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INVESTMENT CLIMATE AND PRIVATE SECTOR ASSESSMENT OF THE KINGDOM OF SWAZILAND

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PREFACE

This report is one in a series of assessments of the private sector in several sub-Saharan countries funded by the Private Enterprise Office, Africa Bureau, US A.I.D. Washington through the Africa Private Enterprise Fund. The assessment was undertaken at the request of the A.I.D. Mission Mbabane and the Government of Swaziland (GOS).

A two-person team of consultants was sent to Swaziland in May - June 1987 for a period of three weeks to determine the structure of the private sector and the investment climate in which it operates. The team consisted of Drs. Gaston G. Kohn and Ray S. Kelley, Jr.

The objective of the private sector assessment is to provide A.I.D. with background information necessary to formulate programs which will help African countries improve the business climate and promote local and foreign private investment, thereby more effectively utilizing the private sector in achieving national development goals.

The report is divided into three parts:

1. A critical examination of the investment climate in Swaziland,

2. A profile of the structure of the private sector, and

3. Conclusions and recommendations.

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EXECUTIVE SUMMARY

The environment for private sector development in Swaziland is excellent relative to other sub-Saraha countries. Government policy is to encourage private investment by avoiding disincentives rather than try to compete with the cash grants and subsidies offered by several neighboring counties. Although a few firms relocated from Swaziland to South African "homelands" in the early 1980s, there has been a strong growth of investment in Swaziland since the middle of 1985; several firms have relocated from the Republic of South Africa. As of June 1987, according to the Minister of Commerce, Industry and Tourism, 18 additional firms are planning new investments in Swaziland totaling E146 million (over $70 million). These investments are expected to generate an additional 4,000 jobs directly and at least an equal amount indirectly. The projected increase amounts to 15 percent of formal private sector employment. Figures 1 and 2 summarize the various investment climate factors covered in the survey.

While several business executives complained about high personal income taxes, the new sales tax and difficulties in obtaining residence permits for expatriates, not one executive interviewed expressed any regrets for having located in Swaziland. Furthermore, the government is analyzing both the sales tax and resident permit situation. In 1986, the Minister of Finance set up a tax review committee. One of the functions of this committee is to review the tax laws in order to assist the small businessmen, mainly Swazis.

The population of Swaziland is less than 700,000. Consequently, the country has attracted few industries producing for the local market. Rather, the economy is dominated by resource-based, export oriented firms which process agriculture, timber and mineral resources. Such industries have located close to their raw material sources. As a result, industrial activities are

FIGURE 1

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT IN SWAZILAND

FACTOR	CONSIDERED FAVORABLE			CONSIDERED UNFAVORABLE		
	MAJOR	MODERATE	MINOR	MINOR	MODERATE	MAJOR
1. Political Stability	X					
2. National Development Plans	X					
3. Establishing a Business		X				
4. International Remittances	X					
5. International Trade Agreements	X					
6. Investment Incentives and Performance Requirements			X			
7. Taxes				X		
8. Labor Regulations			X			
9. Government Controls and Interferences		X				
10. Banking and Credit Regulations		X				

FIGURE 2

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO ECONOMIC AND MARKET FACTORS IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT IN SWAZILAND

FACTOR	CONSIDERED FAVORABLE			CONSIDERED UNFAVORABLE		
	MAJOR	MODERATE	MINOR	MINOR	MODERATE	MAJOR
1. Size and Access to Markets	X					
2. Basic Materials and Parts			X			
3. Infrastructure	X					
4. Financial Resources		X				
5. Business Service		X				
6. Local Entrepreneurs and Senior Management					X	
7. Middle Management and Technical Staff				X		
8. Supervisory and Skilled Labor						X
9. Unskilled Labor		X				
10. Living Conditions	X					

dispersed throughout the country. The six largest firms employ over two-thirds of total industrial employment.

In recent years, due significantly to South Africa's political problems and international sanctions, Swaziland has attracted a substantial number of "footloose" industries which are taking advantage of Swaziland's favorable investment climate, advantageous location, and relative low-cost, agreeable labor. These new firms import semi-manufactured products, further process them, and export to South Africa and internationally. The clothing and footwear industries have shown particular growth. As the industrial base has expanded, dozens of new smaller firms have sprung up to service the larger companies.

There are several weak spots in the Swazi economy that need to be addressed, however. Foremost is the lack of Swazi skilled labor, technicians and management personnel. Both vocational and technical training is being expanded with the help of the EEC and several PVOs. The GOS is concerned with the lack of training for accountants, and has recently established the Institute of Accountants order which will improve the technical expertise in this field. Also, private firms are encouraged to provide training of employees through the allowance of income tax deductions equal to 100 percent of training expenses.

Business administration education has received little attention, however, and should be given greater emphasis. The assessment team recommends that A.I.D. actively encourage the development aof a business administration program either at the University of Swaziland (UNISWA) or elsewhere. In the interim, US A.I.D. should consider financing long-term academic training abroad for Swazis from the private sector. This might be done as part of the Swaziland Manpower Development Project, for example. It is important that Swazis become qualified to take on a larger share of the management in private firms.

A second concern is the lack of Swazi participation as owner-entrepreneurs in the country's development. This may be due in part to cultural factors. For example, individual ownership, with its stress on individual achievement, is foreign to the Swazi. Although the A.I.D. Mission has sponsored studies of the Swazi culture, its impact on private sector development needs further study. The assessment team recommends that A.I.D. finance such a study.

Other constraints to small business development include lack of skilled labor and the inability of SSEs to obtain bank credit. The banking sector is presently reviewing the situation in an effort to help the small business owners.

There is considerable effort being given by the GOS and several donor organizations to stimulate SSE activities by providing handicraft training, especially to women. However, artisians complain that they need business training in marketing, purchasing, bookkeeping and other commercial activities.

Neither the structure nor the needs of small Swazi enterprises are sufficiently well known to formulate an assistance program. CARE has proposed that a small enterprise baseline inventory be conducted as part of the A.I.D. Mission's "Swaziland Training for Entrepreneurs" project. The purpose of the inventory is to determine the quantitative and qualitative nature of the SSE sector. However A.I.D. Mission funding may not be available to fund the study. If not, the assessment team recommends that A.I.D./W provide funding.

A third concern is the lack of sufficient agricultural and animal products to allow Swazi agribusiness to expand. This is due to the lack of land for commercial agriculture and the poor utilization of Swazi Nation Land (SNL). It is understandable that the country's leaders wish to preserve Swazi traditions and land tenure concepts. However, if resource-based industries are to expand, SNL must be utilized more productively. The A.I.D. Mission's proposed "Commercial Agricultural Production and Marketing" (CAPM) project is focused on this problem. That project and various alternatives were analyzed recently by a team of consultants at the request of the A.I.D. Mission. The private sector assessment did not examine agriculture in any detail.

<u>Finally, the fourth major concern is the potential shortage of industrial sites in Swaziland</u>. Given the Swazi land tenure system, it is essential that he GOS, through the Ministry of Commerce, Industry and Tourism, update plans and implement a national industrial estate development program. A recent World Bank-UNDP study proposes such a program. The assessment team recommends that A.I.D. review the proposal and encourage the GOS to move ahead before the lack of industrial sites become a serious constraint to private sector development. A.I.D. financing would not be required, however.

PART I: INVESTMENT CLIMATE

1. INTRODUCTION

As part of its survey of the private sector in Swaziland, the assessment team conducted interviews with a broad range of Swazi business executives in commercial agriculture, forestry, mining, manufacturing, trade and finance to obtain their views regarding the climate for doing business in Swaziland. The interviews focused on two aspects of the investment climate:

- the role of government policies, regulations and procedures in encouraging or constraining business development; and

- the relative competitive advantages and disadvantages of doing business in Swaziland in terms of the availability and cost of productive resources, and access to markets -- local, regional and international.

Part I of the report summarizes the assessment team's findings. In order to assure confidentiality, comments are not related to individual business's executives. However, Appendix A presents a listing of the more than 40 private companies contacted during the course of the study. Appendix B contains brief profiles of each of the companies.

2. GOVERNMENT POLICIES AND PRACTICES

2.1 Political Stability

2.1.1 Domestic Political Stability

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

The Swazi monarchy is a dual monarchy in which the King rules the country in conjunction with the Queen Mother. The country is divided into some 200 chiefdoms, which are made up of a number of communities or groups of homesteads under the authority of a chief's deputy. Each homestead houses an extended family averaging ten persons. The chiefdoms also have councils, the members of which have significant advisory roles in socio-political affairs. The chiefdoms are grouped into 40 regional administrative units called Tinkhundla, which provides a system for information dissemination and collection, and decentralization of administrative authority.

Parallel to this traditional tribal system exists a modern westernized government, with the King as head of state, a cabinet, and a bi-cameral parliament.

As may be observed from the above, the Swazi political structure is complicated, but it works well and provides the necessary checks and balances. For further information, see a paper on the "Tinkhundla: Traditional and Modern Sociopolitcal Structure and Organization in Swaziland" by Hitchcock, Malinga and Patrick in Appendix C.

In general, the business community feels that the political situation has stabilized, that the new King has the strong support of the country, and that the King favors a free enterprise system. The King has, in fact, called upon the government to give all necessary support to attracting foreign private investment. This stability of the kingdom and its policies toward private enterprise is considered a major factor in encouraging further development of the private sector.

2.1.2 Regional Political Stability

While business executives are generally confident as to the new King's ability to maintain domestic political stability, they are far less sanguine about regional political stability. They believe that there will be growing unrest and violence within the Republic of South Africa (RSA); that the international community, including RSA's major trading partners, will impose stiffer sanctions; that the RSA will, in turn, reciprocate against certain front-line southern African countries through a variety of economic and political measures, including continued fomentation of insurgency as, for example, in Mozambique.

Swaziland is highly dependent on the RSA as a source of materials and services, management and technical manpower, government revenue in the form of custom union receipts; and as a market for its products and mining labor. Consequently, the impact of the anticipated regional socio-political instability on Swaziland's private sector is a major concern to business executives. Instability creates risk, and risk makes business planning difficult.

Political instability in the RSA and elsewhere in the region is not likely to impact significantly on Swaziland's internal political stability, however. Business executives feel that neither the RSA nor the other southern African states have anything to gain by destabilizing Swaziland's government. Relations with the RSA continue to be cordial, and a substantial number of South African firms have subsidiaries and branches in Swaziland.

Mozambique-Swazi relations are good. Mozambique provides transport services, materials and skilled labor to Swaziland, and in turn is able to obtain food and other materials directly from Swaziland or from the RSA through Swaziland.

However, political unrest in the region as well as increased sanctions on the RSA will have important economic impacts on Swaziland, both positive and negative.

Factors which business leaders fear will impact unfavorably on the existing business community include:

- o Continued higher transport costs for exporters of bulk materials such as timber, pulp, coal, asbestos and foodstuffs due to an inability to export via the Maputo port in Mozambique because of interference by RSA-supported insurgents interrupting rail service through Mozambique. The alternative ports at Durban and Richards Bay are considerably further away, increasing transport costs substantially.

- o Further economic sluggishness or recession in the RSA, which will reduce the demand for Swazi-made consumer products such as shoes, textiles and textile-related products (e.g., zippers), and construction materials, especially timber.

- o Pressure to devalue the rand, which, although no longer legal tender in Swaziland, is tied on a par basis to the Swazi lilangeni.* Further rand devaluations would cause

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*The Swazi currency, the lilangeni (plural emalangeni) is currently equal to one RSA Rand. The exchange rate with the U.S. dollar is currently (mid-June 1987) Emalangeni (E) 1.95 = $1.00. Although the Rand is no longer legal tender in Swaziland and therefore there is no obligation to accept it, it is still generally acceptable in Swaziland.

higher inflation in Swaziland, increase the GOS debt burden, and reduce foreign exchange reserves. However, devaluation of the lilangeni would bring benefits in terms of export income.

On the other hand, the regional political situation might further stimulate investments in Swaziland:

- Political unrest, and its impact on labor relations, combined with the impatience of many in the RSA private sector with the slow pace of domestic reform, is encouraging RSA businesses to locate subsidiaries, or even to relocate, in other member countries of the Southern African Customs Union (SACU). Swaziland is a favorite location within the SACU for many firms due to its location, government policies, labor attitudes, and other factors to be discussed below.

- Further sanctions against the RSA and political pressure from abroad will also further encourage both RSA and multinational firms located in the RSA with significant overseas markets to move to other SACU countries such as Swaziland. Several firms, including Bata Shoe and Coca-Cola, have made or are planning to move to Swaziland to avoid sanctions and eliminate pressure from stockholders and other groups outside the RSA.

While opinions differ among business executives, the consensus seems to be that the threat of increased political unrest and further sanctions on the RSA will encourage additional private-sector investment in Swaziland, particularly by firms now located in the RSA. The actual imposition of further sanctions will cause some economic hardship to a few existing Swazi firms which supply RSA markets or are heavily dependent on the RSA for materials and services.

2.2 National Development Plans and Policies

Swaziland is entering the last year of its Fourth National Development Plan period, covering fiscal years 1984 through 1988.The Fourth Plan was formulated as an indicative one. It defines the country's development problems and opportunities, sets out general national development goals, and indicates possible development strategies for achieving those goals. It does not, however, include a series of specific projects to be carried out by the government. Rather, it largely relies on private initiatives to develop the country.

The overall micro-economic strategy, which is expected to continue during the Fifth Plan period and beyond, is:

- o greater efficiency and control of the use of public funds;
- o encouragement of private investment, both in existing and new investments; and
- o creation of more jobs through vocational training programs and establishment of opportunities for productive agricultural employment in rural areas.

Although the government would like to see the development of more resource-based, export-oriented, labor intensive industries, it has no specific programs for influencing the types of investments coming into the country. Generally, any investor willing to establish in Swaziland is welcomed on equal terms. This is by design. The basic policy is to avoid disincentives to investment rather than to influence specific projects through special incentives and subsidies. As the Fourth Plan states:

> Direct selective subsidies have not been used to any extent in Swaziland and would, in many cases, be futile and highly expensive. For

example, it would be financially impossible for Swaziland to compete with the range and extent of subsidies offered in South Africa for industrial development in its 'homelands' and surrounding areas.

