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# Access to Financial Services in Swaziland

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**FinMark Trust Research Paper No. 4**

by  
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**March 2003**



# Foreword

This paper is one of a series of four, each of which focuses on access to financial services in one of the BNLS (Botswana, Namibia, Lesotho, Swaziland) countries of the Southern African Customs Union. The research was commissioned by FinMark Trust, and undertaken by Genesis Analytics over a period of four months in mid-2002. The work included in-country interviews and reference to extensive secondary materials to form the detailed overview presented in each paper. In each case, the draft paper was then presented to an in-country workshop of professionals from government, financial sector and NGOs, held during the latter part of 2002, at which discussants were specifically invited to critique and comment on the paper. The final version was prepared following comments obtained at these workshops or provided subsequently.

The BNLS research project of which this paper is a part aimed to establish some initial benchmarks around financial service access and usage in each of these countries from the supply-side (i.e. the main providers of these services), as well as to identify initiatives underway in each market against a general economic context. This was so as to inform FinMark Trust's own strategy of engagement in each country; however, the underlying information has not been collected or disseminated in this form before, hence the publication by FinMark Trust of the papers for wider readership. It must be noted that the intent was not to provide a comprehensive overview of each market in its entirety, since other publications perform this task; but rather to emphasise the angle of access to financial services, which is at the heart of FinMark Trust's mandate of "Making Financial Markets Work for the Poor".

The process of producing and refining these papers required considerable effort from a number of people during 2002, to whom we wish to record our sincere thanks and appreciation:

- The team at Genesis Analytics who were responsible for the project: led by Hennie Bester, the team also included Doubell Chamberlain who undertook the research and wrote the papers, and Krista Tuomi who coordinated the considerable logistical issues involved in the comprehensive workshop and visitation process;
- Anne Marie Chidzero of ICC facilitated the in-country workshops which were without exception productive and constructive;
- The well over 100 people around the region who attended the workshops, as well as others who gave time to meet and provide input on their view of the local financial markets.

These papers therefore represent a starting point for further research and support by FinMark Trust for broadening access to financial services throughout the SACU region. A process of initiating comprehensive demand side surveys of financial services needs and usage within each of the BNLS countries has recently begun, and will be an important initiative in 2003.

More about the mandate and work of FinMark Trust, including other research on themes related to access to financial services, can be obtained via our website [www.finmarktrust.org.za](http://www.finmarktrust.org.za).

David Porteous  
CEO, FinMark Trust  
6 February 2003

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## List of Abbreviations

ACT	African Cooperatives Trust
AMPS	All Media Products Survey
ANZ	Australian -New Zealand
BIAO	Banque Internationale pour l'Afrique de l'Ouest
BCCI	Bank of Credit and Commerce International
BMEP	Business Management Extension Programme
CAM	Chinese Agricultural Mission
CBS	Central Bank of Swaziland
CCU	Central Cooperatives Union
CMA	Common Monetary Area
DFID	Department for International Development
ETF	Enterprise Trust Fund
FNB	First National Bank
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GNI	Gross National Income
LULOTE	Luhlelo Lolunotsisa Tembhizini
NGO	Non Governmental Organisations
PSPF	Public Service Pension Fund
SACCO	Savings and Credit Cooperatives
SASCCO	Swaziland Association of Savings and Credit Cooperatives
SACU	South African Customs Union
SECLOF	Swaziland Ecumenical Church Loan Fund
SEDCO	Small Enterprise Development Company
SIDC	Swaziland Industrial Development Corporation
SIPA	Swaziland Investments Promotion Authority
SBS	Swaziland Building Society
SCMB	Standard Corporate and Merchant Bank
SDSB	Swaziland Development and Savings Bank
SME	Small and Medium Enterprises
SNAT	Swaziland National Association of Teachers
SNL	Swazi National Land
SNPF	Swaziland National Provident Fund
SMME	Small, Medium and Micro Enterprises
SR	Swaziland Railway
SRIC	Swaziland Royal Insurance Company
SSM	Swaziland Stock Market
SSX	Swaziland Stock Exchange
USD	United States Dollars

# Executive Summary

## 1. Introduction

This report focuses on documenting the level and trends in access to financial services in Swaziland. Similar reports have been prepared for Namibia, Botswana and Lesotho. They were commissioned by FinMark Trust, an organisation with the mandate of promoting access to financial services in the above countries. As the slogan suggests, FinMark Trust aims to "Make Financial Markets Work for the Poor". It aims to promote the development of the retail and wholesale financial markets in southern African countries, allowing all income levels to access their services. This philosophy is evident in the reports.

In addition to evaluating the current levels of access to financial services and the institutions involved, the reports also document initiatives to promote access. The legislative and regulatory environments are also assessed in order to identify successful initiatives that could benefit from further support.

In a nutshell, about 28.5% of Swazis currently use savings facilities. Usage of transaction and credit services is far lower (6.4% and 11.7% respectively.)

## 2. Banking sector

The Swaziland banking sector consists of three commercial banks (Nedbank, Standard and FNB), a mutual building society (Swaziland Building Society) and a statutory bank (Swazibank).

Swaziland has excess liquidity in the banking sector, mainly due to a lack of investment opportunities. This can be attributed to a number of factors. Not only has economic growth been poor, but banks also find it easier to invest in government bills or with South African parent companies. In addition, they face a number of regulatory hurdles. They are not allowed to invest more than 25% of their capital in a single investment, limiting large infrastructure projects. Strict provisioning requirements on non-payments also push up costs. Furthermore, regulation requires formal financial statements and detailed information to be kept for SMEs. Many SMEs are unable to provide these without support and banks find it too costly to provide the requisite support structures.

Despite these constraints, very little effort is currently made by banks to reach a broader section of the population. Lack of competition allows them to maintain high interest margins and the products and services offered by the Swaziland banks are a subset of the products available in South Africa. Loan and mortgage products focus on employed, middle and upper income earners and there has been little innovation.

The statutory bank, Swazibank, has been the most pro-active of the banks in serving lower income households. (This is due to a less strict credit screening process, however, which has contributed to the bank's problems.) It has developed a number of products tailored to the local market and with proper management, has enormous potential to profitably serve the current unbanked and underbanked.

The Swaziland Building Society (SBS) is a major provider of long-term mortgage lending. It provides loans to all sections of the community, mainly for the purchase of vacant land and the construction of housing. It has recently started providing commercial mortgages and has embarked on some innovative schemes to tap new borrowers. This includes a rural housing scheme that enables borrowers to build on SNL by mobilising pension and provident funds as collateral.

## 3. Contractual savings institutions: pension and insurance providers

The main insurance provider is the Swaziland Royal Insurance Corporation (SRIC). It provides long- and short-term insurance and retirement annuities and effectively holds a monopoly. The government is working to de-monopolise this industry which could significantly improve access to contractual savings.

A bill is currently being prepared to facilitate the regulation of pension funds. Despite this the two main pension providers, Swaziland National Provident Fund (SNPF) and the Public Service Pension Fund (PSPF) are running into problems. In particular, HIV/AIDS claims are decimating the industry. This is especially problematic in the PSPF, where the law requires pension fund to pay for the education of deceased's children till they turn 18.

## 4. Non-bank financial services

### Microlenders

The Swazi microfinance industry is still essentially unregulated and very little information is available on the size and nature of their operations. Moneylenders are currently required to register as companies, but this is difficult to enforce. As of 2000, only 11 had officially registered, most of which only provide loans to the employed. A Money Lenders Act does exist and although it does not allow more than prime + 8% p.a. to be charged, many lenders charge fees in the range of 30% - 40% p.m. Furthermore, it is still legal to retain a client's bankcard and PIN, and most microlenders do this in an attempt to ensure repayment. They are not allowed to take deposits, but are free to fund themselves in any other way (equity, loans etc.) If properly regulated, this sector has the potential to be an important financial service provider.

### **Non governmental organisations**

A large number of NGOs currently operate in Swaziland. In the area of credit provision, Imbita is probably the most well-known. Imbita is a donor-funded organisation established in 1991 to address the lack of financial services offered to women. It is a member-based organisation, operating both a savings and lending scheme. Lending consists of both consumption and business loans, where savings serve as collateral for the loan. Clients have to go through budgeting/ credit workshops before loans are provided.

### **Other government initiatives**

The Swazi government has established a number of initiatives to improve financial access for its citizens. The most important ones reviewed are the Enterprise Trust Fund (ETF), the Small Enterprise Development Company (SEDCO), and the Small Scale Enterprise Loan Guarantee Scheme.

### **Cooperatives**

Cooperatives provide an important financial service in Swaziland, and a large number of people save/ borrow from these institutions. They are supervised by the Minister of Agriculture and Co-operatives, through the Cooperative Societies Act. Although it is currently being revised, this Act requires cooperatives to exhibit a 'common bond' and to both register and submit annual reports.

There are various types of cooperatives, but the ones of interest here are Savings and Credit Cooperatives (SACCOs). These take savings from and issue loans to members and of the 225 currently registered cooperatives, 60 are SACCOs. The cooperatives are typically members of larger 'apex' organisations, the biggest two being Central Cooperatives Union (CCU) and the Swaziland Association of Savings and Credit Cooperatives (SASCCO).

## **5. Money and capital markets**

The capital and securities markets in Swaziland are severely underdeveloped. In particular, the Swaziland Stock Exchange (SSX) is struggling to build up sufficient market capitalisation and is highly illiquid. The SSX has however instituted important reforms, including the establishment of a 'Capital Market Development Unit' which has reviewed current capital market legislation and aims to implement a number of measures to make it compliant with international standards. This should increase investment security and regulation.

## **6. Conclusion**

Although Swaziland as a nation has made substantial progress in the last few years, dramatic changes need to take place to counter unemployment and poverty. This is problematic as much of Swaziland's slow growth can be attributable to factors outside its control - technological changes, globalisation, adverse climate conditions and - most importantly - developments in South Africa.

