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The Political Economy of Swaziland

When you arrive by plane to Swaziland, the plane lands at the King Mswati III International Airport. Its modern glass and steel appearance, well-functioning logistics facilities and well-staffed service and immigration desk gives the impression of a smoothly run international airport. While the length of the conveyor belt and the number of staff might indicate a wealth of international flights, the airport only has one destination: Johannesburg. Three times a day a plane operated by South African owned Airlink takes off for the 50-miniute flight to O.R Tambo. The jet is often referred to as the Mosquito and makes for a bumpy ride for its 30 something passengers. King Mswati III International Airport was purposely built to attract regional air traffic, to serve passengers for the 2010 FIFA World Cup in South Africa and with a promise of multiple major airlines interested in making Manzini their point of entry to Southern Africa. But since its completion in 2014 (4 years too late for spectators to get to the World Cup), is has yet to attract enough traffic to fulfill its capacity of almost 400 000 passengers annually. Its predecessor, Matsapha airport, received around 70 000 passengers during its record years. If all planes are fully loaded and flies everyday day of the year, the airport will handle just above 80 000 passengers a year. Needless to say, this would be impossible. The impudence of the new airport is also evident by its location 70 kilometers outside the two major city and that it took more than ten years to build. The airport is one of several white elephant capital projects which includes: The International Convention Center and the Royal Science and Technology Park. All three projects were delayed, ran over budget and does not have its merit in actual needs. The projects represent a tendency in Swazi economic and developmental policy: elite prioritization, which is Swaziland means royal or royally associated prioritization. The remainder of this chapter provides an overview of Swaziland's economy by focusing on the sugar industry and the political system.

Swaziland's Inequality

Of the 1.3 million Swazis residing in Swaziland around two-thirds lives below the national poverty line and around a quarter lives with HIV/AIDS. It is not without reason that Swazis suffer from one of the lowest life expectancies in the world and an unemployment rate of around 25%. Statistics in this range are usually associated with low income countries, however Swaziland is classified as a lower middle income country and has a GNI of US$ 2,960 per capita. It is therefore not surprising that Swaziland is one of the most unequal countries in the world and the brunt of the development gap is carried by the two-thirds living in poverty.[1] The inequality is hard to miss, when you travel from the smart shopping complexes in Ezulweni to the townships on the outskirts of Manzini and Mbabane, and even further to the impoverished villages of the sugar belt in the east of the kingdom.

Economy Overview

The backbone of the economy is the manufacturing sector as it accounts for roughly 40% of GDP. The main export earner is sugar production. Public administration, education and government services takes second place and is the largest permanent employer. Retail, hotels, agriculture, and finance contributes to the GDP at around 10% each.[2] Mining accounts for a small portion of GDP and is based on iron ore and anthracite coal. All most South Africa is the largest trading partner and the origin of more

[1] See https://www.brookings.edu/opinions/how-much-do-we-really-know-about-inequality-within-countries-around-the-world/
[2] See Kariuki, P. & Leigh, F., "Swaziland", African Economic Outlook, 2016

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than 80% of the country's import and destination of 60% of the export. The ties to South Africa is furthermore cemented in the membership of the Common Monetary Area (CMA), which includes South Africa, Lesotho, Namibia and Swaziland, who all have their currency pegged to the Rand.

Swaziland's economy faces several challenges: growth is low, a main source of government revenue: the distribution of Southern African Custom Union's (SACU) income, is constantly being discussed in neighboring South Africa and the country is too reliant on one commodity, sugar. SACU is constituted by Botswana, Namibia Lesotho, South Africa and Swaziland, and aims to redistribute SACU custom income to the member countries. Income from SACU is one of the main contributors to Swaziland economy as it accounts for around half of Swaziland's national budget. The global economic crisis in 2008 led to a sharp decline in SACU income and close to halved the portion redistributed to Swaziland in 2010/11. Government revenue totaled at E7,26bn but expenditure amounted to E9,5bn. Needless to say, the gap forced officials to look for potential international lenders. The South African government was initially interested in lending r2.4bn, but the Swazi government declined as conditions of political reform was attached. Qatar was also identified as a potential lender, but the crisis was adverted by introduction of a tax reform, by lowering public goods and services and by increasing grants from international donors.[3] Economic growth had in the years leading to 2010 declined because of declining private investments. While public investments were increased to compensate, they were simply not enough and as SACU revenue halved, the government was unable to sustain the relative high level of public spending and keep the economic growth from declining even further. Swaziland have not been able to significantly increase growth and the small post-2010 growth increase has not corresponded into more jobs.[4]

Another threat to government revenue from SACU is posed by South Africa. The neighboring giant is by far the largest economy in SACU, accounts for most of the trade and therefore receives the lion's share of the redistributed funds. South Africa does not however receive a share proportional to the levels of its trade and a public discussion on changing the redistribution formula is therefore ongoing. Any change that would decrease Swaziland's recipient level will have a large impact on the Swazi economy.