Swaziland's liberal open door policy, its lack of a focused, aggressive promotional campaign, and its limited use of investment subsidies have been criticized by some outside observers, largely from donor organizations. However, business executives interviewed generally felt that the absence of government involvement in directing the course of industrial development was of considerable importance in encouraging its development.

2.3 Establishing A Business in Swaziland

It is relatively easy to establish a business in Swaziland. All companies must have a Swaziland office address filed with the Registrar of Companies, but this can be completed quickly and cheaply through a local lawyer. There is no need to have any Swazi equity participation in the business, nor do Board meetings have to be held in Swaziland. Although not required, it is generally easier to do business if the local company has its administrative offices and a bank account in the country. In fact, a local bank account is now a prerequisite for the granting of import permits. Registered companies are required to take out a company license from the Registrar within one month of registering. These licenses must be renewed annually.

Businessmen interviewed found the process of registering and licensing straightforward and had no complaints to offer. However, they did express two major concerns related to getting the business operating in Swaziland:

- obtaining residence permits for expatriate managers, technicians and skilled workers; and o obtaining an appropriate site for their operations.

The first problem area, obtaining residence permits, is discussed in Section 3.2.5 below. The second issue, site availability, is discussed here.

2.3.1 Site Availability

The land tenure problem in Swaziland is both unique and complicated. In general, it is extremely difficult to obtain a commercial site without the active support of either the Ministry of Commerce or through the traditional government hierarchy.

Approximately 44 percent of the land in Swaziland, generally the best farming areas, was acquired during the colonial period through title deeds by non-Swazi private individuals and companies. The remaining land was held by the King for the Swazi nation. When independence came in 1968, the former King Sobhuza II, allowed these title deeds to remain valid. Expropriation is not legal in Swaziland. However, the King established a trust fund, Tibiyo Taka Ngwane (generally referred to as simply "Tibiyo") to buy title deed land back from owners as it became available. Tibiyo has the right of first refusal in all land sales. The land so purchased is added to the Swazi Nation Land and is no longer for sale.

The administration and use of Swazi Nation Land is discussed in more detail in Section 3.1.3. However, the bottom line here is that a private business, whether foreign or Swazi, finds it extremely difficult to obtain this land for industrial purposes, and it is usually not possible to buy title deed land.

To encourage private industrial development in the early 1960's, land was allocated to the Ministry of Commerce, Industry and Tourism for the establishment of industrial estates. These industrial estates are divided into industrial sites which are provided with access roads, utilities, and other needed infrastructure. The developed sites can be purchased by private businesses, whether foreign or locally owned. The largest and most significant of the industrial parks is at Matsapha. The location is particularly good as a railway span connects the Matsapha estate with the main north-south rail line, the major international airport of Matsapha is nearby, and the estate is located on the main highway running between the two major cities of Mbabane and Manzini.

Two other industrial areas have been established at Nhlangano, in the southwest, and Ngwenya, in the northwest. However, these parks are remote and are generally not attractive to industry.

The Matsapha park covers 375 hectares, with an additional 60 hectares in the process of development. The original area was divided into 187 surveyed plots, of which 138 have been developed and 46 have been sold but not developed. Although title problems have delayed development of some plots, most undeveloped plots were purchased by land speculators at highly subsidized rates, and are not currently available for business development.

The additional 60 hectares are to be divided into 71 plots, some of which have already been developed, but further development has been slow. Thus land for further business expansion is severely limited, and could discourage investment projects.

Factory shells have been constructed on a number of sites by the National Industrial Development Corporation of Swaziland (NIDCS), a government parastatal, for rental to private businesses. However, the NIDCS is now insolvent and cannot construct additional shells. Moreover, it has difficulty maintaining those that it now has because of its financial status.

Many of the functions of the NIDCS are being taken over by an autonomous Swaziland Industrial Development Corporation (SIDC). NIDCS is now an equity shareholder in SIDC and SIDC manages the

NIDCS assets. SIDC received the King's approval for external financing on June 30, 1987, thus allowing SIDC to start up its operation. It is now fully functional.

Currently, there are about 35 industrial ventures at Matsapha, and about an equal number of commercial ventures. Employment has fluctuated recently as a result of closures or cutbacks by a few larger firms, and substantial expansions by others. As of mid-1986, employment in industrial firms at Matsapha was estimated to be about 3,700 persons.

The businessmen interviewed at Matsapha are generally satisfied, although several complained that the infrastructure was deteriorating rapidly.

New investors are being frustrated by lack of space and factory shells. There is danger that if these problems are not solved soon, some investment proposals will not materialize.

Plans exist for the development of an additional 48 hectares adjacent to the existing industrial park. However, even with this development, sites are likely to be used up within a few years. A World Bank-UNDP team recently reviewed the GOS's national industrial estate program. The team strongly recommends major changes in the government's program, including a major expansion of the industrial area in Matsapha.

2.4 International Remittances

Currently, there are no problems in exchanging the Swazi lilangeni with the South African rand on a par basis, or with other hard currencies. Within the Common Monetary Area, consisting of Swaziland, Lesotho and South Africa, there are no restrictions on the transfer of funds. Outside that area, exchange controls exist, but in practice, the approval of most currency transfers are routine. The system of exchange controls is administered by the Central Bank of Swaziland (CBS) through the local commercial banks.

Dividends and interest payments are freely remitted, subject to a withholding tax of 15 percent for dividends (12.5 percent within the Common Monetary Area) and ten percent for foreign interest payments.

Most business executives found that the liberal foreign exchange regulations of the CBS were of considerable importance in enhancing business activity in Swaziland. However, some expressed concern about Swaziland's agreement with Lesotho and South Africa, made in July 1986, which removed the legal tender status of the rand. This agreement, known as the Trilateral Monetary Agreement, allows Swaziland to unpeg the lilangeni from the rand.

The purpose of the 1986 agreement was to enhance the monetary policy instruments available to Swaziland in the event that the rand became unstable. So long as the lilangeni was officially tied to the rand, Swazi monetary policy was almost completely controlled by South Africa.

In discussing this issue with the CBS and the commercial banks, however, assurance was given that the lilangeni would be unpegged from the rand only as a last resort. One commercial banker said that he was told by the Minister of Finance that no action would be taken so long as the value of the rand remained above U.S.$0.32 and below U.S.$0.55 on the foreign exchange market. From December 1981 through December 1985, the rand fell from U.S.$1.03 to U.S.$0.37. Currently, the rand is valued at about U.S.$0.49¼.

Despite these assurances, the banks have warned that there is now a foreign exchange risk involved in dealing with rand denominated instruments. As a result, businesses have been reducing their exposure in rand markets.

2.5 International Trade and Agreements

Swaziland is an open country dominated by trade. The ratio of exports and imports to Gross Domestic Product (GDP) is roughly two-thirds and four-fifths respectively. The country's most important trading partner is the RSA. Over 85 percent of its imports come from or through the RSA, and about one-third of its exports go to South Africa. The other major destination of Swazi products is the United Kingdom, which accounts for about one-fourth of the total value of exports.

2.5.1 The Southern African Customs Union (SACU)

Swaziland is a member of the Southern African Customs Union (SACU), which enables Swazi traders to export and import goods duty free to and from South Africa, Lesotho and Botswana.

Customs duties and excise taxes are paid on imports from outside the SACU on the basis of those enforced by South Africa. Such an arrangement means, of course, that Swazi businesses and consumers frequently pay more than the international free market price for those products protected by the RSA.

Several businessmen who are competing in world markets complained that such an arrangement put them at a competitive disadvantage. These businessmen perhaps did not realize that rebates can be obtained for duties paid on imported materials when they are re-exported outside the union after manufacture. However, these rebates cannot be claimed on South African produced materials.

Others expressed the belief that membership in the SACU has worked against the development of many small and medium industries in Swaziland because of the lack of protection from RSA manufacturers. This is undoubtedly true, but it is questionable if it would be to Swaziland's long-term advantage to protect the less efficient companies. Furthermore, under the terms of the 1969 Customs Union Agreement, Swaziland can levy additional duties on imports, including those from South Africa, for up to eight years to protect new industries. The fact that the GOS has not ever done this may be an indication that the GOS prefers to keep trade within the SACU free. It would be pointless to protect non-competitive industries.

One significant aspect of the Agreement is that customs and excise duties collected by SACU members are paid into a common pool and then redistributed on the basis of a formula which gives Botswana, Lesotho and Swaziland (BLS) a share 42 percent larger than their share in total SACU imports. These customs receipts are substantial. Swaziland's share accounted for around 50 percent of total government revenue, or E135 million, during the 1987 fiscal year. Receipts are expected to increase during fiscal year 1988.

2.5.2 Other Trade Agreements

Swaziland is also a member of the 15-nation Preferential Trade Area (PTA) for eastern and southern African states. The PTA does not include the RSA. Furthermore, according to the agreement, goods entering Swaziland from PTA countries must pay duties in accordance with the SACU terms.

Very little trade exists between PTA countries and Swaziland. The principal constraints to inter-regional trade within the PTA are that commodity compositions among countries are similar, PTA countries have similar economic structures and resource bases, and most countries outside the SACU face foreign exchange shortages and high debt service burdens.

In 1985, PTA trade accounted for ten percent of Swazi exports but only 0.5 percent of its imports. There has been little change in recent years. Some trade is being carried on with Mozambique on a cash-and-carry basis. A few companies are exporting small quantities to Zimbabwe. The most significant trade in Africa (outside the RSA) is coal exports to Kenya, timber exports to Zambia and several Indian Ocean islands, and asbestos to Zambia and Kenya.

With time, Swazi exports to PTA will grow as a result of the increasing establishment of export oriented industries, e.g. Coca-Cola. However, Swazi imports from the PTA states will continue to be small.

Some business executives believe that there are opportunities for increased trade in sub-Sahara Africa. One chief executive officer of a major holding company has brought in a new senior executive to take care of day-to-day administration so that the chief executive can devote more time to developing trade with the PTA countries.

Swaziland is also a signatory to the Lome Convention, which allows free entry of most products into the European Common Market (EEC). It also has preferential trade agreements with all OECD countries. A growing number of Swazi companies are exporting a significant percentage of their outputs to North American and Europe. Some of these companies are owned by RSA investors who are using Swaziland as a means to avoid present or potential sanctions; others are Asian-owned firms exporting to Europe, the U.S. and Canada; while others are fully integrated firms who have found Swaziland to have natural competitive advantages over other locations.

Whether exporting regionally or internationally, virtually all Swazi business executives believe that the country's international trade regulations and agreements are a major factor in encouraging the development of the private sector in Swaziland.

2.6 Investment Incentives and Performance Requirements

An April 1986 brochure entitled "A Guide for Investors in Swaziland" published by the National Industrial Development Corporation of Swaziland (NIDCS) makes the following statement in the "Introduction":

> In Swaziland we are proud of our free enterprise economy. It is our belief that an investor should have a long time horizon within which to make investment plans. Therefore, any incentives we do offer tend to be through the tax system rather than direct subsidies....
>
> Everyday we are asked how Swaziland incentives for investors compare with some of the other Southern African countries. The answer to these questions is quite simple: They don't.
>
> We have watched closely the experience of neighbors and we believe that subsidies to offset industrial salaries do not allow the newly formed company to grow up once the "incentives package" dries up.

The GOS policy reflected in these statements came about as a result of criticism that Swaziland was losing existing firms and new investments because its package of fiscal incentives was not competitive with those of Botswana, Lesotho, and, especially, the South African bantustans or "homelands."

New industrial investment did decline in the early 1980's and several firms, including a television and radio assembly plant, a carpet factory, and a cutlery manufacturer, were attracted to the homelands.

In April 1982, the RSA, as part of its decentralization policy, introduced a series of industrial incentives to attract labor-intensive manufacturers. These included long-term incentives, such as:

- o rebates on transport costs of outgoing goods of up to 60 percent;
- o electricity subsidies;
- o subsidies on housing of key personnel, ranging up to 60 percent of mortgage payments;
- o non-taxable cash grants of up to 75 percent of training expenses; and
- o special tender preferences on government purchases.

In addition, a number of extremely liberal short-term incentives were introduced, including:

- o non-taxable cash grants for seven years of up to 95 percent on average salaries and wages per employee up to a maximum of R110 per worker per month;
- o interest concessions of up to 80 percent of market interest rates paid as a grant;
- o rental concessions of up to 80 percent; and
- o reimbursement relocation costs up to R500,000.

The GOS wisely did not try to compete with these liberal incentives, nor has it tried to compete with the liberal grants and concessions given by Botswana as part of that country's Automatic Financial Assistance (AFA) and Case-by-Case Financial Assistance (CFA) schemes. For example, under the CFA scheme, the GOS provides capital grants of pulas (P) 1,000 per job created up to 85 percent of total fixed investment; labor grants for unskilled workers of up to 80 percent of the wage bill for two years decreasing to 20 percent in year 5; training grants up to 50 percent of costs, and sales augmentation grants up to eight percent of sales revenue for two years, decreasing to two percent in year 5. (The exchange rate for the PULA is approximately two to the U.S. dollar).

In fact, compared to the incentives offered in many other countries in Africa, Asia, Central America and the Caribbean, Swaziland's package is austere, even after reforms were made in 1985. The current Swaziland incentives include:

- a five-year "tax holiday" for a new firm provided it is in an industry new to Swaziland;
- double deductibility of training expenses;
- the carry forwards of losses indefinitely to set off against income in later years;
- initial depreciation allowance of up to 50 percent on plant, machinery and industrial buildings either the first year, or spread out over several years if preferable;
- other reasonably generous depreciation allowances; and
- local preference of 10 percent on all public tenders.

