-187	-312	-437	-624	
(28 kg pocket)		15	-11	-34	-56	-78	-112	
		20	40	120	200	280	400	
		25	91	274	456	639	913	1.75
	4.59	10	-41	-122	-203	-285	-406	
		15	21	64	107	150	215	
		20	84	251	418	585	836	
		25	146	437	729	1020	1457	2.79
Irr. Onions	5.81	8	286	858	1430	2002	2860	
(10 kg pocket)		10	392	1175	1958	2741	3915	
		15	655	1966	3277	4587	6553	
		20	919	2757	4595	6433	9191	17.60
	7.90	8	453	1360	2266	3173	4532	
		10	601	1802	3003	4204	6005	
		15	969	2906	4844	6782	9688	
		20	1337	4011	6685	9359	13371	25.61
Irr. Tomatoes	4.41	10	355	1066	1777	2488	3554	
(6.5 kg box)		15	607	1820	3033	4247	6066	
		20	858	2574	4290	6005	8579	
		25	1109	3328	5546	7764	11092	21.24
	5.75	10	562	1685	2808	3931	5615	
		15	916	2748	4579	6411	9159	
		20	1270	3811	6351	8892	12702	
		25	1625	4874	8123	11372	16246	31.12
Dryland Maize	26.00	1	-9	-28	-47	-66	-94	
(70 kg bag)		1.5	7	21	35	49	71	1.82
		1.8	16	48	81	113	161	4.12
		2.5	40	120	200	280	401	10.28
		3	57	170	283	396	566	14.51

Source: "A CAPM Integrated Field Production/Marketing Approach," Conrad F. Fritsch, Draft, May, 1990

(1) High and low net farmer prices at the Nokwane market during the typical marketing months for each crop except maize which is the gazetted price.
(2) 1988 prices are used with 1989 costs since 1989 prices were not typical.
(3) All crops assume 522 man-days required per hectare, except maize (39).

ANNEX E
LOAN GUARANTEE PROGRAM

The following loan guarantee program is the authors' revision of the proposed Central Bank loan guarantee program.

A. Objectives of the Fund

1. Present Objective

To establish a loan guarantee fund that would encourage participating financial institutions, e.g., local development finance institutions as well as commercial banks, to increase lending to small-scale enterprises (SSE) in Swaziland, by reducing the financial risk to be taken by those institutions.

2. Recommended Revision

To establish a loan guarantee fund that would encourage a participating financial institution, e.g., local development finance institution or commercial bank, to increase lending to SSE in Swaziland, by reducing the financial risk to be taken by the institution.

3. Rationale for the Revision

The successful loan guarantee program, as experienced by AID's Bureau of Private Enterprise, calls for one guarantee fund for one lender for one targeted borrower group. Limiting a guarantee fund to one lender has several advantages. They include:

- A committed loan guarantee amount enables the lender to plan and budget for a targeted marketing effort. The lender knows how much more credit he can extend under the loan guarantee because the lender knows the uncommitted amount of the guarantee fund.

- The administrator of the fund--Central Bank--has a manageable accounting task.

- The economic impact of credit is more significant, and can be measured more effectively, when it is targeted to a defined borrower sector. The targeted borrower sector should be consistent with the lender's development strategy. For example, if the borrower sector was defined in terms of entrepreneurs who are engaged in the exporting trade, obviously the lender would be one engaged in export financing.

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B. Target Group

1. Present Target Group

All small-scale Swazi enterprises that are already engaged in industry, commerce, and services and comply with the criteria set forward by the fund to be eligible for credit under the scheme. The main activity of the enterprise should be either in industry including small-scale building contractors or in commerce and services.

2. Recommended Revision

Small-scale (1-15 employees) Swazi enterprises in the private sector who are engaged in anything related to agriculture having potential to increase value added, including: agroprocessing, input supply, manufacturing, transportation, and marketing. Typical borrower characteristics are:

- o The borrower is engaged in the production of goods utilizing a proven technology
- o The goods which the borrower produces have an existing domestic market
- o The owner of the business is actively engaged in the management of the business

3. Rationale for the Revision

The targeted borrower sector should be related to a need that has been identified as the result of a survey or that meets criteria for achieving a development strategy. The following policy statement, for example, would indicate the need to choose agribusiness as the targeted borrower sector:

> "It is the agricultural development strategy of the Kingdom of Swaziland to attain self-sufficiency in food production and to transform the subsistence level agricultural sector to commercial farming."

C. Fund Administration and Credit Disbursement

1. Present Fund Administration and Credit Disbursement

The fund will be administered by the Central Bank of Swaziland (CBS).

2. Recommended Revision

The fund will be administered by the CBS. An annual unscheduled audit of the guarantee fund will be conducted by an outside professional audit firm. The audit procedure will

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include an audit of the loans resulting in draws against the guarantee fund.