On a microeconomic scale, there are several development initiatives/ schemes currently operating in Swaziland, some of which have been extremely innovative. Despite good efforts, however, there is a great deal of fragmentation and duplication. The large component of the population still living in rural areas poses a substantial problem as does the legal status of women.

Not only do banks have no incentive to serve the lower income market, but in many cases they are discouraged from doing so by their mandates (from their parent companies). Cooperatives are serving this segment, but banks have not actively pursued linkages with these institutions to expand this initiative. An improvement in the communication between the banks and government would clearly be beneficial. Focus also needs to be placed on the specific issues restraining credit provision. Many borrowers cannot afford to put up the collateral required for loans and find the appraisal and repayment provisions too strict. Many loan products are also inflexible and there is a severe lack of support and follow-up monitoring. Furthermore, there is a severe lack of survey data on the unbanked and underbanked sectors. Addressing these issues will significantly improve access to financial services and stimulate economic growth going forward.

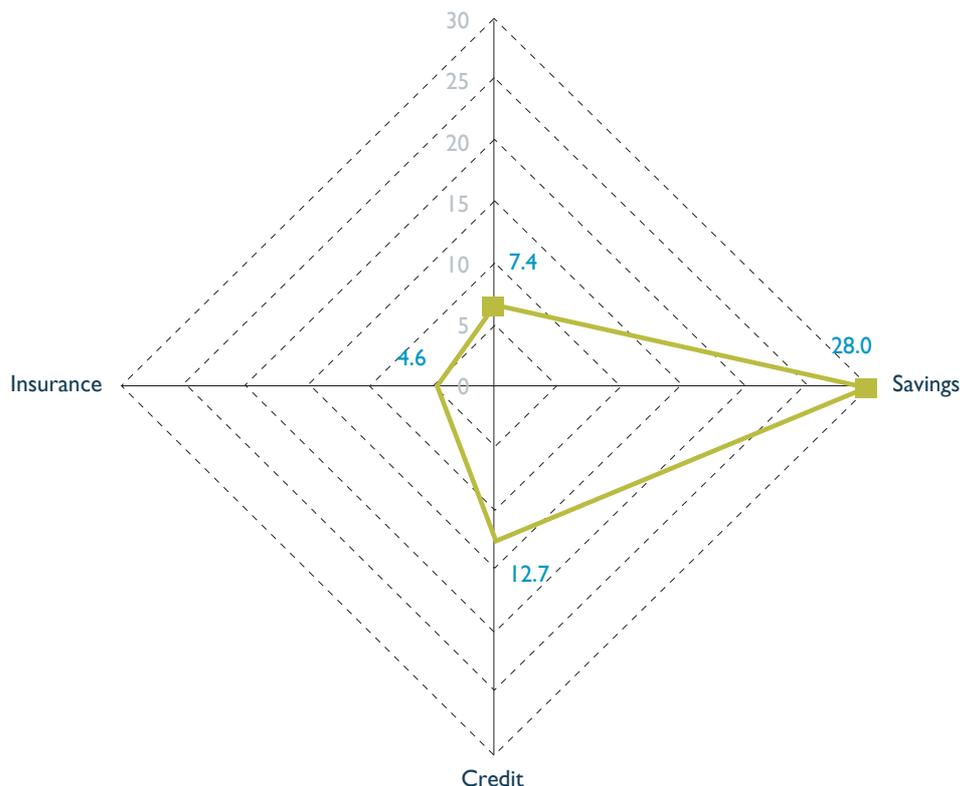
# I. Introduction

The goal of this study is to evaluate the level of access to financial services in Swaziland. It also aims to provide the necessary context within which the levels and trends in access to these services can be evaluated and interpreted. The eventual purpose of this is to identify both possible barriers to access, as well as any initiatives currently operating to overcome these. For this purpose 'financial services' is defined as broadly as possible and includes bank lending, saving and transaction services, non-bank savings and lending, long-term savings in the form of pension funds and long- and short-term insurance.

The graph below shows a summary view of access to financial services. It is important though that (a) this graph should be seen in absolute terms as well as relative to other countries and (b) that the data should be interpreted in the proper context. In the remainder of this document, this context will be provided.

## Use of Financial Services in Swaziland

(% of adult population using each category)  
Transactions



**Savings:** For savings the figure is the proportion of people (relative to adult population) that have a savings account. This includes bank<sup>2</sup> demand savings accounts as well as NGO savings 'accounts'. Notice and other longer term deposits were not included as there may be considerable overlap. Considering the basic level of access to savings products, the simple savings account is the most basic and most accessible. Most people that have one or more of the other deposit accounts will also have a savings account. Furthermore, while it is quite possible that people may have any combination of several of the other types of deposit accounts, most will only have one savings account. It was therefore considered to be an appropriate estimate of access to savings products in general. Details on the other savings products and the level of access to these are provided in the relevant sections. Data on savings and credit cooperative membership was not available for Botswana and was, therefore, not included here. Indications are that the cooperatives industry is very small in Botswana and would not have a significant effect.

**Transaction services:** Ideally, this measure should be a composite of the various transaction products available (i.e. current accounts, credit cards and debit cards). In the case of Swaziland, the only data on transaction products available were the number of current accounts held. This was expressed as a percentage of the adult population (older than 16) to provide a proxy of access to transaction services. Although it is possible that individuals may have more than one current account (perhaps with different banks), it is highly unlikely and no adjustment is therefore made for possible double counting.

It can be argued that current accounts are not accessible to the poor (due to minimum salary requirements) and, therefore, do not reflect transactions services used by the poor. Information on the other types of transaction accounts was in general not available for the BLNS (Botswana, Lesotho, Namibia, Swaziland) countries. For comparative purposes, it was, therefore, decided to use current account information available as an indicator (relative to other countries) of transaction services offered.

**Credit:** This indicator is a composite of the number of people with personal loans<sup>1</sup>, cooperative loans and loans from NGOs. It was considered appropriate to use the total of these types of credit, as they should be mutually exclusive (at least to a fair extent). No adjustment for double counting was made, as it is difficult to judge what the overlap may be. Other forms of credit, such as loans from employers and microlenders, were not included. This was because too little information was available to generate accurate estimates. Hence, this figure will underestimate the total number of people that have access to credit.

**Insurance:** The total number of policy holders with life cover was used here. Swaziland Royal Insurance Company still has an official monopoly in the insurance market and only their figures have been included here. There are, however, a few other foreign insurers who sell their products (strictly illegal) in Swaziland, but this should be very limited.

The level of access to various types of financial services is very low in Swaziland. Access to savings, at 28%, is the highest but is still very low. About 15% of savings 'accounts' and about half of the credit facilities are provided by the savings and credit cooperatives.

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<sup>1</sup>Only the number of people with personal loans were used here. We could have also included mortgages, overdrafts, hire purchases and leases, but this would have led to significant double-counting (unlike the other BLNS countries, the personal loans category where significantly larger than the overdrafts). In the case of Swaziland, it can be expected that the individuals with access to these forms of credit will most probably also have a personal loan with a bank.

# 2. General Economy

## 2.1. Overview

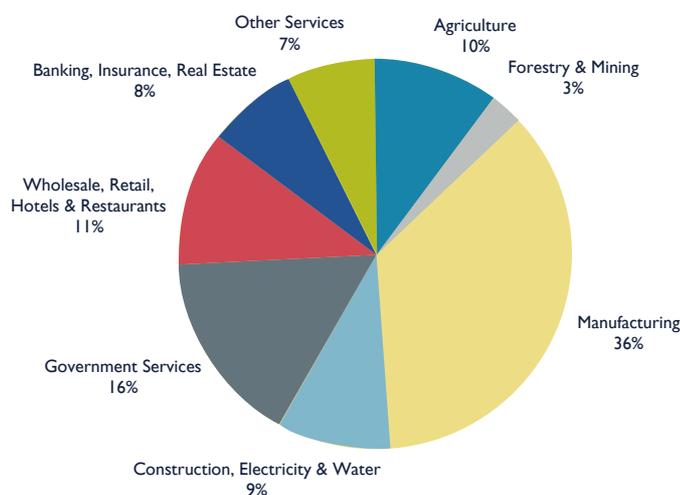
Swaziland is a very small, lower middle income, totally landlocked country. It is one of only three monarchies in Africa. It has a small but established economy that is highly focused on exporting, especially to its much larger neighbour, South Africa, with which it shares a customs and monetary union.

Swaziland at a Glance	
Estimated Total Population (2001) <sup>1</sup>	1,035,456
Estimated Population > 16 (2001) <sup>2</sup>	548,792
Estimated Unemployment (2001)	40%
Total Employment (Formal & Informal) (2000)	111,578
of which:	
Formal Sector Employment (2000)	93,962
Non-Private Sector Employment (2000)	32,853
Total Employment (Formal & Informal) + subsistence farming	270,000
% of Population in Urban Areas (2001)	23%
% of Population <16	47%
Population growth (average for last decade)	3.2%
Estimated % of Population with HIV/AIDS (2002)	34%
Inflation (2001)	7.5%
GDP per capita (2001) (Emalangeni)	9,286
Source: Central Bank Annual Report 2001, Business Year Book 2001 & 2002 Budget Speech	
<sup>1</sup> Estimated applying average growth rate for past decade to 1997 estimate of 912,878	
<sup>2</sup> Population aged 16 and older estimated to be around 53% of total population.	

The population is small - approximately one million - and many still live a very traditional Swazi lifestyle. As of 1997, just less than 70% of the population lived on Swazi National Land (SNL), a term given to land held in trust by the King for the nation, and administered by a system of traditional chieftaincies. Despite originally rejecting the western system of law and government during early independence in favour of the monarchy, Swaziland has gradually moved to incorporate elements of democratic rule. Currently, Swaziland is in a unique position where both systems function simultaneously in the country.

Apart from the primary industries, most of Swaziland's measurable economy is concentrated in a relatively small geographic area. This area consists of the largest two settlements - the capital Mbabane and the commercial centre Manzini - which are 40 kilometres apart. A large proportion of the industrial output comes from the Matsapha site, which is next to Manzini. Most high-value tourist facilities (as well as the airport) are also located near these cities.