Of all the businesses contacted in Swaziland, not one complained about Swazi fiscal incentives. On the other hand, only one firm indicated that the five-year tax holiday influenced its decision to come to Swaziland. Although the tax holiday is only two years old, apparently, fiscal incentives are not considered as much more than a minor factor in influencing companies to invest in Swaziland. This conclusion is supported by other surveys of Swazi businessmen. For example, in early 1986, Fion de Vletter of the Economic Research Unit, University of Natal, Durban conducted a questionnaire survey of some 70 Swazi firms. Of the 31 responding, only two mentioned that they were attracted to Swaziland by the incentives and allowances offered. Later in 1986, a World Bank Mission's survey of industrial plants located in the Matsapa industrial estate did not find any firm which based its investment decision on the incentives available.

2.7 Taxes

The corporate tax of 37.5 percent of net income is not considered particularly burdensome by the business community. But the personal income tax was said to be "onerous." It is a progressive tax with rates rising rapidly to 46.5 percent on any income over E15,000 annually for single individuals and over E24,000 for married persons. There is no capital gains tax, nor provision for deduction of capital losses. Dividends to non-residents are taxed at 15 percent except to companies registered in Botswana, Lesotho or the Republic of South Africa which pay only 12.5 percent. Interest paid to non-residents is taxed at 10 percent.

Swaziland has double taxation agreements with the U.K. and the RSA. A sales tax is levied on goods (10 percent except for liquor and tobacco, which pay 20 percent), services (5 percent), hotel accommodations (10%) and restaurant meals (10%). The tax on imported goods is payable at the time the goods clear customs. The taxable value is the price paid for the goods plus freight, insurance and, in case of imports from outside the customs union, the duty paid. Tax on locally manufactured goods is collected when they leave the factory.

In general, business executives believe that although most taxes are reasonable, the high personal income tax -- which many companies cover for their expatriate senior personnel -- raises costs and is thus detrimental to business.

2.8 Labor Regulations

Labor relations are generally harmonious. Strikes are rare. Formation of labor unions are not encouraged. There are 13 registered unions, but few are active. Companies with more than 25 employees must establish work councils. By law, they are made up of representatives of the employer and labor, and provide a forum for discussion.

The labor law permits seasonal employment for periods of six weeks or less. Permanent employees can be hired for a probationary period of three months. Termination of employment requires a period of notice of one month plus four additional days for each completed year of employment after the first year. In addition, the employee is entitled to a severance allowance of 10 working days' wages for each year of service. The annual vacation period is two weeks' paid leave. Overtime is paid at 150 percent during week days and 200 percent on Sundays and public holidays. There are minimum wage regulations for 12 different sectors such as sugar industry, construction, hotel, agriculture, manufacturing, etc. Employees in the manufacturing and processing industries earning less than E1,080 per annum are entitled, in addition to wages, to weekly food rations which can be paid in cash. The labor court (Industrial court) is said to be biased against employers and seems to protect even those fired for cause.

Minimum weekly wages, as of November 1986, start at E20 for seasonal and casual labor, E37 for general labor, E59 for a grade III artisan, E97 for grade II, and E143 for grade I. Supervisors must receive 25 percent above the wage of the highest paid employee under his/her supervision.

Most employers pay wages above the minimum established by the regulations. Some representative wages paid in the Matsapha Industrial Estate are:

- o Driver E800 per month (plus three meals, all medical expenses, weekly bonus based on years of service, annual bonus equal to 75 percent of salary, three weeks' vacation, annual raises).
- o Receptionist E600 per month
- o Warehouse Manager E800 per month
- o Cleaning Girl E280 per month

- Expatriate Accountant E30,000 per year (plus housing, plus car, plus 25 percent bonus of three annual salaries at end of three-year contract)
- Swazi Controller E1,800 per month (plus car)
- Craftsman E1.50 per hour (upon graduation from Swaziland School of Technology [SCOT])
- General Labor E1.50 per hour
- Office Manager E2,000 per month (plus car)*

One business executive claimed that some firms at Matsapa were actually paying wages below the minimum wage to female garment workers. However, this was not verified. Most business executives believe that wage controls have virtually no adverse impact on business development, and that the general peaceful labor relations and lack of government interference are of considerable importance in attracting foreign investors.

One of the most frequent complaints of business executives regarding labor relations is the government's policy on hiring expatriates to fill key skilled, technical and management positions. Most complained of the lengthy, complicated and annoying process of obtaining residence permits. This topic is discussed in detail in Section 3.2.5 below.

2.9 Government Controls and Interference

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

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*This compensation is being paid to a female office manager with nine years of schooling. She became a company director after five years with the company.

commodities and establishes minimum wage scales. There is also a Land Speculation Board which may refuse to approve the sale of title deed land owned by foreigners to non-Swazis. Inasmuch as these controls are vested in different Ministries and Government agencies, they are at times in conflict with each other, and newcomers may encounter some frustration in determining applicable regulations.

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

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

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

In order to improve pricing policy and marketing of agricultural products, the Ministry of Agriculture and Cooperatives has created a number of Marketing Boards and Agencies which may license traders, issue import and export permits, recommend prices for controls and conduct trades. Among these are the National Agricultural Marketing Board, the Swaziland Dairy Board, the Swaziland Citrus Board, the National Maize Corporation, the Swaziland Meat Corporation, the Swaziland Sugar Association, the Swaziland Cooperative Tobacco Company, the Swaziland Cotton Cooperative, and the Central Cooperative Union.

The National Agricultural Marketing Board (NAMB) was created by an Act of Parliament in November 1986. Its aim is to stimulate production and improve the marketing of agriculture produce for the benefit of farmers and consumers by regulating the import and export of fresh fruits and vegetables (also maize and maize products, and rice) and by constructing and operating a fresh produce market. All traders and farmers involved in the import and export of these commodities are required to register with and obtain permits from the Board. Permits are valid for one month and 3 to 5 percent levies are paid on imports to the Board. The Board has revoked import permits from Indian traders who have customarily imported low grade and rejected products from the RSA for distribution to several Swazi stores. Instead, it has licensed only two large agents (one Swazi and one South African) to operate at the NAMB market. The agents, who were deemed to be able to use their good business contacts in the RSA for the benefit of the Swazi consumer, were allowed a fixed commission. However, they abused their privileged position by paying low prices to Swazi farmers then equalizing prices with those of the RSA and adding the allowed commission. The resulting high prices caused serious complaints from small Swazi traders and may ultimately force the Ministry of Agriculture and Cooperatives to control the price of fresh fruits and vegetables.

A summary of discussions held with the Swaziland Dairy Board, the Swaziland Meat Corporation, and the National Maize Corporation

(See Swaziland Milling) may be found in Appendix B. The Swaziland Sugar Association, Citrus Board, Cooperative Tobacco Co. and Cotton Cooperative are producer associations which handle the marketing of their associates' products and in the case of citrus, tobacco and cotton, are, closely allied to the RSA marketing system. The Central Cooperative Union is a government trading organization rather than a true cooperative. It procures and distributes farm supplies.

The Ministry of Labor and Public Service establishes minimum wages. These are industry specific and are the result of negotiations between traditional leaders (rather than organized labor) and management. Examples of minimum wages and their impact on the private sector are discussed in further detail in Section 2.8 above.

In general, industrial and most commercial private firms are not affected significantly by these government controls. Relative to most other countries in Africa, most firms are virtually free of government interference. They consider this factor to be one of the most attractive aspects of doing business in Swaziland.

2.10 Banking and Credit Regulations

The structure and operations of the Swazi banking and financial system is described in considerable detail in Part II, Section 8 of this report. At this point, however, it should be noted that government controls on banking and credit are minimal. As explained in Section 2.4 above, the Swazi lilangeni is freely exchangeable at par with the South African rand, and other foreign exchange transactions are routinely conducted through the Swazi commercial banks.

The Central Bank of Swaziland (CBS) is responsible for issuing currency, managing the public debt, and regulating financial institutions, as well as administering exchange controls.

By statute, the CBS is responsible for promoting "monetary stability" and fostering "financial conditions conducive to the orderly and balanced economic development of the kingdom." In practice, however, because of its membership in the Common Monetary Area and its other close economic ties with South Africa, it has little control over monetary policy. Accordingly, interest rates, price fluctuations and money supply are almost entirely governed by economic conditions in the RSA. The Trilateral Monetary Agreement of July 1986 will allow the CBS to have greater monetary control, but this will be limited so long as the Swazi currency is tied to the rand on a par basis.

The GOS and/or Tibiyo have equity positions in three private commercial banks, ranging from 30 percent to 50 percent. However, the government has not interfered with the management of these three banks, which are run on a strictly profit-oriented, commercial basis.

The GOS fully owns one commercial bank and has several other parastatal financial institutions. Several have been failures. As a result, the GOS is partially withdrawing from these activities as discussed below.

Business executives interviewed did not complain about government financial and credit controls. A senior executive of a major new investment project in Swaziland stated that a significant positive factor in doing business in the country is the "excellent" banks.

2.11 Summary of Government Policies and Practices

With the few exceptions noted above -- principally personal taxes, difficulties in obtaining residence permits for expatriates, and certain aspects of land tenure -- business executives consider the business regulatory environment in Swaziland to be superior to any other country in Africa. Botswana is considered a close second, but Botswana does not have the natural resources, proximity to markets, and the industrial and service base of Swaziland.

As discussed in Section 3, Swaziland does have potential serious constraints to future development as a result of raw material, land and human resource limitations, as well as its small internal market. However, government-business relations are good, and are expected to remain that way.

This is not to imply that investors will flock into the country from around the world. Although some would like to believe it, Swaziland is unlikely to become the next Hong Kong, Singapore or Korea. The country is within a highly volatile region. While this may encourage some firms located in the RSA to set up branches, subsidiaries, or relocate in Swaziland, the vast majority of international investors will prefer to stay out of the region altogether.

3. BASIC ECONOMIC AND MARKET FACTORS

3.1 Economic and Market Stability and Growth Prospects

3.1.1 Overview

A review of recent literature characterizes the economy of Swaziland as:

1. An open economy dominated by trade.
2. A specialized economy dominated by agriculture and forestry.
3. A free market economy in which the government's direct role in production is limited and economic activities are undertaken almost exclusively by private individuals and enterprises.

A closer examination of the facts, however, reveals a somewhat different picture.

The Swazi economy is heavily influenced, if not dominated, by its more powerful neighbor, the Republic of South Africa (RSA). With a population of under 700,000 people, the small internal market limits industrial activity to the processing of a few agricultural, forestry and mining products and the manufacture of some textiles which can find ready export markets. Consumer goods are almost entirely imported form the RSA. While membership in the Southern African Customs Union (SACU) provides free access to Lesotho, Botswana and RSA markets, the RSA manages to squeeze Swazi products out of its market if it needs to protect its own industry (i.e., Swaziland Chemicals Industry - see Appendix D, "Swazi Observer," April 18, 1987). At the same time, economy of scale favors RSA products in the Swazi marketplace. In this respect, present conditions are not much different from those described by anthropologist Hilda Kupper (Sobhuza II, G. Duckworth Publisher, 1978), who in the 1930s observed:

> "Swaziland was part of the South African Customs Union, but Swaziland's share of any benefits was minimal and when South African exports were threatened by Swazi productivity, Swaziland was treated as a foreign country. South Africa controlled the market by periodically restricting the sale of Swaziland's cattle and also by regulating the price of maize."

There are also many attractive features for the private sector in Swaziland. Foremost among these is the access to many markets. The country enjoys preferential trade treatment in the European Economic Community nations through the Lome Convention, and in Australia, Canada, and the U.S. through the General System of Preferences (GSP). Furthermore, it is a member of the 15-nation Preferential Trade Area (PTA) for east and southern Africa.

Foreign businessmen consider Swaziland the "Haven" of southern Africa. Is is an open society. There are no racial problems. King Sobhuza II, who reigned for 61 years until his death in 1982 said,

> "In Swaziland there are no races, we are all one people."

Unfortunately, events in RSA may eventually poison this healthy social attitude.

Despite its small internal market, the country has attracted sizeable and diverse foreign investments. One observer states that "Non-resource foreign investment over the past 20 years or so has probably exceeded, both in relative and absolute terms, that of the other countries in the southern African region (excluding South Africa)."*

During the period prior to 1982, the Swazi economy experienced a healthy growth rate of about 7.5 percent annually. By 1981, per capita income exceeded $1,000, making Swaziland one of the most affluent countries in Africa. Considering that less than one person in 12 works in the formal private sector, this is an impressive record.

From 1982 through much of 1985, economic growth slowed substantially, largely as a result of stagnating agricultural productivity, unfavorable world prices for traditional export commodities, the recession in South Africa, and a slowdown in private manufacturing investment. This falling off of economic growth has alarmed the government considerably. It is especially concerned about increased unemployment due to new entrants to the labor force.

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*Fion de Vletter, Economic Research Unit, University of Durban.

In its Fourth National Development Plan, the government estimates that gross additions to the labor force are about 8,500 persons annually. If all of these new entrants are to find work, the economy, according to the Plan, must grow at a rate of over eight percent annually. "This is clearly impossible" according to the Plan.

However, the economy turned around in late 1985. In 1986, the GDP growth rate was about nine percent. The number of new jobs in the formal sector increased significantly due to increased investment in the manufacturing sector, and substantial additions to the migrant labor force going to the South African mines.

In its January 1987 "Economic Review and Outlook," the Prime Minister's office forecast "a slight decline [in 1987] in real GDP and exports from their very high 1986 levels." However, at mid-year it appears that manufacturing investment continues to be high. In an interview with Mr. Derek von Wissel, the Minister of Commerce, Industry and Tourism, it was noted that 18 firms are planning new investments in Swaziland, totaling E146 million. These investments are expected to generate an additional 3,300 jobs directly, and at least an equal amount through their multiplier effect elsewhere in the economy.

The General Manager of one of the private commercial banks also noted that employment of Swazis in South African mines is likely to increase another 4,000 in 1987 to about 20,000, and that further increases to perhaps 25,000 is possible in 1988. South African recruiters apparently consider Swazi workers to be highly productive, friendly, and not prone to intertribal conflicts, since they are of one tribal group.