3. Rationale for the Revision

An audit on a regular but unscheduled basis by an outside professional audit firm is necessary to protect the integrity of the loan guarantee fund. An audit of the loans resulting in draws against the guarantee fund is necessary to deter fraud.

D. Lending terms

1. Present Lending Terms

The lending rate of interest for an SSE credit for which a guarantee is requested shall be related to (market rates). In view of the comfort of the CBS guarantee, participating banks and financial institutions will charge their customers a preferential rate of interest not more than the rate charged to prime customers.

2. Recommended Revision

The lending rate of interest for an SSE credit for which a guarantee is requested shall be related to market rates for each particular loan type and loan maturity. The lending rate of interest shall be consistent with the rate which the lender normally charges for each particular loan type and loan maturity, plus the lender may charge an additional 1 percent per annum of the outstanding amount of the loan to offset the guarantee fee.

3. Rationale for the Revision

Traditionally, small enterprise credit commands the highest lending interest rates that banks offer because of the high loan losses characteristic of such credit. The losses are high because of the myriad risks associated with small enterprises. The risks involve management, markets, labor, production, and capital. Small enterprises are notoriously undercapitalized, causing them to be financially vulnerable to the slightest hitch in their production and marketing cycle and can quickly result in business failure.

It is costly to make small enterprise loans. The SSE loan is technically the most difficult type of loan lenders make. Dealing with enterprise models, business plans, and financial projections required for successful SSE lending is time consuming and demands experienced lending personnel.

The reason for the loan guarantee program is to try and entice a lender to dare to lend money to a fledgling

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entrepreneur. This loan guarantee program invites a lender to put 25 percent of his funds at risk--not an attractive option unless the interest rate is high enough to afford the risk.

The prime rate would certainly not entice a lender to do SSE lending. Furthermore, the prime lending rate by definition requires that a borrower have sufficient amounts of money on deposit so that the loan yield is equal to the lending rate of interest charged on non-prime rate loans.

E. Loan Maturity

1. Present Loan Maturity

The period of credit shall not exceed 10 years including a grace period.

2. Recommended Revision

The period of credit shall not exceed 24 months.

3. Rationale for the Revision

A 24-month loan period is adequate for the majority of the loan needs of a small enterprise. The maturity of loans to SSE borrowers should be matched to the income that will repay the loan. (Typical loans could be a 90-day loan for operating expenses or a loan payable in 24 monthly installments to purchase equipment.)

Capital expenditures requiring a maturity greater than 24 months should be financed from a source other than a loan guarantee program to receive the maximum fund utilization.

The maturities of loans made under a guarantee program need to be short to generate the maximum fund utilization. For example, a fully utilized E1.0 million loan guarantee fund, with a 50-percent guarantee, and six-month loan maturities would generate E4.0 million of loans annually. Such a fund would generate E40.0 million in loans over a 10-year period whereas a fund dealing with 10-year loans would have generated less than one-tenth of that amount.

F. Maximum Loan Amount

1. Present Maximum Loan Amount

The maximum loan amount to a borrower shall not exceed E50,000.

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2. Recommended Revision

The total amount of guaranteed loans outstanding to a borrower shall be limited to E100,000.

3. Rationale for the Revision

Limiting the amount of guaranteed loans outstanding to a borrower will help ensure that the guarantee will be available to a large number of borrowers. Additionally, the Swaziland Industry Development Corporation has a minimum loan amount of E100,000 available to the small entrepreneur.

G. Project Evaluation Criteria

1. Present Project Evaluation Criteria

The financial institution will assure itself that an SSE project is technically and financially sound.

2. Recommended Revision

The financial institution will assure itself that an SSE project is technically and financially sound. The following loan documentation is required:

a. Loan Application:	Each loan request shall be supported by the following minimum written information to be filed in the applicant's permanent credit file. --borrower's name --borrower's address --nature of business --loan amount --interest rate --loan purpose --repayment plan --security/collateral, if any
b. Credit File:	The borrowers's credit file shall contain the following current information in addition to the loan application: --financial statement and income figures (The loan officer can assist the entrepreneur in the preparation of these rudimentary forms.) --a memorandum regarding the borrower's character, work history, and credit references

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--any supporting loan documents such as a mortgage, or continuing guaranty agreement

c. Worksheet:

A worksheet for entering data into the computer should contain the following information in addition to the basic loan information:

- age
- gender
- education and skills
- years of experience in this sector
- new or existing business
- comment on other available credit
- kinds of business records kept, if any
- business sector code
- geographic region code
- number of employees
- number of female employees
- annual sales, units produced
- total assets
- net worth

d. Business Plan:

Large or complex loans may require business plans including the following information:

--business description

- name and location
- organizational structure
- product description
- business goals
- summary of financial needs and proposed use of funds

--market strategy

- market analysis including
  - target market
  - competition
  - marketing objectives

- price policies
- distribution system
- promotion

--production

- suppliers
- production methods
- product services
- patents, legal, and technical information

--management

- management/ownership structure
- board of directors/officers
- personnel plan
- compensation

--financial data

- financial statements (historical and projected for three years)
- profit/loss statements
- cash flows
- financial analysis of major financial ratios

e. Note: The note shall be kept in a locked, fire-proof file cabinet.