Livelihoods, economy and Sugar

Sugar is big business. The industry accounts for more than 60% of the agricultural output and supplies at least 16% of the formal employment. The last couple of years have seen a drastic increase of farmer companies in rural areas in the sugar belt, resulting in a much higher percentage of population surviving on dividend from growing sugar cane. Unlike many other crops, sugar is easy to market, as it is regulated by a central state institution who distributes quotas, meaning that a potential grower will have a buyer, before beginning to grow the sugar cane. It is furthermore easy to grow and is rarely the object of theft, as it is not a staple crop. Sugar cane growing is by government seen as the tool to pull the rural population out of poverty due to these qualities. The rural population in the sugar belt, running along the Mozambican border, have been encourage to form sugar companies. Sugar companies are privately owned companies with local shareholders, who are paid dividend. The shareholders are

[3] See sacu.int

[4] See IMF (2017) *Kingdom of Swaziland;* IMF (2017) *Fiscal Rules: Coping with Revenue Volatility in Lesostho and Swaziland*

very rarely hired by the sugar companies and separate haulage companies are used, who will both cut the cane and transport it to the mill. Some companies have paid out a reasonable profit to their shareholders, while others are yet to be profitable due to high debt servicing fees. The European Union has been the main financer of the sugar companies in recent years, allocating €120m. These funds that have been used to finance the more recent sugar companies with 70% of start-up cost, the rest of the EU funds have been spent on irrigation and infrastructure, to decrease the cost associated with transport and growing cane. The remaining 30% of the startup cost are financed by banks and other commercial finance institutions. As the sugar companies are registered as private companies, interest rates are between 18% and 28%. High commercial interests are in steep contrast to the development objective of pulling the rural population out of poverty. FINCORP is the largest financer, but Nedbank, Swazi Bank and First National Bank also stand behind the loans. Funding from the EU is therefore not solely used for developing the rural areas but also to fund interest rates, which funnels up to one of the major shareholders of FINCORP, the royal investment fund Tibiyo TakaNgwane (Tibiyo). High interests are however not the only challenge faced by the farmer companies. The land used for cane growing is Swazi Nation Land (SNL); land held in trust for the people by the king. It is therefore under authority of the national aristocracy: the chiefs. Certain chiefs are heavily involved in the companies by forcing new shareholders in and by collecting yearly royalties. Other challenges for the farmer companies are infights and poor management, which simply renders some companies non-profitable.

If we move up the supply chain, we find the haulage companies. Haulage companies are usually independent and are hired by the farming companies to cut and transport the sugar to the mills. Multiple accounts of bribes, violence and threats over which haulage company signs a contract have been reported. This is closely linked to the large contracts that a potential haulage company gets when signed. The most notorious story revolves around the largest farmer company, Lomdashi. Lomdashi has around 450 members and 650ha of land. It was formed by five companies coming together, each with their own interests. The boards have been changed, unseated, on numerous occasions. One of the main struggles of Lomdashi is contracts with haulages companies. Due to the large sums attached to such contracts, board members are willing to go to great length to secure a specific haulage company a contract, which result in conflicts with other board members. While Lomdashi is a severe case, an outlier, it represents a general trend of kickbacks, lack of legal enforcement, and poor management.

Haulage companies transport the harvested cane to the mills, where cane is processed into refined sugar, bagasse, ethanol and electricity. Farmer companies obtain a price set by the world sugar prices and therefore lose out on profit generated by the other three products of sugar cane. Ubombo Sugar and Royal Swaziland Sugar Corporation (RSSC) are the only millers. Ubombo owns and operates one mill in the south and RSSC have their two mills located in the north. Both millers own land on which they grow sugar cane and receive harvested cane from the farmer companies. While farmer companies in many cases are struggling to break even and live on a small profit margin that is highly vulnerable to a volatile sugar price, the millers can payout high dividends to shareholders. The main shareholder in RSSC is the royal investment company Tibiyo. Record profits continue to be recorded not despite Swaziland facing one of the most severe droughts from 2014-2016, but because of the drought. RSSC have their own dams with capacity to withstand the drought so the increased amount of sun resulted in higher profits. For the much smaller farmer companies without access to well-resourced dams, the drought means losing profits.

In the sugar industry, like the rest of Swaziland's economy, money floats upwards and out, with payouts being made to the to the royal aristocracy through formal shareholder dividend, new members being forced into farmer companies and through royalties to chiefs. Lack of regulation on financing and haulage, and lack of management training, is also a large obstacle to the sugar industry being the tool to pull people of out poverty as envisioned by the Swazi government and financed by the EU.