It is particularly difficult to foresee what will happen to the Swazi economy in the years ahead because the economy is so highly dependent on international developments, including those in the RSA and Mozambique. The March 1987 issue of "African Quarterly

Review" put out by the Standard Chartered Bank Zimbabwe referring to Swaziland states that "current forecasts for the 1988-1990 period put the average real GDP growth rate at around 3.2 percent, resulting in per capita income stagnation." Such a low growth rate would result in growing unemployment, largely for the young workers leaving school to enter the labor force.

Although they are concerned about regional developments, business executives interviewed in June 1987 are much more optimistic about the future. Only about 22 percent of Swazi production goes to South Africa, while one-third is consumed locally, and the balance (45 percent) goes to international markets, principally OECD countries.

An internal US A.I.D. analysis of the impact of sanctions conducted in 1986 projected that if very strict sanctions were imposed on the RSA, Swaziland's GDP would decline about four percent. The projection assumed that the RSA would not impose retaliatory sanctions against Swaziland. However, as time goes on, the impact of sanctions on South Africa, and consequently Swaziland, is likely to be less severe as the RSA economy adjusts to these threats. In fact, the mere threat of sanctions on the RSA has been a significant factor encouraging investment in Swaziland.

In summary, the assessment team believes that barring unexpected natural disasters or unforeseen political upheavals, the Swazi economy should continue its healthy growth into the 1990s. The above is based on projected expansion plans of existing businesses, new investment proposals, increased use of migrant Swazi workers in the RSA, and other factors discussed elsewhere in this report.

3.1.2 Structure of the Economy

The Swazi labor force consists of about 350,000 persons -- roughly half the population. Approximately 270,000 are employed in the informal or subsistence sector, mostly on homesteads. The remaining 80,000 are wage earners in the formal sector. Of these, 25,000 are employed by the government. The remaining 55,000 (about 15 percent of the total labor force) are employed by private firms which generate 80 percent of the GDP. About one-half of private sector employment is in agriculture, forestry and mining. The remaining half is distributed equally between manufacturing and commerce.

A detailed description of the private sector is covered in Part II of this report. However, it is important to note here that much of the industrial output in Swaziland, mostly based on the processing of local raw materials, is generated by about a dozen large firms. These are located in rural areas, employing about four-fifths of private labor, and are owned largely by British and South African investors. Roughly 80 percent of the output of these firms is exported internationally, roughly two-thirds outside of southern Africa.

In terms of contribution to the economy, agribusiness, forestry and mining account for half the GDP and close to 80 percent of industrial employment. Virtually all of the remaining Swazi industry is located at the Matsapha industrial estate.

Most of the new investments have been going and will probably continue to go to the Matsapha estate. With a few exceptions, further significant development of industry is unlikely to occur elsewhere in Swaziland in the near future, as basic raw materials (sugar, timber, cotton, asbestos and fruit) are being fully utilized and additional land is difficult to obtain. Significant exceptions are proposed ethanol plants using sugar by-products, a chipboard plant which just opened in Nhlangano, and exploitation of new coal deposits in the Lowvelt.

3.1.3 Cultural Characteristics

Tradition rules by and large the life of the average Swazi national. His cultural background exerts great influence on the business environment. People are friendly, likable, and easy-going. The majority of the population, particularly the younger generation, is literate. English is a functional second language for most. Swazis' business acumen is not very developed and in this respect they are not as advanced as the Zimbabwean. They tend to buy compulsively, often over-extending themselves with time payments for durables such as televisions, furniture, etc. Purchases are repossessed frequently for non-payment, and the loss of partial payments already made does not seem to make a strong impact on them.

Wealth is measured in terms of cattle ownership. Swazis sell their cattle only when money is needed for a specific purpose, i.e. weddings, funerals, school fees, etc. They do not time their sale with optimum market conditions and therefore do not realize the most profit. Furthermore, the accumulation of wealth in the form of cattle results in inefficient usage of Swazi Nation land and over-grazing.

It is a deep-rooted Swazi tradition to want to serve the King. From early childhood, a Swazi is taught that service to the King is an honor. Young Swazis are happy to stay around the Palace to undertake any chores that need to be done with no other compensation than three meals a day.

This tradition carries through to modern industrial life. When the King announces that his fields need to be plowed, weeded or harvested, or a corral needs to be built for his cattle, labor is volunteered by industrial concerns. This is not an obligation, rather a custom. Private enterprises may supply one, two or more men, depending on their capabilities. The volunteer shows up with a letter from his employer, which is acknowledged by the King upon completion of the service provided. If the King needs tractors, fuel or other input, industry gets together and provides it. The logistics for supplying the needed inputs are organized by the Federation of Swaziland Employers. The cost to the private sector was estimated to amount to E1.5 million (about U.S.$750,000) in 1986. It is an accepted practice which is not likely to be eliminated. It is and must be accepted because it is part of the Swazi custom and is not abusive. For the western businessmen, it is just part of the cost of doing business in Swaziland and it is not a significant item.

Some companies do not get involved in order to avoid solicitation. They will, however, honor the King through indirect contributions such as the donation of equipment to a local hospital on occasion of the coronation, or matching funds raised by their workers to buy cattle for a birthday gift to the King.

Another aspect of Swaziland traditionalism is the allocation of land. During the colonial era, King Mbandzeni unwittingly gave large concessions of the most fertile land to white settlers who received title deeds from the colonial government. The Swazis were left with the least desirable parcels. This land is held in the name of the monarch by some 200 chiefs who allocate it to their followers. The population explosion, with an average growth rate of 3.4 percent, is exerting increasing pressure on the availability of land for homesteads and subsistence farming. To promote the welfare of his people, King Sobhuza II created the Tibiyo Taka Ngwane or National Trust Fund in 1968, which among other activities buys land back for the Swazi Nation from title deed owners. The Fund's principle source of income was until 1975 the royalty income from mineral rights. Land for homesteads, subsistence farming, and small scale Swazi business enterprises is allocated by the chiefs assisted by the committee of elders. Some chiefs are progressive and encourage development of their chiefdoms. Others not only hinder development, but may actually take land away from homestead farmers who are too successful because their success may be viewed as the result of witchcraft or they may consider the land too fertile, wanting it for themselves.

New modern business enterprises requiring land for industrial or agricultural development must either purchase land that may occasionally be offered by title deed owners (even then, Tibiyo has the right of first refusal) or must enter into some kind of lease or joint venture arrangement with Tibiyo and/or various chiefs. This is difficult and takes a long time. Swaziland Fruit Canners, for instance, has been unable to get additional land for growing pineapples even though it would create a large number of new jobs and generate significant additional foreign exchange income and revenues for the government. This is also the reason why most new industries and commercial enterprises locate in one of three industrial parks where the necessary infrastructure has or is being developed by the Government.

3.2 Production Resources and Services

3.2.1 Overview

As noted in Section 2 above, Swaziland has one of the best investment climates in Africa with respect to government policies, regulations and procedures. However, the country does have serious limitations with respect to productive resources -- especially land, managerial and technical labor, and raw materials. Business executives of several firms expect these resource limitations to hamper future growth of the private manufacturing sector unless the country takes action soon.

3.2.2 Availability of Raw and Semi-Manufactured Materials

About two-thirds of the manufacturing firms located at the Matsapha industrial estate are so-called "footloose industries." They are not dependent on a nearby source of raw materials, nor do they have to be located adjacent to their principal markets. With the exceptions of a few complaints about the high price of South African semi-finished products, most firms believed that availability of raw materials was not a problem. In fact, the ready availability of duty-free products and spare parts from South Africa was considered an advantage.

Industries using the country's vast, man-developed timber resources were generally satisfied with their raw material situation. The major firms in the industry are vertically integrated, having established major timber reserves through reforestation programs begun in the 1940's and continuing today.

However, the majority of firms in the agribusiness sector, including the integrated textile firm, complain that the shortage of quality raw materials limits their growth prospects. The shortages are due largely to the poor utilization of Swazi Nation Land (SNL). This constraint to private-sector development is discussed in more detail in Part II of this report. However, it should be noted that over half the land in Swaziland is SNL, and yet the produce from this land accounts for less than four percent of the GDP. If more of the SNL land could be brought into efficient production through private firms or by using traditional homestead family labor more effectively, agribusiness could be expanded substantially.

The mining sector, also discussed in Part II, is similarly constrained by lack of resources. The most notable examples are the iron mine, which closed down several years ago due to lack of quality ore, and the large asbestos mine, which currently has proven reserves sufficient for only a few more years of operation. Closure of the asbestos mine, which employs about 2,000 workers, would be a serious blow to the economy of northwest Swaziland. However, with government encouragement, exploration for new minerals continues.

3.2.3 Infrastructure

There were some general complaints about the Swazi infrastructure. However, most business executives recognized that relative to other African countries outside of South Africa, Swaziland has good road, rail and communications networks, and that utilities are generally adequate. Several executives of the larger export-oriented firms complained about rail interruptions and lack of port facilities in Maputo. Most have found rail and truck service to Johannesburg, Durban and Richards Bay adequate but more costly. In any event, most executives felt that the infrastructure within, from and to Swaziland is a significant competitive advantage to them relative to other countries outside the RSA.

Several companies complained about the infrastructure within the Matsapha industrial estate. The roads have seriously deteriorated through neglect, the sewerage system is inadequate, and there were also complaints of electricity breakdowns. However, recently a maintenance program has been implemented and an improvement program is planned for when funds become available.

3.2.4 Financial Resources

None of the business executives interviewed complained of a lack of credit for working capital purposes. Currently, the banking system is highly liquid. The ratio of loans and advances to deposits is about 50 percent due in part to the large deposits from the sugar industry which had a banner year in 1986. Also, Swazi businesses are reducing deposits in the RSA because of foreign exchange risk now that the rand no longer has a legal tender status in Swaziland.

Despite the high liquidity, net credit to the private sector rose from about E160 million at the end of 1985 to E208 million by the end of September 1986, a 20 percent increase.

Because of the high liquidity of the banking system, the CBS lowered the rediscount rate, which in turn led to a decrease in the banks' prime lending rate. During 1986, the prime fell four percentage points to about 12-13 percent, about the same as the inflation rate.

Some GOS officials believe that the commercial banks are too conservative. The CBS is employing strategies designed to further reduce interest rates and encourage the development of a longer term deposit and lending market.

Long-term capital, both loan and equity, was virtually unattainable in Swaziland until recently. The principal development funds, the National Industrial Development Corporation of Swaziland (NIDCS) and its associated company, the Small Enterprise Development Corporation (SEDCO) -- both parastatals -- are insolvent, and the Tibiyo Taka Ngwane Fund, which invests in projects for the Royal Family, has limited resources available at the moment.

Parliament has authorized the establishment of a Swaziland Industrial Development Corporation (SIDCO) with an operating capital of E30 million to take over many of the responsibilities of NIDCS. As previously noted, the King approved the establishment of SIDCO on June 30, 1987. Many of the proposed projects for the Matsapha industrial estate are expected to be at least partially financed by SIDCO equity participation and long-term loans.

3.2.5 Human Resources

Swaziland has an abundant supply of cheap, unskilled labor. However, their productivity is low. Poor training, inadequate education and lack of dedication, have been cited as the reasons. Only about 15 percent of the labor force is employed in the private sector.

The most often-heard comments from employers are that:

1. Women are better workers than men. They are more used to working because of their heavy workload in their homesteads. They are more responsible and represent less of a drinking problem than men.

2. Women are generally more family oriented and spend their money more wisely than men. However, many men as well as women often take care of the extended family, some of whom will, for instance, pay the school fees for their brothers' children if their fathers cannot afford the payment.

3. Swazis do not function well as supervisors because they are unable to discipline other Swazis. This may be due to a general deference to age, making it difficult for a younger supervisor to give orders to an older worker.

   Also, their status in the traditional society may be the opposite of their position in the factory. A supervisor may have a lower rank in traditional life than his subordinate in the factory. Thus, an excellent worker may not be promotable to supervisor.

While these comments are generally true, it is also true that companies have been able to promote Swazi nationals into middle management positions. It requires extensive on- and off-the-job training and considerable time. Most middle management are older individuals who have moved up through the ranks and who have compensated their lack of formal education with years of job experience, innate intelligence, and a will to succeed. The psychological profile of one management candidate, included in Appendix E, illustrates the problem of developing Swazi managers.

While unskilled labor is plentiful, skilled labor and professional talent is in short supply. The quality and adequacy of education is greatly responsible for this vacuum. However, education is reported to have started improving. Craftsmen jobs are frequently filled by Portuguese refugees from Mozambique. Plant engineers and master mechanics are almost always expatriates. Swazi accountants are also hard to find.

The government recognizes the need for foreign expertise to meet shortages of these skills and permits the hiring of foreigners for these jobs. However, companies hiring foreigners must train Swazis to replace them. The "localization" of such jobs (replacement of foreigners by Swazis) is taken very seriously by the government. Residence permits for foreign job holders are limited to two years. Although a recent change in law allows for five-year residence permits, few have been issued. Companies have considerable difficulty hiring expatriates because they cannot offer a career opportunity even though there is usually no problem in extending the residence permits every two years. Another consequence is the frequent turnover of expatriate personnel, which is very costly. Difficulties with the authorities sometimes arise when a company must hire an expatriate to fill a job formerly handled by a Swazi, as for example, when a factory modernizes replacing mechanical gadgets with electronic equipment which the Swazi trained on the mechanical device cannot handle.

Despite the generally low productivity of the Swazi work force, several business executives have been able to attract the more willing workers. These have been found to be receptive to training and, once trained, are comparatively efficient. This is especially true in the rapidly expanding clothing and footwear industries. While most of the workers in the industries are women, reportedly male Swazis employed in South African mines, are considered to be better workers than their colleagues from the RSA and other southern African countries.