3. Rationale for the Revision

Project evaluation is the key to a successful loan guarantee program and requires that the lender have adequate information on which to base credit decisions. The lender should provide Central Bank with a quarterly computer-generated report based on the data from the borrower worksheets. The report can be used to assess the effect of the loan guarantee program.

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ANNEX F
A CAPM-INTEGRATED CREDIT AND MARKETING MODEL

A. Company

Successful smallholder commercial production depends on stable marketing arrangements that provide credit for inputs and a certain market. The market agent consignment system used at the NAMBOARD has demonstrated the capacity of that system to manage imports, which is the first step in promoting a local industry.

A complementary organization, (hereafter referred to as Company) dedicated to supplying local horticultural products for both domestic and export markets is proposed to remove existing credit, marketing and transportation constraints impinging on expanded smallholder production of horticultural produce.

B. Mission

The mission of the Company is to increase the commercialization of smallholder agriculture through coordinated marketing of fresh fruit and vegetables produced by Swazi farmers for sale in domestic and export markets.

1. Purpose

The Company's role is to expand local production by Swazi smallholders, facilitate exports to the RSA and Mozambique and serve as the exporter of nontraditional produce to European and other overseas markets. An integrated field agent approach will be utilized.

2. Objectives

The Company has two objectives. The first objective is to coordinate credit, transportation and marketing activities that now constrain smallholder commercial production of horticultural products for domestic sales. A number of activities will be conducted to achieve the objective. The Company will:

- o Undertake to sell all produce from individuals and schemes with which it develops a working relationship
- o Coordinate and provide transport from farmer site to the NAMBOARD
- o Identify domestic and export buyers

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- o Train farmers in packing and grading produce to increase market value

- o Provide credit, if necessary, against repayment from produce sales

- o Conduct market trials to demonstrate the advantage of improving grading and packaging techniques

- o Train producers through the use of field agents

The second objective is to identify specific export markets for nontraditional, high-value horticultural products and promote Swazi production of these crops through coordination of product sales. A number of activities will be conducted to achieve the objective. The Company will:

- o Establish an information system to identify export markets for nontraditional products

- o Encourage development of new enterprises by supporting market trials

- o Coordinate export sales of Swazi-produced, high-value nontraditional crops

3. <u>The Producer</u>

The group or individual producer will agree to plant crops determined by the company, follow recommended production procedures, and use appropriate grading and packing procedures to increase product value added.

C. <u>Structure of the Company</u>

1. <u>Directors</u>

The organization will be formed as a private company under the Companies Law of Swaziland. Directors will be appointed representing USAID, the Ministry of Agriculture and Cooperatives, NAMBOARD, SIDC, the private sector agribusiness community and the commercial farming community.

2. <u>General Manager</u>

The directors will appoint a general manager who will have full control over the day-to-day operation of the company. His duties will include the hiring and dismissal of staff members with the consent of the board. The general manager will be an ex-officio member of the board in a nonvoting capacity and will provide secretariat services to the board.

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3. Partner and Advisor

The team leader of the CAPM project will serve as a partner and advisor to the managing director for as long as the project is active in Swaziland.

4. Director of Export Promotion

A CAPM team member will serve as the initial director of export promotion assisted by a Swazi deputy.

5. Director of Domestic Marketing

A Swazi will serve as director of domestic marketing assisted by a CAPM team member.

D. Administration

1. Offices

NAMBOARD will be approached to provide office space for the Company.

2. Equipment

Initial funds to buy office equipment such as computers and vehicles will come from USAID through the CAPM project.

3. Incentives

An incentive will be paid to the general manager, the director of export promotion, and the director of domestic marketing based on the profits realized by the farmers.

4. Funding

Application will be made to the SIDC for equity capital and loan funds to support export market development, especially as it concerns support of new agribusiness for processing and marketing of nontraditional crops.

Government and donor funds will be sought on the basis of marketing extension and training.

5. Income Source

NAMBOARD will be approached to contribute proceeds from import levies to the Company for the support of the development of domestic marketing capabilities for smallholder commercial production.

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6. Lending

The Company will maintain a line of credit with the Swazibank for the purpose of making loans to farmers as needed under a formal lending arrangement. It is suggested that the Swazibank provide the line of credit under the proposed loan guarantee program.

Farmers who fail to repay their loans will be dropped from the program, except in the case of a general natural disaster, i which case the board will recommend appropriate action.

7. Licensing

The possibility that the Company be licenced as a trader at the NAMBOARD will be investigated.

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