**Swaziland Sectoral Breakdown of 1999 GDP**



Structurally, the economy relies heavily on manufacturing (35.9% of GDP in 1999<sup>2</sup>) and services (41.9% of GDP, of which government services are 16.2%). Despite the large proportion of the population that depends on agriculture, it only makes up 10.4% of the economy. However, agriculture is important in supplying inputs to many of the secondary industries and is also a major earner of export earnings. The public sector is responsible for a sizeable portion of the economy (16.4% of GDP).

From 1994 to 1999, the structure of the economy has changed somewhat. Forestry and Mining has declined in absolute terms (largely because of mining operations that closed down), while all other sectors have shown growth. The tertiary (service) sector, especially Wholesale, Retail, Hotels & Restaurants, have shown an increase in relative terms<sup>3</sup>. Manufacturing has declined in relative terms, as have government services. Construction, Electricity and Water has shown a dramatic increase in its share of GDP, however. Surprisingly for a country with large secondary and tertiary sectors, the agricultural sector has also shown an increase. The table overleaf summarises these findings<sup>4</sup>:

Contribution to GDP by sector: Change from 1994 to 1999			
Industry	GDP share in 1994	GDP share in 1999	Contribution towards GDP growth 1994-1999
Agriculture	9.5%	10.4%	13.0%
Forestry & Mining	3.3%	2.6%	-1.1%
Manufacturing	36.3%	35.9%	27.5%
Construction, Electricity & Water	6.7%	9.2%	19.7%
Government Services	17.9%	16.2%	4.8%
Wholesale, Retail, Hotels & Restaurants	8.8%	11.0%	19.8%
Banking, Insurance, Real Estate	6.7%	7.5%	9.8%
Other Services	10.8%	7.2%	6.5%
TOTAL	100.0%	100.0%	100.0%

The sugar cane industry and a number of other export crops dominate the agricultural sector<sup>5</sup>. These crops are produced mostly by large-scale commercial farming enterprises on privately owned farms (as opposed to small-scale farmers on SNL). Furthermore, the secondary sector of the economy is primarily geared towards processing the outputs of the primary sector. As such, its larger constituents include wood and pulp production, sugar processing, beverages and fruit canning industries.

Swaziland had a GDP per capita of E 9,286 per capita in 2001, which would place it somewhat above the levels of the poorest countries. (It compares well against a Sub-Saharan African average of about E 4,000<sup>6</sup>). However, in the light of the small size of the country, and the high concentration of income, these numbers may be misleading.

## 2.2. Economic growth and stability

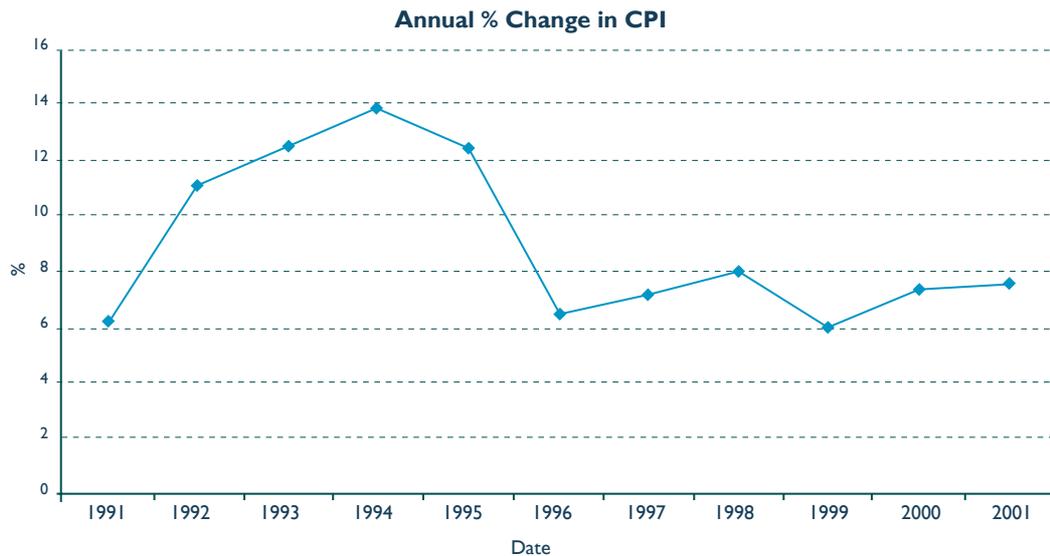
The economy of Swaziland appears healthy. On the surface, Swaziland is growing steadily wealthier - over the period 1990 to 2000, growth in real gross domestic product (GDP) has averaged 2.7%<sup>7</sup> per year, exceeding the population growth rate of 2.4%. However, when compared to previous performance, this amounts to economic stagnation: Swaziland averaged an annual growth rate of 8.8% p.a. between 1985 and 1989<sup>8</sup>. Furthermore, as explained below, this economic growth failed to benefit the broad population of Swaziland.



<sup>2</sup>Central Bank Annual Report 2000/2001. <sup>3</sup>i.e. contributing more towards GDP growth than their 1994 share in GDP. <sup>4</sup>Central Bank Annual Report 2000/2001. <sup>5</sup>According to the Swaziland Review 2002, sugar cane is the biggest single earner of foreign exchange for the country (approximately a fifth). <sup>6</sup>WorldBank WDI database <sup>7</sup>Calculated using data from [www.sadcbankers.org](http://www.sadcbankers.org) <sup>8</sup>IMF Country Report No. 00/113

Inflation in Swaziland has been fairly stable and has declined from relatively high levels (15 to 20%) in the 1980s, to acceptable levels in the latter part of the 1990s. This is largely due to the Common Monetary Area (CMA), which provides a stable anchor to prices in Swaziland. For a small, poor country like Swaziland, this imported price stability is beneficial. It does however, constrain Swaziland's power to set fiscal and monetary policy.

Within the CMA arrangement, monetary policy is therefore aimed at minimising the differential between interest rates in Swaziland and South Africa, in order to prevent the outflow of capital. Central Bank of Swaziland (CBS) is also cautious about the effect that high interest rates may have on the already sluggish economy.. Since there is surplus liquidity in the banking system, the CBS's view is that slightly lower interest rates can be maintained, without depleting the system's liquidity through outflows to South Africa (Central Bank, 2001: 24). In practice, the differential between lending rates remained around 50 basis points. The differential between deposit rates was substantially bigger and large depositors preferred to transfer their funds across the border to earn better returns. In contrast to the arguments above, it has been shown that the main problem with regard to finance is not the cost of it, but access to it. It seems therefore, that it would be more appropriate to raise interest rates in order to keep the funds locally. Even if the funds can be kept in the country in this way, they may still not be channelled to productive investments and currently most are simply invested in government securities.



Furthermore, because of the CMA arrangement, budget deficits impact on economic stability in a different way. Whereas in most countries fiscal stability is required to prevent high inflation, in Swaziland's case its emphasis is on maintaining a manageable level of public indebtedness<sup>9</sup>. Swaziland does not have a very large stock of external debt (it amounted to 14.4% of GNI in 2000<sup>10</sup>), but it has been growing rapidly in Emalangeni (the local currency) terms<sup>11</sup>. At current levels, external debt should not impact negatively on economic stability.

However, there is widespread concern that Swaziland's government could lose a large part of its income at the conclusion of the SACU renegotiations. Unless alternative revenue can be obtained from the tax system, this will put pressure on government finances in Swaziland. The Swaziland economy continues to be characterised by a slowdown in foreign direct investment flows. The improvement in political stability in the region since the 1990s has meant that Swaziland is now facing stiff competition for investment and is now longer needed as a base to access the economies in the region<sup>12</sup> (Central Bank, 2001: 11).

### 2.3. The perils of traditional farming

Most people living on SNL are small-scale farmers, farming small plots of land with maize and/or cattle, in some cases augmenting these with cash crops. Livestock, the traditional denomination of wealth, is still used to a large extent as a savings instrument.

Although the vast majority of the population lives on SNL, and SNL constitutes two thirds of non-urban land<sup>13</sup>, the contribution to GDP of crops produced on this land is small. Agricultural GDP of privately owned farms is about twice as much as the contribution of SNL agriculture<sup>14</sup>. Yet, there are about ten times more people living on SNL than on private farms<sup>15</sup>. This would support the view that most Swazi people farm mainly for subsistence and do not share in the income created by the agricultural sector.

SNL cannot be held in private ownership. It is acquired in terms of traditional law and custom. The land does not belong to the farmer and cannot be used as collateral. The farmer does not have the capacity to build up other forms of collateral and is therefore trapped as a small-scale subsistence farmer.

"One of the most common ways of acquiring land is through the Kukhonta system, whereby the male head of a household pledges allegiance to one of 350 palace-appointed chiefs. In return, he is given a piece of land to build

<sup>9</sup>Because of the CMA, Swaziland can obtain only limited seignorage income, and has to finance deficits by means of loans and grants. <sup>10</sup>WDI database. <sup>11</sup>Reasons for this include increased public expenditure on infrastructure investments, as well as the large depreciations of the Rand in 1998 and again in 2001. <sup>12</sup>For example, during the 1980s, when sanctions still applied to South Africa, much of South African trade was routed through Swaziland to get around sanctions. Since South Africa's re-introduction into the international community, this is no longer necessary. <sup>13</sup>Of course, this is not to imply that all of SNL is actively farmed. Swaziland Annual Statistical Bulletin 1999. Data originally from 1997 Census. <sup>14</sup>Central bank of Swaziland Annual Report 2000/2001. <sup>15</sup>Unfortunately, there is no data available that would indicate to what extent people living on SNL actually earn their income from SNL, and not from private farms or other sources.

homestead structures, a field to cultivate crops and free grazing land for cattle. Four out of five Swazi families live under this latter day feudal system. Until recently, women were not permitted to undergo the Kukhonta rituals and receive Swazi Nation Land. By custom, when a husband dies, his property is taken over by his brother" (Hall, 2002b). Several cases have been reported where women were evicted from their homes when relatives assume ownership.