In his survey of the Swazi industrial sector in 1986, Fion de Vletter (previously cited) found that 25 of the 30 firms responding to the enquiry were "satisfied" with the quality of manual workers, two felt it was "good," and three found it "unsatisfactory" or "poor." Several firms who recently moved from the RSA believe that Swazi manual labor is better than that in South Africa largely because most Swazis can communicate in English. Others strongly disagree.

Most firms in the de Vletter survey confirmed that the availability of skilled labor is a serious problem in Swaziland, and that the quality was unsatisfactory. The lack of good vocational facilities was cited as a principal reason for the shortage and unsatisfactory quality of skilled labor.

The Swaziland College of Technology (SCOT) provides most of the institutional vocational and technical training in Swaziland. The College has resident capacity for about 600 resident students. It also provides upgrading courses for others not in a college-resident status. Scot is mainly concerned with training middle level technical personnel and skilled craftsmen in mechanical, electrical and automative engineering; building; woodwork and carpentry; technical services; commercial training; hotel and catering; and teacher training. The College also supervises a junior manager training and development unit and a trade testing unit.

Some technical education such as woodwork, metalwork and technical drawing is offered in both Junior, Secondary and High Schools. These schools are also offering commercial subjects such as typing, bookkeeping, and basic courses.

An industrial training center was also established at Manzini in 1984 under the joint management of the Catholic and Anglican churches. The center provides two years of formal and on-the-job training for about 180 students between the ages of 18 and 25 who have dropped out of school. Subjects include agriculture (vegetable farming and animal raising), building construction, carpentry, metalwork, motor mechanics, printing, sewing and upholstery. The training provides students with about a Grade III (semiskilled) competence.

Because of the growing emphasis on vocational training and the number of organizations involved, the GOS enacted an Industrial and Vocational Training Act in 1981. However, the Act was not implemented until mid-1986 with the establishment of a National Industrial and Vocational Board on which representatives of the private sector will serve. However, no definite approach to vocational training planning has yet been formulated.

Some progress is being made, however. A new vocational training center is being built at Matsapa through a German/EEC loan. The Center will be financed jointly by the private sector and GOS. It will train personnel to Grade I level (highly skilled) in electrical, metal work and carpentry trades, with a commercial section for secretaries and clerical personnel. When the new center commences functioning, SCOT will shift its emphasis more to technical training.

Most of the major firms that were contacted by the assessment team have developed their own training programs. Some of these are quite extensive, but they are also highly focused on the skills particular to their industry. They do not invest in the four years or more of training required for the development of Grade II (skilled) and Grade I level artisans.

There is no formal program in Swaziland for preparing college students for business administration and courses in accounting, for example, are inadequate. The GOS is concerned with the lack of training for accountants, and has recently established the Institute of Accounts order which will improve the technical expertise in this field. The University of Swaziland (UNISWA) emphasizes agriculture, education, humanities, science and social studies. Most graduates are employed by the government. As a result, virtually no Swazis hold executive positions in the private sector.

The private sector assessment team believes that greater attention must be devoted to vocational training and business administration education in Swaziland. While the US A.I.D. Mission CDSS and ABS emphasizes training, more should be done by the Agency.

3.2.6 Business Services and Living Conditions

Business executives believe that the industrial, financial and commercial services available to private enterprise are good relative to other developing countries in Africa. The Metsapa industrial park and most principal towns in the country have branch banking services. Several U.S. and UK accounting firms have offices in the country. Business advisory and management consulting services are available from some of the accounting firms as well as from several independent firms. Firms at the Matsapha industrial estate provide mechanical and electrical repair services, manufacture of injection molds for plastic products, corrugated and plastic packaging materials and containers. There are several large foreign-owned as well as smaller locally-owned engineering and construction firms. In addition freight forwarding and trucking companies provide adequate service in most areas.

Most executives found the climate, shopping facilities, restaurants and other amenities for expatriates to be far better than in most African countries. However, expatriate housing is becoming a serious problem, especially in the capital, Mbabane.

3.3 Summary of Basic Economic and Market Factors

Swaziland's small internal market seriously constrains the development of locally market-oriented firms. Most consumer and industrial products are imported from the RSA. Rather, Swazi industry is export oriented with a considerable portion of its sales outside of Africa.

The major agricultural and mineral based industrial sectors are being constrained by lack of raw materials. This impediment to future growth of agribusiness will be difficult to overcome unless ways can be found to increase the productivity of Swazi Nation Land.

Of principal concern to most businesses is the lack of trained workers and middle management personnel within the Swazi labor force.

Swaziland, however, receives high marks for such factors as infrastructure, financial resources, business services, and living conditions for expatriates.

Based on its interviews with the business community and other observations, the assessment team concludes that the private sector is likely to expand rapidly through the remainder of this decade. However, to maintain a high growth rate thereafter, the land and labor problems must be resolved.

PART II: PRIVATE SECTOR PROFILE

1. PRIVATE AND PUBLIC SECTOR OVERVIEW

The most significant economic sector in Swaziland is by far agriculture, including its subsector, forestry. It contributed 25.3 percent to the Gross Domestic Product (GDP) in 1983, with the forestry subsector representing only 1.5 percent. Next in importance is manufacturing, which contributed 23.5 percent to the GDP. Almost one-half of the manufacturing sector is represented by processing of agricultural and forestry products, emphasizing even more the importance of the agricultural sector in the economy of the country. The third largest sector is represented by government services, with a 17.4 percent contribution to the GDP. The importance of mining has diminished to a point where this sector contributed only 2.7 percent to the GDP in 1983.

A breakdown of Swaziland's exports indicates that sugar, wood pulp, asbestos, fresh citrus and canned fruit are the main foreign exchange earners, with sales in 1983 of 112, 40, 18, 13 and 13 million Emalangeni respectively. The export market for fertilizers, which generated E36 million in 1983, collapsed, and its sole manufacturer (Swaziland Chemical Industries) was liquidated a year later. On the other hand, the textile industry is gaining importance in exports, and Coca-Cola will become a major exporter of its beverage base concentrate next year.

2. AGRICULTURE

As indicated above, agriculture is the most important sector in Swaziland's economy. There are two distinct subsectors.

a. The modern subsector comprises some 800 medium-to-large farms on title deed land owned mostly by foreign individuals and companies. Also included are some modern farms run by government agencies on Swazi nation land. They grow capital-intensive, export-oriented crops such as citrus, cotton, pineapple, sugar cane and tobacco. The average farm size is 800 hectares and is largely irrigated. Title deed farmers own about 37 percent of the total crop land and 25 percent of the grazing land.

b. The Swazi nation land is owned by the King in trust for the Swazi nation. It supports some 42,000 small-scale Swazi farmers who cultivate an average of under three hectares. About 60 percent of the working age population farm two-thirds of the nation's crop land, but their output is only 20 percent of the total production. They grow primarily maize for their subsistence and produce only a limited amount of cash crops on a commercial or semi-commercial basis. Their cattle, held as a means of accumulating wealth, overgraze the common grazing areas and constitute a major factor in the inefficient utilization of Swazi nation land.

The agricultural sector has been the subject of various specific studies commissioned by US A.I.D. Therefore, it was not covered in detail in this private sector assessment.

3. AGRIBUSINESS

The agribusiness sector in Swaziland comprises the following industries: sugar, dairy, meat, poultry, canned fruits, beer and beverages, cotton ginning, and feed milling.

3.1 Sugar Industry

The sugar industry is Swaziland's biggest industry, biggest employer, and biggest export earner. It employs some 16,000 individuals. As a signatory of the Lome Convention, Swaziland is entitled to export 117,450 metric tons of white sugar equivalent to the European Economic Community at a favorable, annually negotiated, guaranteed price. Until recently, it also enjoyed a small sugar quota in the U.S. market. This quota was reduced and other benefits were granted to Swaziland by the U.S. in partial compensation. The total production was 402,014 metric tons during the 1984-85 season, decreased to 374,852 metric tons in 1985-86 but increased to over 500,000 tons in 1986-87. All sales, both domestic and exports (96 percent), are handled by the Swaziland Sugar Association. Its major export markets are the EEC, Portugal and Canada.

There are three sugar mills in the country:

1) Ubombo, which is the oldest mill, produces 145,000 tons of raw sugar per year. It receives cane from the Big Bend (Big Bend Sugar Estate) and the Nsoko areas. The mill is a joint venture between the London-based Lonrho Group and Tibiyo Taka Ngwane.

2) Mhlume Mill is owned by the Mhlume Swaziland Sugar Company, a joint venture between the Commonwealth Development Corporation and the Kingdom of Swaziland.

3) Simunye is the newest mill. It is owned by Tibiyo Taka Ngwane and seven multi-nationals.

By-products of the sugar industry include bagasse, which is used for fuel at the sugar refineries, and molasses, which is currently exported. However, a joint venture, in which CDC and Tibiyo was to be the major shareholder, was planned for converting molasses to ethanol. The proposed E7.5 million plant would produce about 10 million liters of ethanol annually using about a third of the molasses produced in the country.

Recently, Lonhro (Ubombo Ranches) has proposed a second ethanol facility. Apparently, Tibiyo has informally indicated to Lonhro that it will pull out of the joint venture with the CDC in order to allow Lonhro to go ahead with its plant. Two plants would not be economical.

3.2 Dairy Industries

There is only one dairy plant in the country. It is located in the Matsapha Industrial Estate and is owned by the Swaziland Dairy Board. It was set up to process all milk produced in the country, as the law specifies that only pasteurized milk can be sold to consumers. However, some subsistence farmers sell raw milk in their immediate vicinities.

Milk is collected from farms or receiving centers as far as 60 miles from the plant. It is pasteurized at the plant and packed into Pure-Pak cartons for distribution. In addition to about 8,000 liters per day of pasteurized milk from fresh whole milk, the plant produces 6,000 liters per day of cultured buttermilk (Emasi) from imported powdered milk. Except for occasional cream, there are no other dairy products processed in the plant. Local production is supplemented with 4,000 liters per week of packaged pasteurized milk imported from the RSA. Also imported from the RSA and distributed by the Dairy Board are ice cream, yoghurt and cottage cheese.

By entering into the production, processing and marketing of milk and milk products, the Dairy Board has become engaged in activities for which it had not been originally established. As most other parastatals, it does not operate efficiently and loses money. Considerations are now being given by the Ministry of Agriculture and Cooperatives, which is responsible for the Dairy Board, to separate the industrial from the regulatory function and to privatize the former. There is interest among the private sector in acquiring the plant. However, since there is no other milk processing facility in the country, the de facto monopolistic situation would require carefully-conceived regulatory measures to protect the interests of farmers, processor and consumers. An alternative solution would be the creation of a dairy farmers' cooperative to take over the plant.

A detailed write-up on the dairy board may be found in Appendix B.

3.3 Meat Industry

With a cattle population of 642,000 in 1985, there are about as many heads of cattle as people in Swaziland. As previously mentioned, much of this cattle is owned by homestead farmers and represents a sign of accumulated wealth rather than commercial cattle ranching. There is only one major abattoir and meat processor who slaughters about one-third of the 68,000 cattle killed per year. The rest is slaughtered for commercial and domestic use by small butcheries and homestead farmers.

The Swaziland Meat Corporation is owned 50 percent by RSA interests (O.K.K. Holdings Company, a wholly-owned subsidiary of the Barlow Group), and 50 percent by Tibiyo. The company has its own feed lot and slaughters up to 25,000 heads annually. About 60 percent is exported as chilled meat and the rest is distributed locally to wholesalers and through the company's own retail outlets. The major export markets are Germany and the Indian Ocean island of Reunion. It generated about 11 million Emalangeni in foreign exchange in 1986. The company also produces a small quantity of canned meat.

There is no tanning industry at present in Swaziland. A tannery did exist in Swaziland. However, it went out of business several years ago. Raw hides are exported to the RSA. The feasibility of establishing a new tannery in the country should be investigated.

3.4 Poultry Industry

Poultry processing is not a major industry in Swaziland, but it is one that may possibly be developed to provide added income to subsistence farmers.

At present, there is one diversified operation, the Tinkhukhu Poultry Farm Swd., which is described in more detail in Appendix B. It produces eggs, day-old chicks and broilers for both the fresh and frozen market. There is a small poultry processing facility in Nhlangano run by a cooperative. Tambankulu Estate raises broilers. Mfumbaneni is a government-owned hatchery in Manzini. There are some other small poultry farms, and, of course, chickens are also raised by subsistence farmers.

The cost of feed, which must largely be imported from the RSA, as well as competition from imported South African frozen broilers, have limited large-scale developments. However, it is believed that a modern processing plant modeled after Jamaica Broilers Ltd. could be successful. Jamaica Broilers is a company operating in Jamaica, W.I., which processes some 60,000 chickens per day. The chickens are raised by small subsistence farmers throughout the country who receive day-old chicks hatched in the company's hatchery. The company also provides to the farmers the feed, veterinary services and technical assistance. Ownership of the chickens remains with the company and the farmers receive a fee for raising them. The founder of the company holds a 45 percent controlling interest. The remaining shares are widely distributed among the company's employees, contract truckers and contract farmers.

3.5 Canning Industry

The canning industry is limited to the canning of pineapple and citrus products. There is only one company, Swaziland Fruit Canners (Pty.) Ltd., which processes 40,000 tons of pineapple, 12,000 tons of grapefruit, and 4,000 tons of oranges annually. Pineapples are canned in various forms, i.e., slices, chunks, crushed and juice. Grapefruits and/or oranges are canned in the form of segments, a highly labor-intensive operation. Almost the entire production is exported, primarily to the EEC market, generating over 32 million Emalangeni in foreign exchange in 1986. The company is described in more detail in Appendix B.

Expansion of the company or development of additional canning facilities are limited by the availability of land for growing fruit in commercial quantity and quality.

There are no vegetables canned at present in Swaziland. Growing and canning of labor-intensive vegetables for export, such as white asparagus or green beans, may be economically feasible. Development of satellite farms or joint venture arrangements with small-scale farmers' cooperatives would increase the productivity of Swazi nation land as well as start a new export-oriented industry.