Sugar is lucrative business entrenched in the Swazi economy with high profits for the top of the food chain, and high risk for the smaller scale farmer companies. People could focus on other crops to secure a higher living standard, but sugar is simply the most developed agricultural market in Swaziland. Selling the sugar with profits can however become an issue in the future. The EU have until recently been the main destination of sugar from Swaziland with 60% of the export. The EU are however removing their production quotas and will most likely become a net export instead of importer. Swaziland have therefore moved their export of sugar to Southern Africa and the SACU countries, where most of the refined sugar ends up. Sugar prices are however volatile and the farmer companies will be the first to close production, if prices drop below profitability.[5]

The political system and the Government spending:

A key characteristic of democracy is transparency, including budgetary transparency. In Swaziland, there is a lack of democracy as well as lack of budgetary transparency. 6% of the 2017/18 national budget was allocated to the royal family without much further detail provided. Another 12% was allocated security forces, including correctional services, police and military. Considering that Swaziland does not face any external threats and only allocated 3% of the national budget, well below the 10% agreed on in the Maputo Agreement, to agriculture in a year of drought, government are not prioritizing in alignment with its development objectives. Transparency have been a concerning issue, not only for the Swazi citizenry, but also for the international agencies.[6] The continuous concern have let international donors, including the EU, to avoid direct budgetary support directly to government and instead develop projects with specifically allocated funds.

It is not only in government that budgetary transparency is missing. Tibiyo, the royal investment fund, has large holdings in all major companies in Swaziland: tourism, sugar, retail, mining and finance. Tibiyo stated purpose is to hold funds in trust of the nation, or simply put a sovereignty fund. One of its original objects were to ensure that foreign capital in Swaziland benefitted the local economy and the Swazis at large. The fund has succeeded in this aim by securing part ownership in multiple businesses; one of the more notorious ventures is in the Maloma coalmine, which the fund owns in corporation with the ruling party in South Africa, the African National Congress (ANC). Inhabitants of houses next to the mine continues to report of poisonous water, polluted air and underground mining drillings causing their walls to crack.[7] Other holdings in corporation with foreign capital, includes the dairy producer Parmalat, the hotel chain Swazi Spa Holdings and shipping and car rental company Manica Swaziland. The director and former Prime Minister Absalom Themba Dlamin oversees the fund, which continue to growth. In 2015, it recorded a net income of E280m and total assets of E1.71Bn. Despite the high growth, it is however difficult to see how this ownership benefits the Swa-

[5] See K. Kristensen (2017) *The European Union in Swaziland: In Support of an Authoritarian King?*
[6] See IMF (2017) *Fiscal Rules: Coping with Revenue Volatility in Lesostho and Swaziland*
[7] See http://aidc.org.za/maloma-collieries-chancellor-house-tibiyo-takangwane/

zi. While it supports specific cultural event, it has turned in to what many Swazis call *the private royal purse*, where the royal members can find money to suit their needs, for example luxurious shopping trips.[8] Of the E104m it spent on "national development", E49m were budgeted under sundry expenses, a budget label usually titled miscellaneous.[9] Tibiyo is not open to public scrutiny, despite it being supposedly for the wealth of the nation, and the internal mechanisms are hard to determine more specifically.

Royal ownership and influence are however not only exercised through Tibiyo. All larger companies have a member of the royal family on the board, this is also the case for most state parastatals. Some seem to be there to ensure a level of royal oversight, while others are installed on boards to control or profit. King Mswati's oldest daughter's, Princess Sikhanyiso Dlamini, being placed on the MTN Swaziland board just a month before MTN was granted monopoly in Swaziland, is one of the clearest cases. Stories of royal financial accommodation have often sparked public outcries, led by civil society, but the most gruesome and violent stories can be difficult to find strong evidence on. This is not because they don't exist but simply because many Swazis are too scared to speak about them and report on them to local and foreign media.

Freedom of assembly is another cornerstone of democracy, but Swaziland continuous to ban oppositional parties and disrupt the organizing of unions. Swaziland's manufacturing industry includes textile production, which for the most part where exported to the United States under the African Growth Opportunity Act (AGOA). Five benchmarks related to the freedom of assembly were attached to Swaziland's inclusion AGOA, including specifically amending two piece of legislation: The Suppression of Terrorism Act and The Public Order Act. The Swazi government were incapable of improving legislation in time and therefore excluded of AGOA, resulting in a breakdown of the textile industry. While official numbers were not published, the jobs lost have been reported as between 3000 and 20000, a huge number considering Swaziland's small population and the high unemployment rate.

Pipedreams

When the government is more often than not an obstacle to the improvement of the population's lives, King Mswati's vision of Swaziland entering first world status by 2022 is impossible, beyond being an undefinable play of semantics. Swaziland economic structure benefits royalties and the royally associated aristocracy (chiefs and peripheral members of the royal family). The sugar industry is a clear example, where proposed development of the nation profits the aristocracy and royalties. Swaziland economy future is unsettling and fragile, and unless the government becomes accountable to its citizenry instead of its king, white elephant projects like the airport or international convention centers is sure to swallow future funds.

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[8] See Freedom House, Swaziland: A Failed Feudal State, Freedom House 2013

[9] See TIbiyo Taka Ngwane, Annual Report 2015, 2015