Furthermore, because of this dependence on the land, Swaziland's population is highly vulnerable to natural catastrophe. Unfortunately such catastrophes, especially in the form of too little or too much rain, occur periodically. (At the time of writing, Swaziland is undergoing a second year of very low maize yields, firstly because of flooding and secondly because of insufficient rainfall during a critical period in the crop life cycle in 2001.) This leads to shortages, food price increases and ultimately to hunger, especially when no money is available to households and very few employment opportunities exist. According to the World Food Programme<sup>16</sup>, the net result of this is that there are currently 144000 people in Swaziland requiring food aid, more than 14% of the population.

When farmers are threatened by crop failures, they may sell off livestock to earn income in order to survive. When this happens to many people at the same time however, livestock prices can quickly collapse, illustrating in the process that livestock is not a suitable savings instrument.

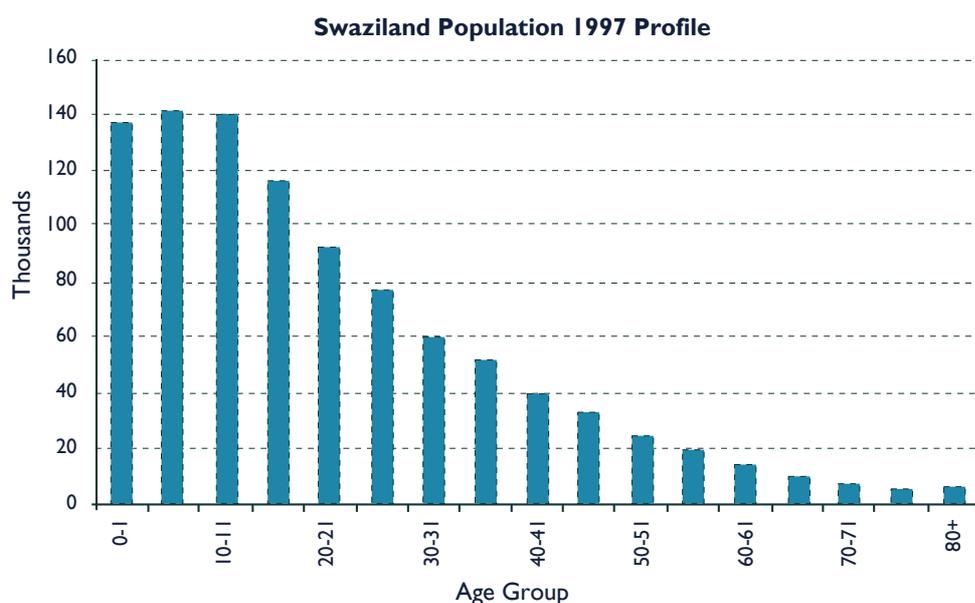
## 2.4. Heading for disaster: unemployment

In difficult times, when farmers cannot survive by delving into accumulated savings (livestock, financial or otherwise), they may decide to enter the labour market. At the same time and for similar reasons, employment opportunities in the agricultural sector will dry up. This translates into rural unemployment, which often leads to urbanisation. In fact, this has been happening to a slight extent in Swaziland, with the main cities experiencing rapid growth.

Unfortunately, urban centres cannot provide the requisite jobs. According to the 1995 household survey, the urban unemployment rate stood at 15%, while the rural unemployment rate was 25%. Even worse, it appears as if economic growth has not "trickled down" sufficiently to have an observable effect on employment over the past decade. From 1993 to 2000, whereas GDP has grown by an accumulated 25.5%, monetary employment has grown by a paltry 1%. Current unemployment levels are hard to come by, but some have estimated them to be as high as 40%.

Unfortunately, the prospects for unemployment look bleak. In addition to poor harvests and urbanisation, several factors tend to increase the unemployment rate. For quite some time, the number of Swazis employed on South African mines has been declining. Liberalised trade with the rest of the world and competition from South African industries have brought pressure upon Swazi industries. As a result, many industries have closed down or rationalised, leading to job losses. The public sector, which is currently a major employer (27238 people, or 45.4% of formal employment and 26.2% of monetary employment in 1998<sup>17</sup>), is under pressure to reduce its share in the economy.

Additionally, the demographic profile (see chart below) of the Swazi population appears startling. As of 1997, 54% of the population was below the age of 20<sup>18</sup>. Furthermore, for the first time, Swazi youths are predominantly school-going and tertiary enrolments have increased dramatically<sup>19</sup>. This would suggest that formal labour market participation could be expected to keep rising in the medium term.



<sup>16</sup>[http://www.wfp.org/newsroom/in\\_depth/Africa/sa\\_swaziland020607.htm](http://www.wfp.org/newsroom/in_depth/Africa/sa_swaziland020607.htm) <sup>17</sup>Employment Statistics Report 1998. <sup>18</sup>Swaziland Annual Statistical Bulletin 1999. <sup>19</sup>According to the 1995 household survey, the portion of people in the age groups 45-54 and 55-64 with no education whatsoever, was 28.1 and 38.5 per cent respectively. For the age group 20-24 the corresponding figure is 5.8%. For the same group (20-24), 32.6% had some tertiary education, the corresponding number for the age group 35-44 being 15.7%.

Therefore, Swaziland is under tremendous pressure to provide employment for its growing pool of predominantly young job-market entrants. It is likely that in the absence of dramatic changes, Swaziland will face severe social distress in the coming years.

## 2.5. Economic growth is not sufficient

According to a World Bank report<sup>20</sup>, Swaziland's economy needs to grow by 5% per annum to prevent the number of poor rising<sup>21</sup>. Even if this unlikely result could be achieved, the current extremely high level of poverty would still not be addressed<sup>22</sup>. Permanent changes in the direction of development, already hinted at above (with economic growth being both much slower and much less beneficial to the population) suggest that dramatic changes need to take place to counter unemployment and poverty. While a complete analysis of these changes is not possible here, it appears that most factors driving these changes emanate from outside Swaziland - technological changes, globalisation, adverse climate conditions and - most importantly - developments in South Africa.

The government's current strategy seems to be focused mainly on reviving the economic growth seen in the early 1980s. In this regard, they have invested heavily in infrastructure<sup>23</sup>, fostered a favourable tax climate and actively promoted investment. Although the strategy has managed to draw some investment, few benefits have been experienced by the broader population.

## 2.6. HIV / AIDS

HIV poses a serious threat to Swaziland. The full effect of the disease has not been felt by the financial sector, but the following estimates provide an idea of the challenges ahead :

- The first AIDS infection in Swaziland was reported in 1987 (Business Yearbook, 2001: 8).
- 31.6% of pregnant women are HIV positive (Business Yearbook, 2001: 8).
- 60% of reported HIV infections are in people aged between 20 and 49 (Business Yearbook, 2001: 153).
- According to UN estimates as many as 300,000 people were HIV positive at the end of 1997 (Business Yearbook, 2001:8). This represents 33% of total population and 82% of the adult population<sup>24</sup> at the time. This estimate is much higher than the other 1997 estimates and is in dispute.
- The HIV infection rate is currently estimated at 34% of the population (2002 Budget Speech).

Some of the early effects of the HIV pandemic are:

- "The Enterprise and Employment Ministry admitted that they have lost out on foreign direct investment due to AIDS fears rather than trade problems. A case in point is Nein Tsing Garments, a Taiwanese company that intended to open a factory in Swaziland, and would have invested more than US\$93 million and employed about 5,000 workers. They decided to relocate to Lesotho because the government refused to allow them to use imported workers and Nein Tsing refused to spend large amounts of money on training individuals that would fall ill within a year or two." (Hall, 2002).
- The government employees' pension fund reported in 1999 (Panafrican News Agency, 1999) that about 76% of its disbursed claims were to beneficiaries of those who died of AIDS related diseases. The fund was not designed to cope with this and is going to run into serious difficulty if this trend continues. This situation is worsened by the fact that, according to law, the fund must provide education for children of the deceased members until they are 18 years old. As people are dying younger, sometimes leaving behind small children, this represents a considerable burden to the fund.

<sup>20</sup>Report No. 19658-SW, "Swaziland: Reducing Poverty through Shared Growth", January 12, 2000. <sup>21</sup>Given the current high level of inequality in income distribution. <sup>22</sup>Although it is impossible to measure poverty levels objectively at this stage, evidence suggests that the bulk of the population is living at an unacceptably low level of welfare. It is estimated that more than a third face food shortages even in better times, with the vast majority unable to cope in difficult times. See the above-mentioned World Bank Report for details. <sup>23</sup>Recent infrastructure investments seem predominantly geared towards the needs of large-scale industries. <sup>24</sup>Assuming that 60% of the population is under age 21 and using the 40% remaining as 'adult' population.

## 3. Banking Sector

### 3.1. Overview and recent history

The banking sector in Swaziland currently consists of three commercial banks, a mutual building society and a statutory bank:

- Nedbank
- Standard Bank
- First National Bank of Swaziland
- Swaziland Building Society (Mutual Society)
- Swazibank (100% government owned)

At March 2001, the combined assets of these institutions were E2.8bn (about 26% of GDP). As shown below, in 2001 there were 35 bank and building society branches and 9 agencies, declining from about 40 branches and 10 agencies in 1995. The number of ATMs, however, has increased significantly from 10 in 1995 to 42 in 2001.

Branches, Agencies and ATMs of Banks, the Building Society and other Non-Bank Financial Institutions							
Pula Million	1995	1996	1997	1998	1999	2000	2001
Number of Banks	5	5	5	4	4	4	4
Branch Network [banks]	36	36	37	33	31	32	30
Agencies	10	9	13	12	11	11	9
ATM Network [banks]	10	14	40	36	37	40	42
Number of Building Societies	1	1	1	1	1	1	1
Branch Network [Building Soc.]	4	5	5	5	5	5	5
Non-Banking Fin. Institutions	5	5	5	4	5	5	5

Source: Central Bank

The banking sector has gone through a very difficult period over the last decade (see Appendix A for a timeline of events). Banks generally struggled to cope with the economic downturn experienced in the country. These difficult times cannot be viewed as a true banking crisis however, as the main causes were not rooted in the Swaziland banking industry and did not lead to contagion amongst the banks. The only real 'banking crisis' that occurred was when Swazibank ran into problems (more details provided under the 'Statutory Banks' section). This prompted government to initiate several restructuring exercises, and the bank is now operated and regulated as a full commercial bank. Although this crisis did not spread to the other banks, it did affect a large number of people as Swazibank had built up a large credit and savings book, especially amongst government employees. As mentioned, several changes took place in the ownership of the commercial banks, most of which stemmed from international banks experiencing problems in their international operations, and then selling off their Swaziland interests in an attempt to restructure.