A model for a successful canned vegetable export operation can be found in Kenya, where the Njoro Canning Factory Ltd. has developed an organization that can deal with 16,000 individual small subsistence farmers for their source of supply. These are women who, because of their other obligations (growing subsistence food), can provide only about two hours of work per day. They cultivate an average of only 170 square meters of green beans for the cannery. They are taught by the company's service personnel how to grow and take care of the crop, and are provided with all inputs. Insecticides are sprayed by the company's own personnel. One field clerk for every 200 farmers provides close supervision and schedules the seeding, spraying and harvesting. Distribution of the canned product is assured by a French joint venture partner who contributes the market and provides technical assistance to the cannery.

3.6 Beer and Beverage Industry

Beer and beverages are produced exclusively for the local market.

The industry is dominated by RSA interests (South African Breweries, through a Dutch holding company), U.K. interests (Cadbury-Schweppes through licensing), and U.S. interests (Coca-Cola through licensing and indirect ownership of a new concentrate plant). All raw and packaging materials, except sugar, water and occasionally some fruit, are imported from South Africa.

There are two breweries; one (Swaziland Brewers Ltd.) producing conventional beer under the Lion, Castle and Carling labels, and the other (Ngawane Brewery [Pty.] Ltd.) producing the sorghum-based traditional beer under the Chibuku label. Both of these companies, as well as the sole carbonated beverage bottler, Swaziland Bottling Company (Pty.) Ltd., are owned by a Dutch subsidiary (Andras, B.V.) of a Dutch investment company belonging to South African Breweries. The Swazi nation trust fund, Tibiyo Taka Ngwane, owns substantial interests in Swaziland Brewers (40 percent) and Swaziland Bottling (45 percent). Swaziland Bottling produces Coca-Cola, Schweppes, Sparetta and Appletizer beverages under trademark licensing agreements. A more detailed description of the above three companies can be found in Appendix B.

Bromor is a Swazi subsidiary of Cadbury-Schweppes. It manufactures and bottles various flavors of squash. About one-third of the fruit used in the beverage is obtained locally from Swaziland Fruit Canners and the rest comes from the RSA. More details on this company are included in Appendix B.

Coca-Cola Export Corporation is building a modern beverage base concentrate plant in Swaziland to supply its markets in all of east and southern Africa. The plant is expected to commence production in September 1987 and will become a major contributor to the Swazi government's revenue. The facility will be operated by Conco Ltd., a Coca-Cola-owned corporation registered in Cayman Islands. Further details on the company can be found in Appendix B.

3.7 Cotton Ginning Industry

Cotton is Swaziland's main dry land crop and is the principal cash crop for some 7,000 small Swazi farmers who grew 65.5 percent of the total production of 17,100 metric tons in 1984/85 (up from 38 percent of the 14,250 metric tons grown in 1981/82). Production fluctuates from year to year, depending on weather conditions, i.e. rainfall and hailstorms. A peak of 25,000 metric tons was achieved in 1980/81.

The Cotton Board, created in 1967, is responsible for cotton improvements in Swaziland. It applies a levy on all cotton deliveries from growers, and sponsors research with funds so collected. Every grower must register with the board in order to be able to buy seeds and sell his crop.

There are two ginneries in Swaziland, both owned by the Swaziland Cotona Cotton Ginning Company. The main plant, located in the Matsapha Industrial Estate, has a capacity for ginning 120,000 bales or 24,000 metric tons of cotton per season. This capacity is sufficient to handle the country's entire production. Thus, when the government built a second 120,000-bale ginnery at Big Bend in 1979, the plant operated for only two seasons with heavy losses.It was recently taken over by Swaziland Cotona Cotton Ginning Company, which now operates both mills. A more complete write-up of the company may be found in Appendix B. Farmers have the option to sell their cotton also to ginneries in South Africa.

Cotton spinning and further downstream industrial integration is carried out by the National Textile Corporation, further discussed in Section 5 below.

There is no cottonseed oil extraction in Swaziland, and seed is exported to the RSA. The economic feasibility of setting up an oil extraction plant should be investigated.

3.8 Feed Mill Industry

There is only one animal feed mill in Swaziland. It belongs to the Swaziland Dairy Board, and produces about 3,000 tons of feed per year, not nearly enough to cover th needs of the country. About 50 percent of the production is cattle feed and the rest is poultry feed, except for a small amount of horse and pig rations. Only about 20 percent of the yellow maize milled in the plant is produced in Swaziland. The bulk of the maize and all of the fish meal, minerals and cottonseed cake utilized in the feed production is imported from the RSA. The Swaziland Dairy Board operation is discussed in detail in Appendix B.

4. FOREST INDUSTRY

After sugar, forest products are the next largest industry in Swaziland. The country's natural environment, with deep, fertile soils and a humid, almost-temperate climate, provides ideal conditions for rapid growth of pine trees and eucalyptus. Timber plantations cover six to seven percent of the total land area. One of the world's largest man-made forests, covering 67,000 hectares with 70 million trees, is located in the Bhunya area. It belongs to the Usutu Pulp Company. Another major forest of 25,400 hectares in Piggs Peak belongs to Swaziland Peak Timbers (Pty.) Ltd. Adjacent to it is Swaziland Plantations (Pty.) Ltd. with 2,300 hectares of pines and eucalyptus. Another large forest, the Shiselweni Forest (a Commonwealth Development Corporation project), is located around Nhlangano. In total, there are 101,000 hectares of commercial forests, almost entirely on title deed land, 75 percent of which are planted with pines.

The major forest products are wood pulp, sawn and mine timber, chipboard, furniture, windows and doors, and various wood artifacts.

The Usutu Pulp Co. Ltd. at Bhunya owns the only pulp mill in the country. It is a joint venture between Courthaulds of the U.K. and the Commonweath Development Corporation. They produce 180,000 metric tons of unbleached Kraft pulp per year. The pulp is exported to Japan, Korea, Taiwan, Europe, the U.S. and various African countries, generating over 80 million Emalangeni in foreign exchange in 1982 and creating employment for 3,000 people. The company is self-sufficient in the production of trees for its pulp mill requirements. A more detailed write-up on this company may be found in Appendix B.

There is no paper production at present in Swaziland. However, the Sharma brothers, owners of paper mills in Kenya, have plans to convert the closed fertilizer plant in Matsapa to produce brown wrapping paper and tissue. The projected production is 1,000 tons/month.

Swaziland Peak Timbers (Pty.) Ltd., a wholly-owned subsidiary of the Mondi Paper Company in the RSA, produces close to 9,000 tons of logs per week. About one-half of this production is exported for pulp to the parent company, and another 1,000 tons are exported to the RSA for mining timber. The remaining 3,500 tons are used in the manufacture of structural and industrial timber at the company's saw mill in Piggs Peak. See Appendix B for further detail. The company employs 1,000 people in its forestry division and 600 at the saw mill.

Swaziland Plantations (Pty.) Ltd. was recently acquired by a private RSA citizen residing in Swaziland. The company has 3,800 hectares of land (2,300 are planted with trees) and a saw mill. The mill was closed for two years and is just starting up again. It formerly produced block board, but now plans to manufacture only structural and industrial timber. Total employment of 263 people includes 100 forestry employees and 163 saw mill employees. A more detailed description of the company is included in Appendix B.

Interboard International of Holland has just opened a new chipboard factory in Nhlangano, creating about 350 new jobs. The chipboard will be exported to neighboring African countries and overseas. The initial investment was reported to be E47 million. Of this amount, E34 million went for plant and equipment and E13 million for working capital.

Swazi Pine is the largest pine furniture manufacturer, formerly employing about 750 people at its Matsapha plant. Although it had developed a successful export business in Europe, the company is in receivership, and is currently being operated at about 50 percent of capacity by Coopers & Lybrand as the liquidator. The company's downfall is rumored to have been caused by fraudulent currency transfers by its unscrupulous South African owners.

Woodmaster (Pty.) Ltd. is an RSA family-owned concern which manufactures office furniture, kitchen cabinets, windows, doors, pine coffins and other wood artifacts. The factory is basically a shop operation, employing 50 people. For further details, see Appendix B.

There are two other small furniture manufacturers in Swaziland. Peak Industries has a small factory at Piggs Peak, where it manufactures pine doors, windows, coffins and furniture. It was originally set up with the assistance of the Swedish International Development Agency as a joint venture between SEDCO and a Swedish firm, Hultafors AB. The company was reported to have had some management and/or financial problems, and has not expanded as planned.

5. <u>CLOTHING AND FOOTWEAR</u>

One of the fastest-growing segments of the Swazi manufacturing sector is the clothing and footwear industry. Since the middle of 1985, the industry expanded from only a few hundred to about 2,500 workers. Four large firms were established at the Matsapha estate in late 1985 and early 1986, including:

- o Garment Manufacturers of Swaziland (men's shirts);
- o Oriental Swaziland (shirts, jeans, shorts);
- o Sikanye Footware; and
- o National Textile (cotton-polyester yarns)

These four firms employed about 2,000 workers in 1986, and most have extensive expansion plans. A large part of the output from these firms is being exported to the RSA, EEC, and the U.S.A.

The Garment Manufacturers of Swaziland closed in 1987. The firm, which has holdings in the RSA, was investigated by U.S. Customs officials for possible "country of origin" violations. Apparently, U.S. Customs believes that shipments of shirts to the U.S.A. labeled "Made in Swaziland" were actually manufactured in South Africa. According to the company, which is owned by a Taiwanese group, the Swazi operations employed up to 1,200 persons, and plans were to diversify into knitwear and jeans manufacturing. This expansion would have required an additional 3,000 workers.

The closure of the plant was a severe setback for Swaziland, especially as the plant's closure occurred at about the same time that several other plants closed or cut production back substantially. However, recently the company has been taken over and operations continue. The problems about originating status have been resolved.

Oriental Swaziland, established in 1985, is another Taiwanese-owned clothing manufacturer. It currently employs about 300 workers but plans a three-fold increase. The company produces about 3,000 garments a day on a job-order basis from fabric imported through Hong Kong. The company initiated production in Durban, RSA in 1984, but moved to Swaziland a year later because of impending sanctions against the RSA. Currently, all goods are exported to Canada. Sales to the U.S. have been temporarily suspended until all potential problems of entry of goods to the U.S. have been clarified. The owners appear to be concerned about the problems encountered by their competition, Garment Industries, with U.S. Customs regulations.

Sikanye Footware, owned by Bata Shoe Company of Canada, employs about 350 workers, mostly women, on three production lines. The addition of a fourth line is planned. Bata has sold its operations in the RSA. The current manager was asked to find a new location for southern Africa. He selected Swaziland over Botswana and Lesotho, in part because of its political stability, monetary ties with the rand, and his impression that the labor force was better educated and had a better work ethic. Also, importantly, a desirable factory building became available at the Matsapa industrial park as the result of the closure of the Scandinavian television factory. The company's general manager is extremely pleased with his Swazi workforce, which has already reached a 15 to 20 percent better productivity than the RSA plants. Footware sales are almost entirely to the RSA, although there are some local sales. Most materials are imported from Asia with sundries and packing materials imported from the RSA. According to the General Manager, the company has created potential entrepreneurial opportunities for local production of shoelaces, sewing thread, shoe boxes and tissue paper.

The National Textile Corporation of Swaziland commenced production in 1986 and currently employs 300 persons, also largely female. The company equity is divided between Swaki (50.4 percent), IFC (17 percent), CDC (17 percent) and other U.K. interests. The senior management and technology are British. Unlike the other textile companies, National utilizes locally-produced cotton. About 60 percent of its cotton raw materials are produced in Swaziland, but the Managing Director hopes to obtain almost all of its cotton from Swaziland in the future. He is encouraging the Cotton Board to stimulate farmers to produce more cotton by expanding the amount of irrigated land devoted to that crop.

Currently the plant produces cotton-polyester yarns for the knitting and weaving industries, largely in the RSA. However, the company plans a $30 million expansion to vertically integrate into dyed, printed and finished fabric. The company will eventually produce top-quality garments for export to the U.S. and EEC as well as the RSA.

The Managing Director is highly pleased with the learning ability and productivity of the Swazi workers. The fact that they can speak English has been a major factor in the learning process. He says that where he worked in South Africa, only about one worker in 20 could understand English, and only about one in 50 could reply in English.

The new firm could provide a strong impetus to the cotton farming industry. Employment could be doubled, and four times as much cotton could be sold by the industry to existing RSA markets and to National, according to the Managing Director. As noted earlier in this section, adequate cotton ginning capacity exists at the plants in Matsapa and Big Bend to process the cotton.

The General Manager also believes that there is no better country in Africa for the development of the private sector; textile production is likely to be a major catalyst.

Six other smaller apparel firms are located at Matsapha, primarily in knitwear, ladies' fashionwear, and industrial gloves. Also, the Japanese multinational YKK has a factory for making zippers. The firm imports the zipper material from Japan. It is then cut to size and finished in Swaziland for export to the RSA clothing industry. The company employs about 100 workers. Unlike the other firms in the industry, YKK management has found Swazi workers to be very unproductive relative to both the RSA and Japan. According to one senior official, "Eighty-four workers in Swaziland produce only as much as 16 workers in Japan. In fact, despite the most modern equipment, Swazi workers have the lowest productivity of any YKK operation worldwide." Possibly Swazi workers do not produce well under Japanese management. YKK is the only Japanese company in Swaziland.

Another company that might expand its operations in Swaziland is Swaziland Yarn and Fabrics. This pilot operation owned by the South African Frame Group, the largest textile group in the RSA, employs 40 persons. The company commenced operations in late 1985 to test the acceptability of "Made in Swaziland" labels among its traditional export customers. The current operation simply consists of breaking down bulk packages (large-size spindles) of acrylic hand knitting yarn and re-spinning and packaging them into consumer-size packages. The General Manager says that the operation is experimental and to train Swazi personnel. The company did not reveal the results of the experiment, if any, nor what the implications might be for the future.

In late June 1987, a Taiwanese trade delegation visited Swaziland to examine the possibility of setting up a knitware factory. The project being studied would employ about 1,000 workers and export principally to the U.S.