First National Bank of South Africa took over Meridian Bank when it failed in 1995.<sup>25</sup> (In 1991, Meridian had itself taken over the operations of both a subsidiary, BIAO, and BCCI, when its worldwide operations failed). In 1993, Standard Bank SA (operating as Union Bank of Swaziland since 1988) changed its name to Stanbic Bank<sup>26</sup>. In 1997, Standard Bank also acquired a 60% stake in Barclays Bank of Swaziland from London-based Barclays Bank plc. Barclays and Standard's operations subsequently merged under the banner of Standard Bank Swaziland.

#### 3.1.1. First National Bank (FNB)

FNB began operating in Swaziland in 1995 by taking over the failed operations of Meridian Bank. An assertive marketing campaign, introducing many products that were not previously available in Swaziland (including card-based savings schemes, home loans (commercial bank), leasing and other services), assured a successful entrance into the market.

Special products include Status and Premier Accounts for high achievers and a package designed to assist young professionals to set up their practices. As at March 2002 however, it had less than 200 accounts in these categories, a reflection of the perceived lack of a bankable market.

FNB currently have 11 outlets across the country (of which 4 are full branches) and 20 ATMs. Over the last few years, there has been a rationalisation process with branches closing or converting to agencies. No new branches have been opened.

In terms of loans, FNB has a total loan book (individuals and private sector) of about E1.2 billion of which about 70% is in the sugar industry.

FNB considers Swaziland to be over-banked and that everybody is competing for a very small formal sector. The stagnant economy contributes to this situation.

Similar to FNB's operation in Botswana, FNB Swaziland recently (Dec 2001) started a microloans venture. This

<sup>25</sup>The main reasons for Meridian's failure seem to be that it overpaid for BCCI, and it had problems managing its international operations.

<sup>26</sup>As a result of the acquisition of the ANZ Grindlays Africa Group by Standard Bank South Africa.

is based on salary deductions negotiated with employers. Currently, it has about R5m in loans going to 300 borrowers. The loans are for a maximum of three years and interest is charged at prime plus 5%. Including all costs, the effective loan cost is prime plus 17%.

FNB is also currently the biggest participant in the Small Business Credit Guarantee scheme with an exposure of about E600,000.

Wesbank, the leasing arm of FNB, specialises in competitive leasing and hire purchase services for vehicles, machinery and equipment and is a key provider of asset-based finance (branches in Mbabane and Manzini).

### 3.1.2. Nedbank

Similar to Nedbank's operations in South Africa, the Swaziland division's focus is on middle and upper market and high net worth individuals. This is reflected in its minimum balances on savings and investment accounts that are E500 (compared to E100 for the other banks) and E5,000 respectively. During 2001, Nedbank segmented its core business functions of retail and corporate banking to embrace the concept of relationship banking.

Nedcor offers its Swazi clients the standard set of products available in South Africa. In addition, it has a collective savings account aimed at groups saving for a specific goal (the whole amount may be withdrawn only once per year).

Nedcor estimates the bankable market to be no more than 300,000 people.

Funds are placed with Nedcor South Africa instead of being invested locally. Not only can higher returns be earned there but, as mentioned before, there is a general lack of 'bankable' projects in Swaziland.

Credit life insurance is compulsory on loans. Medical tests are not required on amounts below E100,000. Nedcor's loan book has not been drastically affected by HIV. It estimates that about 30% of population is HIV positive, but maintains that its clients come from the more affluent component of population and are therefore less likely to contract the disease.

### 3.1.3. Standard Bank

Standard Bank began its operations in 1988 as the Union Bank of Swaziland and is now the largest commercial bank in the country with a network of 11 branches, 2 agencies and 16 ATMs. Currently it is going through a rationalisation process whereby some of its branches may be closed down. The two branches in Mbabane will be consolidated before the end of the year and the same will probably happen in Manzini.

Like most of the South African banks, Standard Bank initially focused on financing programmes for corporates operating in the kingdom. As this market was too small to be sustainable, it expanded its operations to include retail banking and small businesses support, through an education programme and basic term loans.

The Swaziland Standard Bank division funds itself primarily through deposits with little financing from its parent company. As deposits are shorter term, there is a large liquidity mismatch problem when it comes to issuing mortgages. Therefore, it is currently very cautious and selective about developing this market.

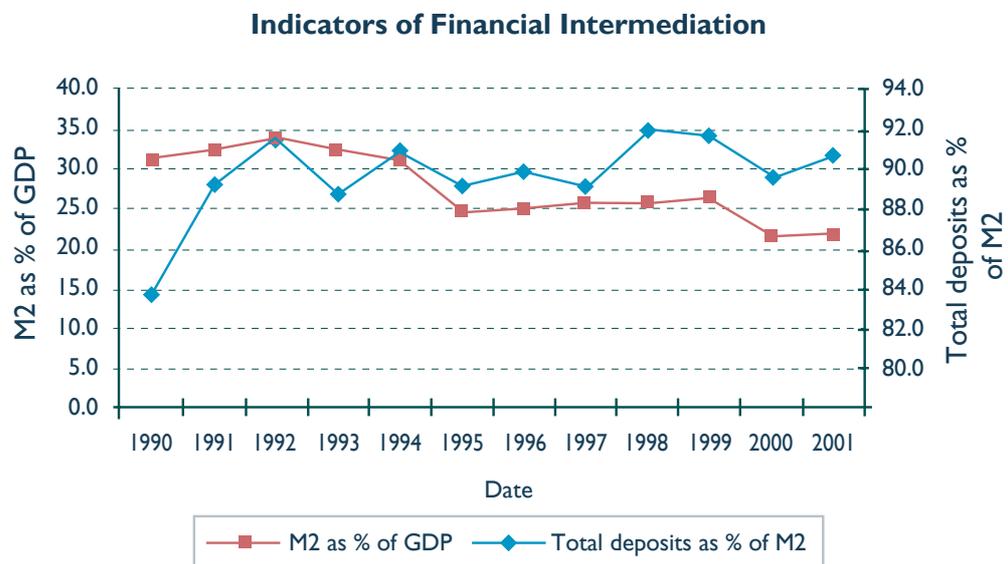
In contrast to international developing country experience, but in line with BLNS country experience, Swaziland has excess liquidity in the banking sector. The reasons can be found in low domestic investment rather than larger than normal savings. Several reasons are advanced for this phenomenon, but the bottom line seems to be a lack of investment opportunities. Whether an appropriate definition is used to define 'bankable projects' is a different matter and one that will have to be addressed through lobbying and making information available on the unbanked and underbanked. The main arguments forwarded by the banks are:

- The economy is not performing very well and several companies have closed down. This leads to more defaults and a general lack of bankable projects. In turn, this leads to less income both for banking and consumption purposes.
- The excess liquidity is invested in government bills or placed with South African parent companies. There is little pressure, therefore, to find domestic investment opportunities.
- Regulatory issues: Banks may not invest more than 25% of their capital in a single investment. In a small market like Swaziland, this places significant constraints on the funding of larger infrastructure and development projects. However, this does not affect the lower end of the market.
- Strict provisioning requirements on non-payment push up costs. Although the requirements are not stricter than those in South Africa, the banks seem to be of the opinion that in a developing economy like Swaziland they should be given more freedom to take risks (without excessive costs).

- Regulations also require that formal financial statements and detailed information be kept for small business clients. Many SMEs are not in a position to provide this level of bookkeeping and, therefore, cannot get access to finance. There are also too few support institutions that can help SMEs set up proper company structures and bookkeeping systems. It is too costly for banks to provide this service themselves.
- There is a general bad perception of banks among low-income clients (They do not trust banks).
- The lack of collateral is a pervasive problem. Entrepreneurs come from poor backgrounds and have few funds to invest in ventures. This is a general problem amongst developing countries and as yet no satisfactory solution has been found. In most cases, governments try to overcome this problem by initiating guarantee schemes. Even in the best-designed and managed cases there has been difficulty in getting such a scheme to work. A further problem is that a large part of the Swazi population lives on Swazi National Land. As they cannot take ownership of this land, they are unable to accumulate assets (acquiring land and building houses that have resale value). This has prevented them from building up the collateral required to get access to formal financial services.

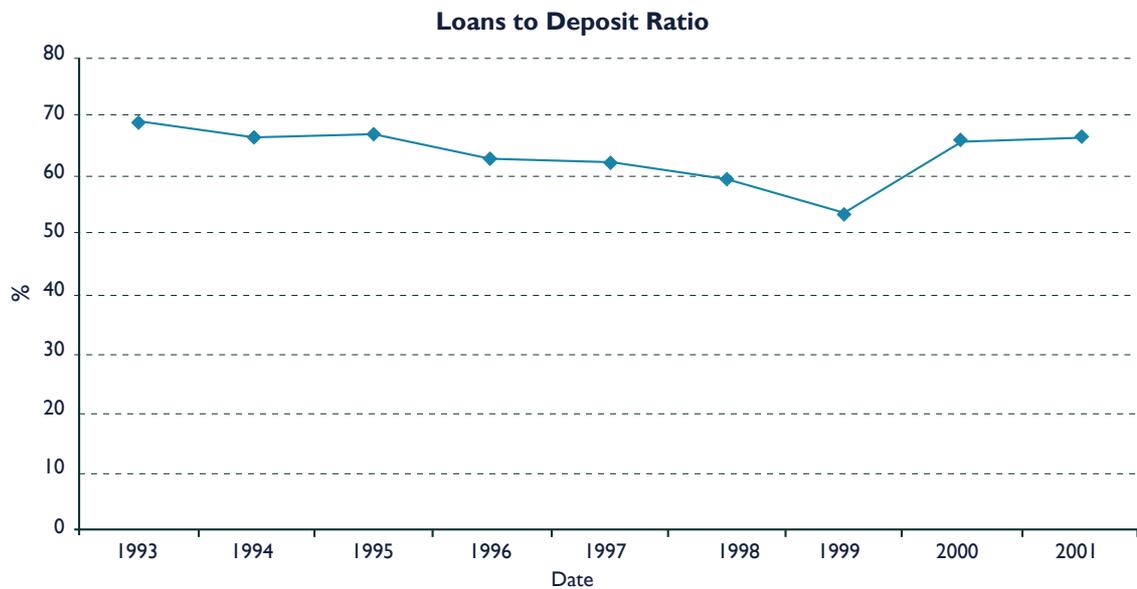
### 3.2. Financial intermediation

Total deposits as a percentage of broad money (M2) is used as an indicator of financial intermediation. This ratio should ideally be increasing, as more people become exposed to the formal financial sector and decide to hold deposits with banks rather than cash (Central Bank, 2002: 7). Another indicator of financial intermediation is monetary depth, measured as the ratio of M2 to GDP. This provides an indicator of the flow of loanable funds relative to the size of the economy, signifying a country's capacity to channel surplus savings into productive investment (World Bank, 1998: 18). Both of these indicators are shown on the graph below.



The graph shows steady if somewhat declining intermediation, as measured by M2 as a percentage of GDP. The ratio gradually declines from 31% to 22%. In terms of deposits as a percentage of M2, the figure remains around 90% over the period. While these figures compare well with those of South Africa, they do not show the steady improvement in financial intermediation that one would expect from a developing economy. The steady decline in M2 as a percentage of GDP is worrying, as it indicates a reducing capacity of the economy to channel surplus savings into productive investment.

The loan to deposit ratio shows a consistent declining trend until 1999 and moves from 69% to 53% over this period. This may be due to the problems at Swazibank, which held a large proportion of loans and deposits in the market. After 1999, the ratio increases significantly, almost returning to its 1993 levels by the end of 2001. According to the Central Bank, this recovery reflects a declining deposit base of banks rather than an increase in credit expansion (Central Bank, 2001: 24). Once again, this may be due to the restructuring of Swazibank. In addition, it may be due to increased competition for deposits by savings and credit cooperatives, who experienced significant increases in the number of people saving with them.



### 3.3. Products and services

The products and services offered by the Swaziland banks are a subset of the products available in South Africa (see Appendix B for examples). The Swaziland banks do not offer their own credit cards, but can arrange these through their South African parents. The table below shows the Swazi and South African interest rates on comparable loan and savings products. It is clear that the prime lending rate in Swaziland closely follows that of South Africa. The deposit rates show that Swaziland banks consistently offer much lower interest rates on deposits than their South African parents. It is not clear why this is the case but, indications are that it is simply due to the lack of competition and the absence of an educated client base. These interest margins also explain why the Swazi banks can still operate comfortably within the traditional narrow banking model.

Following a brief survey of banking costs, the average monthly cost of using a basic savings account linked to a standard profile of usage<sup>27</sup> was calculated. For Swaziland, the monthly cost for this profile could easily be in excess of E60. It should be clear that poor households will not transact at such cost levels, but it illustrates the cost to obtain a basic level of functionality. This illustrates that although the services are available, it is not necessarily accessible to poorer households.

Comparative Interest Rates: Swaziland and South Africa						
Date	Prime Lending		Bank Deposits			
	Swaziland	South Africa	31 Days		12 Months	
			Swaziland	South Africa	Swaziland	South Africa
1985	17.00	16.50	9.81	13.41	10.44	14.35
1986	12.50	13.50	5.44	8.78	5.75	10.46
1987	11.88	12.50	4.75	7.69	5.19	10.45
1988	15.00	18.00	9.31	15.97	12.20	14.50
1989	14.50	21.00	8.40	19.25	10.67	17.00
1990	14.50	21.00	8.40	17.67	10.67	16.50
1991	16.08	20.25	10.20	16.50	11.88	15.75
1992	15.00	17.25	8.70	12.43	9.80	11.50
1993	14.00	15.25	7.15	10.14	6.88	9.8
1994	15.00	16.25	7.75	11.88	8.30	13.85
1995	18.00	18.50	9.80	14.83	11.90	13.90
1996	19.75	20.25	11.15	17.91	13.40	16.00
1997	18.75	19.25	10.25	15.24	11.75	15.10
1998	21.00	23.00	15.50	18.00	14.13	16.30
1999	15.00	15.50	6.75	10.80	8.00	11.35
2000	14.00	14.50	5.75	10.32	7.00	10.94
2001	12.50	13.00	4.75	10.80	8.00	11.35

Source: Central Bank Quarterly Economic Review December 2001

<sup>27</sup>As it is very difficult to compare bank costs across different banks, the approach here was to calculate the cost associated with a standard profile of usage. This includes: 2 own bank ATM withdrawals, 1 other bank withdrawal, 2 debit

The absence of competition is also clear in the comparison of interest rates amongst the various Swazi banks.

Swaziland Comparative Interest Rate, Comparison as at the 31 January, 2002					
Type of Account	Nedbank	S.D.S.B.	Standard	FNBank	BLDG.Society
Call*	5.5 - 6.75	5.25	5.5 - 7	5.25 - 6.75	Spec. savings: 5.25
31 days*	6.00	5.5	5.5	5.5 - 7.00	Gold a/c: 5.0 - 7.0
88 days*	6.25	6.25	6.25	6.5 - 7.25	Subs share: 5.0 - 6.0
6 months	6.75	6.75	6.75	6.75 - 7.00	6 months: 6.75
12 months*	7.00	7	6.25	7.00	12 months: 7.5
Savings	See table below				10.67
Prime Lending	13.5	13.5	13.5	13.5	Residential: 11.75 Commercial: 14.25

\* Higher rates may be quoted on application for large amounts and subject to negotiation with individual customers.

Swazi banks offer little more for larger depositors. The table below show that even for large deposits, the interest rates are still very low. It is therefore understandable that these depositors would rather place their money in South Africa, where they can earn almost double the return that is available in Swaziland.

Savings Deposits Rates for Banks		
Bank	Range	Rate %
Standard:	E500 and above	6.25
FNB:	E500 - E999	4.00
	E1000 - E4999	4.25
	E5000 - E9999	4.55
	E10000 - E14999	4.75
	E15000 - E19999	5.25
	E20000 - E24999	5.55
	E25000 - E49999	6.00
	E50000 - E74999	6.50
	E75000 - E99999	6.50
	E100000 & Above	Negotiable
Nedbank:	E1000 & Above	5.25
Swazibank	E101 - E1000	1.00
	E1000 - E10000	4.50
	E10001 - E50000	5.00
	E50001 & Above	5.75
Building Society	N/A	5.00

Source: Central Bank Quarterly Review Dec 2001

Loan products are limited to employed people and are predominantly aimed at middle and upper income earners. Personal loans require that the borrower have an account with the bank into which his/her salary is paid. Repayments may generally not exceed 35% of net monthly salary and the loan must be secured by 25% cash or a life policy. For business loans, at least 100% collateral is required and interest rates can go up to prime plus 5% (Imbita, 2001: 2).

The commercial banks are currently not very active in the homeloans market with most of the mortgages provided by the Swaziland Building Society. This is mainly due to the lack of long-term funding for commercial banks. The largest component of the bank funding comes from deposits, which are mostly short-term and therefore cannot be used to fund homeloans. The underdeveloped securities market makes it difficult to obtain long-term funding through the issue of bonds. The Building Society funds its mortgage book through the permanent shares of its members.

There are various credit schemes available through the banks, which will be discussed in a later section. Two of the banks are also involved in the microlending business.

Credit-life insurance is available and generally compulsory on loan products. Medical tests are compulsory for insured amounts exceeding E100,000. If the applicants are HIV positive they can get insurance, but at higher cost. If the applicants are HIV negative they get access to the normal products, but insurance generally does not cover AIDS-related death. Royal Swazi Insurance Company's policy is not explicit about this, but several cases have been reported where they refused to pay out for AIDS related deaths. A few policies that cover AIDS-related deaths do seem to be available (e.g. through Old Mutual - see section on Imbita).

### 3.4. Regulation

Banks are regulated by the Central bank under the Monetary Authorities Act of 1978 and the various regulations promulgated under this Act. These regulations are very similar to those of South Africa, but do not define different types of banks. All commercial banks are, therefore, regulated in the same way. There are some exceptions for Swazibank and these are pointed out below.

The *licensing procedure* is reasonably straightforward. The applicant must be a company registered in Swaziland. The application must be made in writing and must include the company's memorandum and articles, head office details, the names of the directors and chief executive, a business proposal, recent financial information and any other information required by the Central Bank. The Central Bank must be satisfied as to the financial integrity and history of the applicant, the character and experience of management, the capital adequacy of the venture, the benefits to the community and the effect on existing banks. The Financial Institutions (Consolidation) Order leaves it to the Central Bank to form a view on the financial integrity and history of the applicant.

In the operating plan of the institution, the applicant must explain to the Central Bank what activities the proposed bank will engage in, how they will be conducted and the resources available to the group. The plan has to give more than just the bare statistics and has to analyse the competition in the market. The plan must explain the proposed bank's strategy to capture a share of each product market, as well as its projected results (SADC Bankers Overview of Financial System in Swaziland).

There is no official restriction on the number of banks that may operate in the market.

There is also legislation relating to large credit exposure. Banks are not allowed to have an exposure (both on and off the balance sheet) exceeding 25% of its capital resources to any one client, or what is considered by the Central Bank to be a connected group of clients. Banks are required to seek the explicit approval of the Central Bank to exceed this limit and should notify the Central Bank of all such large exposures on a quarterly basis.