In summary, the clothing and footware industry in Swaziland has been a major factor in the increased employment in manufacturing in recent years. The industry appears now to be healthy and highly dynamic. If additional irrigated land can be made available for cotton production, the industry would probably expand even more rapidly.

6. OTHER MANUFACTURING

Outside of the three manufacturing sectors discussed above -- agribusiness, forest-based industries, and clothing and footwear

-- there is little additional manufacturing in the Swazi formal sector. Most of the remaining firms are located within the Mbabane-Manzini corridor, primarily at the Matsapha industrial park.

Table 1 is a list of other manufacturers at Matsapha. Because new firms are entering and some established firms are closing, the list may not be completely accurate. It is, however, indicative of the size, type, ownership and market orientation of the balance of Swazi manufacturing.

Several things should be noted from Table 1:

- o roughly one-third of the firms have been established within the last two years;
- o most employ less than 30 workers;
- o over two-thirds produce industrial products, largely for the Swaziland market;
- o ownership is almost entirely foreign; and
- o there is a great diversity of products.

Time did not permit the assessment team to visit all of these miscellaneous firms. However, the general feeling obtained from scattered interviews is that these firms generally are not likely to expand significantly in the future. This is not meant to imply that they are poorly managed, but rather that most have limited local markets and are unlikely to significantly penetrate markets in South Africa or internationally.

Rather than glibly conclude that they will not grow, however, one of the recommendations of this report is that these firms -- mostly small and medium-sized -- be included in a more detailed survey of small and medium firms, including those in the informal sector. The survey should determine the strengths and weaknesses of small firms, and what, if anything, could be done within a free-market context to assist them to take advantage of

TABLE 1

OTHER SWAZILAND MANUFACTURERS AT MATSAPHA INDUSTRIAL PARK

COMPANY	PRODUCTS	YEAR ESTABLISHED	EMPLOYEES	OWNERSHIP	PRINCIPAL MARKETS
Industrial Products					
Neopac (SD) Ltd.	Corrugated Containers	1968	71	RSA - 80%	Swaziland
Component Parts SWD	Submersible Pumps	1975	25	RSA	RSA, SWD & PIA
Sizeze Pipe Ltd.	Concrete Pipe	1980	40	SWD/UK/RSA	Swaziland
Macmillan Publishing	Printers & Binders	1980	23	UK	Swaziland
Toolplast Pty. Ltd.	Injection Molds	1981	8	W. German	Swaziland
Swaziland Oxygen Pty.	Industrial Gases	C1982	10	RSA/UK	Swaziland
Swazi Plastics	Polyethylene Sheet	1983	11	Swiss	Swaziland
Peka Plastics	Injection-Molded Containers	1983	20	W. German	RSA/Australia
SWD Mechanized Farming	Agricultural Implements	N/A	30	Swazi (NIDCS) and other	Swaziland & PIA
Wilkinson Trexi SWD	Textile Equipment Parts	1985	11	UK	Swaziland & RSA
Swazi Office Products	Printing & Binding	1985	14	W. German	Swaziland
Jubilee Printing & Publishing	Printing & Publishing	1986	50	N/A	Swaziland
Consolidated Wool Washing	Wool Products	1985	37	RSA	RSA
Steel International	Barbed Wire	1980	20	Zimbabwe/USA	SWD/USA/Canada
Swazi Wire Industries	Nails, Chain Link, Wire	1982	30	US/NIDCS	Swaziland
Modular Building	Building Materials	1985	25	Swazi/RSA	Swaziland
SWD Fencing & Gate Works	Metal Gates & Fences	1986	25	N/A	Swaziland
INMMY's Block & Concrete	Concrete Blocks	1980	80	N/A	Swaziland
Ferris Swaziland Ltd.	Pressure Gauges	1985	23	RSA	SWD/USA/Canada
Consumer Products					
Lesko Engineering Works	Metal & Wood Furniture	1968	27	Italian	Swaziland
Maketi Manufacturing	Pots & Pans	1981	40	RSA	RSA/Swaziland
Polyplas Pty. Ltd.	Plastic Household Containers	1972	27	RSA/Swazi	RSA/Swaziland
Germart Ltd.	Ornamental Stone Products	1981	5	W. German/Swazi	SWD/RSA/PIA
African Candles Pty. Ltd.	Household Candles	1984	29	W. German/Swazi	SWD/RSA/PIA
Liho Jewelers	Semi-precious jewelry	1985	8	Taiwanese	SWD/EEC
Tru Security	Padlocks	1986	4	N/A	Overseas (expansion planned)
Swazi Safe	Metal Safes	1986	11	N/A	Overseas (same
TOTAL EMPLOYMENT			694		

opportunities. This recommendation is amplified in Section 8 below in the discussion of the informal business sector.

7. MINING AND QUARRYING

Although the contribution of the minerals sector to Swazi GDP is less than three percent, it employs over 2,500 workers and earns about E35 million in foreign exchange.

The industry currently is made up of five private commercial operations - asbestos, coal and diamond mines and two stone quarries.

The most significant commercial operation is the Havelock Asbestos Mines (Swaziland) Ltd., owned 40 percent by Tibiyo and about 20 percent each by Credo International Asbestos, Turner and Newall, and Msauli Asbestos.

Currently the mine is producing about 25,000 tons of asbestos fibre at an out-of-pocket cost of over E23 million. Annual sales totaled about E25 million. The operation is probably not profitable currently. Proven reserves will allow production at this level for only about two years. Explorat on for additional reserves are continuing but so far with negligible success. Closure of the mine, which currently employs about 2,000 workers, would be a serious economic blow to the mining town of Bulembu (population 12,000) and the northwestern region of the country.

Emaswati Coal (Pty) Ltd. is located at Mpaka in the eastern part of the country. It employs about 350 workers and produces 172,000 tons of coal valued at close to E 9 million. Most of the coal is exported to Kenya and South Korea. The cost of exporting coal has increased as a result of an inability to use the rail facilities and Maputo port in Mozambique. As a result, production of coal has not expanded as rapidly as anticipated. The mine is working only on a one shift basis.

Known reserves of low-sulphur, high-energy coal are estimated to be 250 million metric tons. The coal mined at Mpaka is high-quality, low-volatile anthracite. Explorations are continuing with Japanese aid to determine the feasibility of establishing an additional coal mining operation in the Lubhuka area, just south of the existing mine.
Commercial production of diamonds commenced several years ago in the lowveld by Dvokolwayo Diamond Mine. The mine employs about 80 workers and produces about 26,000 carats which are sold in Europe for about E4 million. The mine was expanded in 1986 at a cost of E5 million. No further expansion is currently planned.

Finally, there are two commercial stone quarries, one near Malkerns and the other near Mbabane. These quarries employ about 120 persons. The stone is sold locally. Sales in 1986 totaled over E2 million. No expansion plans have been announced.

Several large companies have been prospecting for gold in the Piggs Peak area which could lead to a mining concession in the future. South Korean and Danish companies have been given approval to commence coal mining operations in the Lowveld. Another large foreign company is seriously looking at the possibility of establishing a thermal power plant in Swaziland which would utilize Swazi coal.

8. BANKING AND FINANCE

As previously noted, the formal banking sector consists of the CBS, four commercial banks, and a leasing and hire-purchase finance corporation. Other financial institutions, include five investment organizations, a building society, an insurance company and a national provident fund.

8.1 Commercial Banks

At the end of March 1987, deposits in commercial banks totaled E 300 million. The two largest and oldest commercial banks, Barclays Bank of Swaziland Ltd. and Standard Chartered Bank of Swaziland - hold about three-fourths of the total, the government-owned Swaziland Development and Savings Bank (SDSB) has 15 percent, with the balance being held by the newer Bank of Credit and Commerce International (BCCI).

Commercial bank loans to the private sector totalled about E 175 million at that time. Over 70 percent of outstanding loans are to industrial firms in manufacturing, agriculture and forestry, and distribution and tourism. Most loans to industry by the three private commercial banks are to the larger, foreign-owned companies, although loans are made also to small firms with good credit records. The SDSB also provides loans to all sectors, including a large number of loans to small farmers.

The interest rate at which the private commercial banks lend to their prime customers was about 12 percent in March, while they paid depositors 4½ percent on savings accounts. The three private banks were quite profitable in 1986. In that year Barclays had an after tax return on issued share capital of over 50 percent and Standard's return was over 30 percent.

Barclays has 18 branches throughout the country, SDSB has six, standard has three branches, one sub-branch and nine agencies, and BCCI has three branches. In summary, the three private commercial banks are very solid, and expect to remain that way. They provide good, full-banking services to the private industrial sector. Some private and government officials, including those at the CBS, consider the commercial banks to be overly conservative. The CBS, as noted earlier (Part I, Section 3.2.4), is trying to encourage more longer term lending by these banks.

The government-owned SDSB has not been successful financially, having lost money every year since 1982. In fiscal year 1987, losses are expected to be about E 300,000, an improvement over 1986 when losses were E 1.4 million. The bank suffers from high administrative costs, low interest spreads, and poor portfolio performance. Arrears totaled about 25 percent of loans outstanding in late 1986. Collections amounted to about 75 percent of the amounts billed the same year.

The SDSB was originally established to manage the Agricultural Adjustment Credit Scheme (AACS) which provided extension services and loans to small farmers, most of whom resided on Swazi Nation Land. These farmers could not provide collateral since they did not own land, and loan repayments were poor.

Subsequently, the bank began making loans for new houses and improvements. They accepted cattle as collateral. However, it was impossible to foreclose on the cattle when loans were not repayed because it often turned out that the cattle used for collateral was not really owned by the borrowers. The money in the housing fund is now virtually depleted.

Other special funds have been set up in the bank by the African Development Bank, FAO, EEC, the British Government, UNDP and US A.I.D. However, most have been unsuccessfully administered.

Recently, the World Bank proposed a $6.8 million loan to the GOS for assistance to small and medium-scale enterprises. This proposal is discussed further in Section 9. Of the total $800,000 was to go to SDSB as a grant for technical assistance. The GOS turned down the proposed loan, however. None-the-less, the SDSB is taking steps to improve its overall operations. No proposals have been put forth, however, to privatize the bank.

8.2 Development and Investment Organizations

Swaziland's industrial development and investment organizations are either parastatals: (1) such as the National Industrial Development Corporation of Swaziland (NIDCS) and its subsidiary, Small Enterprise Development Corporation (SEDCO); (2) owned by the Royal Family for the Swazi Nation, as is Tibiyo Taka Ngwane; or (3) joint private-government corporations such as Swaki (Pty) Limited and the Swaziland Industrial Development Corporation (SIDC).

The Asssets of NIDCS are now being managed by SIDC. NIDCS was established by the GOS in 1971 to promote industrial development by making loans, taking equity positions and renting space at industrial estates. However, as a result of poor management andinvestments in several unprofitable projects, the Minister of Finance has had to take over the servicing.

SEDCO is responsible for encouraging the development of small industry. A World Bank "Aide Memoire"written in late 1986 made the following observation about SEDCO:

> During the past five years, SEDCO has not shown any success in achieving its original objectives. Funds earmarked for industrial lending and financial assistance to building contractors have been substantially eroded; the (small enterprise) estates have performed dismally; and SEDCO has provided little in the way of entrepreneur training or advisory services. Consequently, SEDCO has lost the confidence and support of Government, the donor community and the public at large.

SEDCO is to be restructured so as to cease its lending operations and focus its efforts on providing advisory services to SSEs. It will also continue to manage the existing small enterprise estates.

<u>The Tibiyo Taka Ngwane Fund</u> was established by Royal Decree in 1968 to invest money received from mineral royalties by the Swazi Nation. The 1975 mineral royalties were placed under the management of Tisuka Taka Ngwane Fund for investment primarily in residential housing. Tibiyo was expected to be self-financing.

Tibiyo has several functions including:

- o purchasing title deed land, as it becomes available, to add to the Swazi Nation Land holdings;

- o Supporting the national heritage of the Swazi Nation through financial assistance to cultural and traditional institutions; and

- o Acting as an agent for the Swazi Nation by investing funds in private and public enterprises.

Tibiyo has bought more than one million acres of land for the Swazi Nation at a cost of E 8 million; it has made some of the land available to the Army for the production of food; it has granted scholarships to ten high school students each year; but most importantly it has acquired agricultural, financial and industrial assets which were valued at E48 million in 1983 (the latest figures available).

Tibiyo has acquired equity participation in 34 projects ranging from 32 percent (Royal Sugar Corportion Ltd.) to 100 percent (Swazi Observer (Pty) Ltd. - a local daily newspaper). It has a 50 percent ownership in Roberts Construction Ltd., in the Royal Swazi National Airways Corporation, Swaziland Meat Corporation, and Mhulme Sugar Company. It has 40 percent of the equity in Havelock Asbestos Mine, Ubombo Ranches, and Swaziland United Transport.

Tibiyo obtains equity by cash investments, providing land, borrowing from the joint venture partner to acquire the shares and repaying the loan from dividend payments, and through the negotiation of other concessions in the name of the King, who is the ultimate head of Tibiyo.

Normally Tibiyo plays the role of silent partner in joint ventures. All of the executives of companies partially owned by Tibiyo with whom the assessment team discussed the topic said that Tibiyo did not interfere with the management of the company. None-the-less, as a major stockholder, Tibiyo has considerable latent power to influence internal management and, through its support, to give the company considerable stature and preferential treatment in the business community.

Currently, Tibiyo has insufficient liquid assets to make any substantial investments. However, it is continuously looking for investment opportunities such as the proposed joint-venture ethanol plant with CDC in Mhlume. Furthermore, investors often come to Tibiyo with proposed projects.

In order to examine the technical feasibility of proposed projects, Tibiyo calls in specialist consultants, both locally and internationally. Although they do have a small staff to examine the financial feasibility of projects, the Managing Director wants to add a senior financial analyst to his staff.