A bank is required by statute to maintain a level of capital relative to the size and nature of the bank's assets. The Central Bank requires each bank to maintain a minimum capital ratio (capital fund as a proportion of risk weighted assets) in relation to credit risk of 8 per cent, but may require higher levels if it deems this to be justified. Banks must have initial capital of no less than E15m.

Banks are expected to establish appropriate and prudent policies for the management of their liquidity. They need to ensure, to the satisfaction of the Central Bank, that adequate internal systems exist to monitor and control maturity mismatches between their assets and liabilities. The following ratios need to be maintained:

- A minimum rate of liquid assets to total borrowing of 25%. Liquid assets mainly comprise notes and coins, certain inter-bank deposits, net balances held with the Central Bank and certain government securities.
- A minimum ratio of liquid assets to local liabilities of 15% for commercial banks and 10% for Swazibank.

There is also regulation relating to open foreign exchange positions. The computation of risk asset returns, based on the Basle Minimum Standards on capital adequacy, provides for weighted risk on hedged or covered positions and captures the counterpart's risk involved.

All banks in Swaziland are required by law to make provisions for bad and doubtful debts, to the satisfaction of the Central Bank and the auditor of such institutions (to be calculated at least once in each calendar year). These need to include accumulated bad debts not written off.

Lending is not restricted other than the restriction on exposure to a single client (described above).

There is no deposit insurance scheme. Initially, Swazibank's deposits were implicitly guaranteed by the Government, but this has since been removed.

The regulation relating to *minimum local asset requirements* has recently been changed. Until 1995, banks were only allowed to invest 5% of their assets offshore. This requirement has been dropped and there is currently no restriction on the amount of offshore investment.

The Central Bank does require that detailed information be kept on borrowers. This includes formal financial statements for small business clients, which is seldom possible for these clients and therefore excludes them from getting loans from banks.

### 3.5. Statutory banks and building societies

#### 3.5.1. Swazibank

Swazibank is wholly owned by the government. Its predecessor, Swaziland Development and Savings Bank (SDSB), was established in 1960 and functioned as both a commercial bank and development bank. It represented a major source of credit for the agricultural sector and rural areas. SDSB was also heavily focused on government employees and especially on housing finance. However, the SDSB was a considerable burden on

public resources, mainly owing to deficient liquidity resulting from severe problems with loan recovery. Over the last decade therefore, the bank has gone through several phases of restructuring. The final restructuring phase was intended to bring it into compliance with the Central Bank's prudential guidelines and its name was changed to Swazibank. The bank still receives interest free deposits from government, amounting to about E10m annually (part of the final phase). In the 2002 budget speech, the government indicated that the bank will soon be able to function independently and it is expected that the subsidies will not be needed beyond the 2004/2005 financial year. As a sign of confidence, the government also entrusted the bank with the management of its 'Venture Capital Fund', which provides seed capital for small to medium-sized Swazi enterprises. The bank now functions as a commercial bank, offering both traditional retail and corporate products.

Of all the banks, Swazibank has always been the most pro-active in serving lower income households. Much of this can be ascribed to its less strict credit screening process, a factor that also contributed to the bank's problems. As it did not have a standard set of products from a parent company, Swazibank developed products suited to the local market. Essentially it is the only bank to have done so. It is a useful comparative exercise, therefore, to examine the differences between the Swazibank products and the ones offered by the other banks.

Examples of the Swazibank tailored products include loans to sugar cane startups that are structured around the life-cycle of the crops, loans using pension funds as collateral<sup>28</sup>, and loans to associations requiring minimal security (5-10%). In addition, Swazibank assists cooperatives in organising salary deductions for repayments of loans and saving. Swazibank is also busy negotiating with the National Maize Corporation (NMC). They want to structure a system of farm loans where the NMC deducts loan payments before paying the farmers for their maize. Furthermore, Swazibank has plans to start a rural housing scheme. In the past these efforts have been unsuccessful, due more to poor management than to poor banking initiatives. With proper management, however, this bank has enormous potential to profitably serve the current unbanked and underbanked.

Swazibank traditionally focused on government employees. Since being restructured, they have expanded their target markets to include non-government clients and will be focusing on the lower- and middle-income market. They still administer the government employee housing scheme, which offers housing loans at preferential rates to civil servants<sup>29</sup>.

Minimum balances apply to the different savings account types. These range from E100 for the standard savings account to E500 for the special savings account and the bank do not consider these to be prohibitive. Formal employment is not a requirement to open a savings account and according to bank officials, "few people are turned away". Following its restructuring, Swazibank has embarked on an aggressive marketing campaign that includes the targeting of corporate clients. At the time of this report approximately 600 new savings accounts are opened every month. Many of the new account holders come from the previously unbanked sector.

In the past Swazibank did not have a large mortgage book and mainly focused on government employees. This was primarily due to the liquidity mismatch, as the bulk of its funding came from short-term deposits. It is now looking at ways to develop this market and solve the liquidity mismatch. Bond issuance is an option, but the capital markets are undeveloped and it would be difficult to launch a bond in the local market. This argument applies to all the commercial banks, and explains why the Building Society can dominate the mortgage market. (It can fund long-term lending from members' permanent shares.)

Swazibank is continually looking for ways to serve the rural market (partly due to its 'political' mandate). In contrast, other commercial banks are withdrawing from this market, as it is costly to maintain. It remains to be seen whether the only 'local' bank will be able to structure products that are both profitable and able to serve the rural needs.

In terms of microloans, Swazibank offers unsecured loans to formally employed individuals if the salaries are paid into a Swazibank account. The amounts vary from E1000 to E10000 and depend on the salary of the borrower. Interest rates are prime plus five percent (on average).

Swazibank operates eight branches throughout the country and two more should be opened by the end of the year.

### 3.5.2. Swaziland Building Society (SBS)

SBS is a major provider of long-term mortgage lending. It provides loans to all sections of the community, mainly for the purchase of vacant land and the construction of housing. More recently, it has also started providing commercial mortgages to assist the business community.

Other products include investments, savings accounts and high transactor accounts (e.g. payroll and transmission accounts.) It is involved in a rural housing scheme that enables borrowers to build on Swazi National Land by mobilising pension and provident funds as collateral. The Building Society also finances developers under the Urban Development Project, as part of its mission to house the population.

During 2000/2001, the Millennium Mortgage Promotion campaign was launched to increase mortgage lending. Total Assets increased by 9% to E319m, mortgage loans increased by 11% to E180m and shares and deposits by 7% to E274m (Central Bank, 2001: 31).

New products include the flexible Collection Account, which is popular with schools and cooperatives as it offers users the facility of the SBS collecting payments on their behalf. Stop order automation is another development, part of the SBS's commitment to moving away from manual processing.

<sup>28</sup>Legally it is not possible to claim this in case of default and it seems to be used in a 'threat of force' manner. They are also in discussions with Government to change legislation so that pensions may be used (and claimed) as collateral.

<sup>29</sup>The preferential rates are justified by the fact that payments are deducted directly from salary and significantly reduces the risk of default.

## 4. Contractual savings institutions

### 4.1. Insurance

#### Swaziland Royal Insurance Corporation (SRIC)

SRIC has had an official monopoly in Swaziland since 1973. As at the time of this report, the long awaited Insurance and Retirement Fund Act, which will officially end the monopoly, has still not been passed (Swaziland Review, 2002: 90) and there is no clear indication of when this process will be finalised. As part of the demonopolisation process a number of international insurers<sup>30</sup> have become shareholders in SRIC and some of them operate on an agency basis in Swaziland. It is, however, not clear whether they work purely through agencies or whether they have established local subsidiaries. Their effect on SRIC's monopoly is also unclear.

Currently, SRIC provides long- and short-term insurance and retirement annuities. As at the end of 2000, the total assets were E175m (2% of GDP) and it had 28,184 policyholders with about 36,000 life policies. In addition it also had 15,863 funeral policies on its books.

### 4.2. Pension funds

A Bill is currently being prepared to facilitate the regulation of pension funds. It is expected that this will also require fund managers to invest a proportion of their assets in Swaziland (Swaziland Review 2002: 90).

#### 4.2.1. Swaziland National Provident Fund (SNPF)

The SNPF was established in 1974 as a mandatory employee<sup>31</sup> savings scheme, contributions to which are a maximum of E50 a month depending on salary level, and to which employers must contribute 50%. The fund provides benefits for employed persons when they retire or if they become incapacitated. Benefits are also payable in the event of emigration, to survivors in the case of the contributor's death and on reaching the age of 50 irrespective of employment status (Forsyth Thompson, 2002).

The high incidence of deaths related to HIV/AIDS, impacted heavily on the survivors' benefits. Claims under this category increased by E2 million or 67% (to E5 million) in the 2000/2001 financial year.

As at June 2001, the Total Assets of the SNPF stood at E463m (less than 5% of GDP) (Central Bank, 2001: 31) and the fund had 67276 active members.

The fund is in the process of being converted to a pension scheme (Swaziland Review 2002: 90), but there is no indication as to when this is going to be completed.

#### 4.2.2. Public Service Pension Fund (PSPF)

The public service fund currently has 38,000 members (7% of economically active population) of which 25,000 are active members and 13,000 currently receive pension.

Even as early as 1999, it was reported that the Civil Service Pension Fund was running into trouble due to extent of AIDS related claims. (Panafican News Agency, 1999) The fund was not designed to cope with this risk and is struggling. At that time, 76% of the claims were due to AIDS related deaths. According to law, the pension fund must pay for the education of children of the deceased until they are eighteen years of age. As many people die much younger and with small children, this places a very large burden on the fund.

#### 4.2.3. Other pension funds

There is currently no dedicated registrar of pensions that collects information and monitors the activities of the individual pension funds. Consequently, no information could be found on fund sizes and distribution of non-government pension funds.

<sup>30</sup>Munich Reinsurance Company of South Africa, Commercial Union, Swiss Re South Africa, Swiss Re Life and Health, SA. Eagle and SA. Mutual

<sup>31</sup>Exclusions: Casual employees, domestic servants, and aliens. Special system for public employees.