Although owned by the King, Tibiyo is independent of the Government and can avoid much of the procedural red tape associated with government owned parastatals. In general, its goal is investing to maximize profits for the King. However, Tibiyo is also acknowledged as a national development agency qualifying for international concessional assistance under Development Assistance Committee (DAC) and United Nations Terms. However, the organization has received no donor grants nor loans to date.

SWAKI Pty Ltd. is a holding company 50 percent owned by NIDCS. The balance is owned by Kirsh Holdings Ltd. and other private parties. It consists of about 30 companies including finance, warehousing, transportation, distribution, trade and manufacturing. The company employs about 1,000 persons and has assets of about E 16 million.

The company takes equity positions which range from 25 percent to 100 percent. One of its more recent investments was a 50.4 percent interest in the National Textile Corporation of Swaziland. To date, Swaki has not joint-ventured with Tibiyo. Tibiyo was offered equity in the textile project but it lacked funds at the time. Closer ties are expected in the future.

The company will also have close ties with the newly established SIDC as the Chief Executive Officer of Swaki is also a Director of SIDC.

The company intends to continue to invest in Swaziland. Natie Kirsh, a Swazi citizen living in South Africa, is the principal private stockholder. Recently he stated:

> --- the best is yet to come as far as Swaki is concerned. The textile mill's new industries will eventually spawn a lot of small entrepreneurs and provide many new employment opportunities as well as give Swaziland new major international exports.

The SIDC project was approved by the King on June 30, 1987. SIDC will take over most of the assets and functions of NIDCS.

The GOS has 44 percent equity is SIDC. The balance is held by IFC, CDC, DEB, FMO, and the Swazi commercial banks. The SIDC will operate on commercial principles. However, it is a development bank so that investment decisions may be guided in part by social considerations.

SIDC inherited some 19 NIDCS projects, including the 50 percent equity in Swaki. In addition it will have an operating capital of E30 million which it plans to commit over a three year period on an estimated 30 projects. Financial assistance to new private companies will take the form of long term loans and equity up to about one-third of the total shares outstanding.

Some senior management personnel have been recruited including two Canadians, a general manager and an investment promotion manager. The head of promotion will handle investor relations for all new investors in Swaziland. Until recently two were functioning in similar positions at NIDCS. Both the Minister of Commerce and the Director General support the SICD program, as do most key business leaders. Thus, its establishment is expected to be significant factor in spurring industrial development in Swaziland.

8.3 Other Parastatal Financial Institutions

Swaziland has developed several specialized non-financial institutions including several parastatals as follows:

- Swaziland Building Society, the nation's housing finance institution, provides mortgage finance for the purchase of land and for the construction of private homes. The company had assets totaling E 16 million at the end of 1986.

- Swaziland Royal Insurance Corporation, established in 1974, is owned 51 percent by the GOS and 49 percent by several foreign insurance companies. The corporation underwrites both life and non-life insurance, including automobile insurance. Unfortunately, the auto insurance program has been unprofitable due to Swaziland's high accident rates. US A.I.D. recently financed a study of the Corporation to determine how the auto insurance program might become profitable.

- <u>Swaziland National Provident Fund</u>, also founded in 1974, is the Swazi social security fund. Every regularly employed Swazi must join. Employers must pay up to E10 per month for each employee, half of which can be taken from the employee's wage. SNPF is a major source of funds for construction of office buildings in Mbabane and Manzini.

- <u>Tisuka Taka Nguwane</u>, established in 1976, invests funds from mineral royalties received by the government in housing and agricultural projects. Unlike Tibiyo, it has not invested in private sector projects.

These organizations are relatively unimportant as a source of funds for private sector business development.

9. <u>OTHER PRIVATE AND PUBLIC SECTOR ACTIVITIES IN THE SWAZI FORMAL SECTOR</u>

Slightly more than one-fourth of the wage earners in the formal private sector are employed in engineering and construction, transportation, trade and services.

The largest construction company, Roberts Construction (Swaziland) Ltd. employs up to 600 persons. The company is owned 50-50 by Tibiyo and Roberts Construction Company of the RSA. Much of the remainder of the sector consists of small Swazi-owned firms. The construction business has been slow in recent years due to a reduction in capital expenditures by the government and completion of most major private projects, especially tourism.

Rail and air transportation are provided by two parastatal organizations, Swaziland Railroads and Royal Swazi National Airways Corporation (RSNAC). According to a recent US A.I.D. survey, the railroad company is potentially highly profitable since the opening of a new northern rail link. The airline, 50 percent owned by Tibiyo, is very unprofitable and is likely to continue to lose money.

Bus and truck transportation companies are privately owned. The bus companies are Swazi owned, as are the taxi cabs. The trucking industry is largely foreign owned. The largest is Swaziland United Transport which employs nearly 300 persons. The company has 50 heavy truck-tractors, eight timber cranes, and 16 other vehicles. About two-thirds of the company's revenue is from hauling woodpulp and timber. Much of the balance is from its overnight container service to Johannesberg. The company was owned 100 percent by United Transport International of London, but recently it agreed to give 40 percent of its equity to Tibiyo in a non-cash transaction. What United received in return, if anything, is not known.

Wholesale trade and the larger retail supermarket chains are largely owned by RSA groups. The smaller retail stores, including the small country general stores, are owned by Swazi nationals. Approximately one-half of the persons employed in this sector are women. The largest retail market, located in Big Bend, is owned by the von Wissel family.

Government parastatals are responsible for telecommunications, postal, electricity and television services. Tourism, however, is largely a private sector activity.

Swaziland has some 26 private hotels including several deluxe hotels between Mbabane and Manzini, and the new hotel at Pigg's Peak. Tibiyo has a 39 percent ownership in the largest hotel group, Swazispa Holdings Ltd.

The number of visitors to Swaziland hotels has nearly doubled since 1981. The hotel occupancy rate was only about 40 percent in 1983 but it may have risen since then. Occupancy rates are very high on weekends. About 80 percent of hotel visitors in Swaziland are from the RSA.

10. PAID EMPLOYMENT IN THE INFORMAL SECTOR

There were approximately 12,000 paid jobs in the informal sector in 1985 according to the Department of Economic Planning and Statistics. Others believe the figure is much higher. In any event, the informal sector is of considerable significance, representing about 20 percent of paid employment in the private sector.

About four-fifths of these jobs are held by women in such handicraft activities as sewing, weaving, knitting, crocheting and pottery, and in hawking fruits and vegetables. Men dominate in wood and stone carving and repair activities.

Median gross income of these workers is estimated to be about E123 per month. If so, total annual gross income in the country's informal sector would total about E 18 million. The sector's contribution to Swazi GDP may be as much as three percent.

Most handicraft items are made and sold by independent producers. However, some 4,000 women have formed about 200 associations called "Zenzile." These associations provide such services as training, storage and marketing. The bulk of the Swazi production is sold in the RSA or to RSA traders who come to Swaziland markets such as the large market at Manzini.

The GOS has placed considerable emphasis on handicraft training. Three Ministries - Agriculture, Commerce and Education - are involved in various handicraft training programs. Several donor organizations also support training. US A.I.D. provides funds through the Swaziland Manpower Development Project for training rural women. They have also provided funding to the Manzini Industrial Training Center (MITC).

The EEC has also supported MITC and has funded training at the National Handicraft Training Center which was constructed and staffed in 1975 with the assistance of the Republic of China.

Another project which is receiving donor support form UNICEF, UNDP and the Government of the Netherlands is the Women in Development Project which provides training at four sites in sewing, leatherwork, batik and dye, weaving and other activities. In addition, several NGOs and private craft centers provide craft training.

Some, including a considerable number of craft persons, believe that handicraft training alone is insufficient. They feel that much more emphasis should be placed on basic training in marketing and business skills.

It appears to the assessment team that although considerable effort is being placed on handicraft training, it is neither coordinated nor necessarily focused on the needs of the small scale industrial sector. Recently, CARE, as part of its US A.I.D. Swaziland Training for Entrepreneurs Project submitted a proposal to conduct a survey of small enterprises in Swaziland. The purpose of the survey is to gain a more accurate and complete understanding of the quantitative and qualitative nature of the Small Enterprise population in Swaziland.

The proposed survey, which is estimated to require an elapsed time of six months, would provide a basis for developing an integrated small scale enterprise program for both the formal and informal small enterprise sectors. The proposed survey would cover all existing firms with 25 employees or less and having less than E100,000 in assets.

PART III: CONCLUSIONS AND RECOMMENDATIONS

1. OVERVIEW

Swaziland offers a favorable environment for private enterprise as indicated by an assessment of its business, investment, economic, political and regulatory climates.

The government encourages a free market economy with a hands-off attitude towards industrial development. Its direct role in production is limited and is expected to be eliminated wherever possible.

Foreign investment is attracted by the country's political stability, its access to the EEC and other markets, good infrastructure, harmonious labor relations, and the proximity to South Africa. Swaziland is an oasis in Africa's political turmoil. Its dualistic type of government, combining modern westernized concepts with the traditional tribal system, is one of the most democratic systems in the world. Preferential trade treatment in the EEC is guaranteed by the Lome Convention and in Australia, Canada and the U.S., by the General System of Preferences. Membership in the South African Customs Union provides duty-free access to Lesotho, Botswana and South Africa. Markets in the 15 east and south African nations, even though economically less important, are open to Swaziland through membership in the PTA.

Compared to other African countries, Swaziland has an excellent infrastructure which includes paved roads, rail transport, ample electric power, good telephone and telegraph communications, a solid commercial banking system, and rural schools throughout the country. The formation of labor unions is not encouraged by the government and strikes are rare. The proximity to a first world country, such as the Republic of South Africa, provides easy access to medical support, industrial and consumer goods and medical services.

There are also some factors which limit the development of the private sector. Among these are: the strong influence of indigenous culture and tradition which pervade daily life, the economic dependence on South Africa, the smallness of the internal market, inadequate education and training, and the limited availability of agricultural land and industrial sites.

In assisting the private sector in Swaziland, a distinction must be made between the indigenous small scale entrepreneur and the larger, mostly expatriate-owned enterprise. US A.I.D. must decide where to put its emphasis. The larger expatriate-owned enterprise will generate most jobs. The small indigenous entrepreneur is the one that will create a more solid base for the country's politico-economic stability.

2. CULTURAL FACTORS

In either case, a key to any development is to have a clear understanding of Swazi culture. Tribal traditions affect profoundly all aspects of business and economic development. Individual ownership, with its stress on individual achievement, is foreign to the Swazi. Private enterprise, however, can prosper in Swaziland as long as it is able to work with and not against the system.

Published literature does not cover the effect of Swazi culture on the economy of the nation. Even foreign residents often have only a sketchy knowledge of how the traditional system works. Thus, to formulate an effective strategy for developing the private sector in Swaziland, it is recommended that a study be undertaken of the Swazi culture in the specific context of business and economic development. It should provide an answer to how entrepreneurship may be encouraged among Swazis and how business skills and concepts can be transferred to them. Such a study could be conducted by a team which would include an anthropologist and a psychologist under the leadership of an entrepreneurial-type businessman.

3. EDUCATION AND TRAINING

Shortcomings in the educational system and training has been partly addressed already by US A.I.D.'s Manpower Development Program and a change in school curriculum is in the process of being introduced by the government. Inasmuch as only a small percentage of the school population will be college bound, the greatest emphasis of the school system should be directed towards vocational training. Following the primary grades, continued education should be skill and trade oriented with sufficient business and entrepreneurship courses to enable graduates to either pursue a career in a trade (farming, carpentry, mechanics, office clerk, typist, accounting) or as independent entrepreneurs or merchants. The most promising students could then be selected for optional academic courses that would prepare them for college or university.

Training of technicians will be given greater emphasis at SCOT. Vocational training will be expanded through the establishment of the training center at Matsapa. Lower level training is also to be provided to school drop-outs through MITC. Hopefully, the recently established National Industrial and Vocational Board, with advisory assistance from the private sector, will develop a medium and long-term vocational training plan for the country.

There is no school of business administration nor courses in entrepreneurship at UCS or elsewhere in the country. Most university graduates take government employment. Similarly, most graduate students -- including those sent abroad for training by donor organizations -- return to fill government positions. A.I.D.'s "Swaziland Manpower Development Project" emphasizes training of government personnel, for example. Only a few Swazis are in private sector management positions, and ownership of industrial firms by Swazis is rare.

It is recommended that A.I.D. actively encourage the development of university level courses in business administration in Swaziland either at UCS or through an independent business school. If financial assistance is required it might be obtained through the A.I.D./W Private Sector Component of the Human Resources Development for Africa (HRDA) project.

4. AGRICULTURAL PRODUCTS

The limited availability of agricultural land for expansion of cash crops could be relieved greatly by an increase in the productivity of Swazi Nation land. Productivity improvements may be accomplished through the introduction of satellite farming or a chicken raising scheme as discussed in detail in sections 3.4 and 3.5 of Part II in this report. In addition, the A.I.D. Mission has proposed the "Commercial Agricultural Production and Marketing" project to identify and eliminate constraints to the increasing commercialization of agriculture in Swaziland.

5. SMALL SCALE ENTERPRISES

There are numerous GOS and donor programs focused on providing handicraft training, primarily for women, so as to stimulate small scale enterprises. Little has been done to provide basic business training for these artisians to prepare them for independent operations. A small program has been initiated at MITC, with support for A.I.D., to provide business skills to qualified artisians. Virtually nothing has been done in support of non-artisian small businesses in either the formal or informal sector.

A serious deficiency is the lack of understanding about the Swazi small enterprise sector. A survey is needed to more clearly define the structure, capabilities and requirement of this sector. Such a survey has been proposed by CARE. The survey may need A.I.D./W financial support. If so, it is recommended that such support be provided.

6. INDUSTRIAL SITES

Industrial sites at the Matsapha Industrial Park are nearly sold out. Expansion of the Park has been slow. No long-term plans have been established for developing new industrial estates. US A.I.D. should encourage the GOS to develop such long-term plans, possibly along the lines suggested in a recent World Bank-UNDP report. In view of the Swazi land tenure system, there appears to be no practical and readily available alternative to the industrial park.