## 5. Non-bank financial services

### 5.1. Microlenders

This industry is essentially still unregulated and very little information is available on the size and nature of operations of these institutions. Currently moneylenders are required to register as companies but this is difficult to enforce. As at June 2000, there were only 11 microlenders registered with the Ministry of Finance. Even at that time, this only represented a small fraction of the actual number of microlenders.

Most of registered microlenders only provide loans to employed people and only a few provide loans to self-employed individuals. It is legal in Swaziland for microlenders to take possession of a client's bankcard and PIN, and most of them do this in an attempt to ensure repayment. In general, lenders restrict loans so that payments do not exceed 40% of net monthly pay. Interest rates vary between 30% and 40% per month (although the Money Lenders Act does not allow more than prime plus eight percent per annum). One of the problems that microlenders experience is that clients change employment and/or bank accounts in order to avoid repaying their loans. To counter this, some of the microlenders are subscribing to ITC<sup>32</sup> to track the credit history of a client (Imbita, 2000: 7).

Microlenders may not take deposits, but are free to fund themselves in any other way. This includes issuing equity and loans from banks. Microlenders have organised themselves into a Microlenders Association.

### 5.2. Non governmental organisations

#### 5.2.1. Imbita

This NGO was established in 1991 to address the lack of financial services offered to women. Initial funding for setup and operating costs was provided by DFID and the predecessor of Swazibank (the Development and Savings Bank). From 1994 to 1997 it also received support from Dutch donor organisations.

Imbita operates both a savings and lending scheme. In the saving's scheme, withdrawals may only be done twice per year (January and September to coincide with the school semesters and enable saving for school fees). Earlier withdrawals are possible, but the member then forfeits his/her interest.

As it is not registered as a bank, Imbita is not allowed to mobilise the savings for further on lending. Additional credit has to be raised through loans from banks and donor funding for this purpose, placing constraints on the lending activities. Lending consists of both consumption and business loans. To get access to the business or personal loans, the member must first save for three and twelve months respectively. The savings then serve as collateral for the loan and loans of up to five times the savings amount is given. Savings are therefore compulsory, in order to qualify for a loan. Consumption loans are only provided to employed individuals with sufficient regular income. Business loans are provided for inputs only (not for structure or operating costs), and the money is paid directly to the supplier<sup>33</sup>.

They currently have about 8200 members of which about half are active savers with savings of about E1.5m. The loan book amounts to about E1.8m consisting of approximately 1500 loans. Loans are issued for periods from 12 months to 36 months, the most common being 12 months. They are issued at a current interest rate of 28% per annum on consumption loans and 40% per annum on business loans. Interest on savings is paid at commercial bank interest rates plus 1%. Transaction costs are passed down to the clients, but these are subsidised and lower costs are negotiated with the banks<sup>34</sup>.

Imbita is a member-based organisation with the members organised into constituencies, each with its own membership committee. These committees handle the communication between the head office and the members, and play an important role in the credit screening process. Membership meetings are held on a monthly basis and field officers represent the head office at these meetings.

Loans are only given to members. There is a E50 membership admission fee and thereafter a E10 annual fee. Before loans are issued, applicants go through a one-day training program (outsourced) on cash, credit, budgeting, basic cash-flow analysis and the workings of loans. Following this, the official application procedure can commence (an application fee of E30 is charged). The applicant is then taken through a budgeting workshop in which they create a budget and cash flow projection for their project. The value and repayment terms of the loan are then based on this (within the limit of the members savings). An appraisal meeting is held to evaluate the proposals. Loans of less than E5,000 are handled by the field officer and the membership committee. Larger loans are first evaluated by field officers and then referred to a central credit committee for final approval. Credit life insurance is provided on the loans through Old Mutual and cover HIV/AIDS related deaths. HIV definitely impacts on members and relatives (in 2001, 6 members passed away due to HIV). Imbita is willing to refinance loans for good customers in case of HIV related problems. The default rate on loans is currently about 8-10%.

One of the problems Imbita has experienced is that, because of the wide area in which it operates, members

<sup>32</sup>The Information Trust Company (ITC) is a South African based credit bureau with representation throughout the region.

<sup>33</sup>Some of the clients are traders that purchase their goods in South Africa. In such cases, the money cannot be paid directly to the supplier and the cash is provided to the client.

<sup>34</sup>They get call account interest rates on their current account and pay E3.00 per transaction instead of E4.50.

would deposit loan payments into their account, but would only bring in the deposit slips much later (often twice a year during the withdrawal periods). This makes the administration very difficult. All unidentified deposits are kept in a suspense account and are transferred to members' accounts when the deposit slips are brought in. In an attempt to address this, Imbita is decentralising its services and will be opening new branches.

### 5.2.2. Lulote (previously BMEP)

Lulote is funded by a government loan. It provides training and consultancy services to entrepreneurs and helps them to network and find partners. In addition to training, it also provides follow-up and monitoring services for loans. They used to facilitate small loans on behalf of Barclays Bank. Loans varied from E200 to a few thousand. This service was discontinued in 1996 as it was felt that there were enough other institutions providing finance (overlapped with Imbita, ETF).

Together with SEDCO, Lulote have been targeted to provide follow-up services for loans under the guarantee scheme. Currently these have to be provided for the first two years of the loan, but Lulote is trying to bring this down to one.

Examples of Prices for Services	
Business & Cash flow	E520
Feasibility Study	E620
Training per person per day	E80

### 5.2.3. Swaziland Ecumenical Church Loan Fund (SECLOF)

SECLOF offers soft loans and credit to the 'needy and marginalised' members of society. Their services include business counselling, project management, marketing and loans. They require a group of at least three members, a clear business plan and relevant technical skills. As at June 2000, interest was charged at 22% per annum (Imbita, 2001).

SECLOF offers three types of loans:

- Development capital for groups with income generating projects
- General capital for buildings, usually schools and churches
- Loans for savings and credit cooperatives

Applicants are expected to invest some of their own money, and the loan may not be more than 50% of the total cost of the project. Group members are required to pledge collateral in the form of moveable property equal to 100% of the loan (plus interest). For final approval, the application is sent to Geneva.

### 5.2.4. World Vision

This organisation offers loans from E100 to E5,000 (working capital only) payable over six to twelve months at commercial interest rates. Where possible, it uses other NGOs to provide training and community facilitation.

First time applicants must be part of a group. Members of the group are responsible for each other's repayments. Money is disbursed to the group account from where it is disbursed to the members. As at June 2000, there were 133 loans with a total value of E144,767.

After a minimum of three years in the group-lending scheme, a client may 'graduate' to access credit on an individual basis. World Vision has found that men are often more reluctant to get involved in microbusiness. In fact, 95% of World Vision's clients are women.

### 5.2.5. Inhlanyelo fund

This fund of E5.5m was initiated by Standard Bank, Swaki Group and Mr Nathan Kirsh, who each donated an equal amount. It aims to offer loans to grassroots enterprises that are not currently being seen as feasible clients by the banks. Selection is administered through the leadership of the tinkhundla (constituencies). Each of the 55 tinkhundla has E100,000 to provide loans to grassroots small entrepreneurs. In addition, the donors are paying for the administrative costs so that the full E5.5m can go to the communities.

The intention of the fund is to grow grassroots entrepreneurs so that they can eventually access financing from the formal financial institutions (based on successful business experience and credit record). No collateral is required but the local leadership is involved in the screening and follow-up process to substitute collateral with peer pressure.

The fund works on a revolving basis with 4 constituencies drawn randomly in each round (due to lack of personnel). For all the constituencies that have been in the draw so far, the application exceeded the E100,000. The drawing process leads to some frustration as the constituencies do not know when they will win the draw.

As at April 2000, a total of 385 projects totalling E902,280 had been financed in 11 out of the 55 constituencies (Imbita, 2000: 7).

Mentioned problems include (Imbita, 2000: 46):

- No business training is provided either before or after loan disbursement.
- Loans are directed by constituency leadership and may not reach the appropriate individuals (as this is not defined).
- The use of banks for repayment increases transaction costs (travel and time) for clients.
- Constituencies experience frustration at not knowing whether they will be selected.

### 5.3. Other initiatives

#### 5.3.1. The Enterprise Trust Fund (ETF)

ETF was established by Majesty King Mswati III in 1995 and addresses the need of the small and medium enterprises in Swaziland by providing financial assistance, training and business advisory services. Initial capital of E44m was provided by the king. The objective is to empower Swazis at a grassroots level. In a bid to contribute to poverty alleviation, the ETF has adopted a policy that focuses on job creation and economic growth, especially in the rural areas. Emphasis is on female entrepreneurs as women are generally most vulnerable to poverty.

The ETF offers its services to entrepreneurs involved in diverse types of businesses. The client base is mainly comprised of people in retailing, sugar cane farming, crop production, textiles, animal husbandry, handcrafts, repairs and catering. It also provides wholesale lending to legally constituted groups who then on-lend to their members.

Initially ETF was primarily involved in wholesale lending. Although this was safe, it did not necessarily reach the 'grassroots' target groups for which it was intended. Intermediaries eligible for support included banks, trusts, cooperatives and associations who could demonstrate capacity to manage a loan portfolio, provide training to SMEs, and assume full lending risk for their loans. Interest rates were capped at 10% per annum and the term was between one and three years (Imbita, 2000: 9). Since there were only a few retail finance operations in Swaziland, ETF mostly worked through associations. Most of these only had limited capacity and significant resources were spent in developing these associations to meet the requirements (Imbita, 2000: 9). Theoretically, therefore, SMEs could access ETF finance and support through commercial banks, savings and credit cooperatives, NGOs and associations. However, these intermediaries set their own lending policies and interest rates, cutting off some SMEs. ETF subsequently expanded operations to include a form of retail lending alongside its wholesale operations.

Loans are currently concentrated in the sugar cane industry with 33% of the value and 15% of the number of loans going to this industry. Agriculture receives an estimated 58% of the total loan book by value. The rest goes to SMEs in the manufacturing and service industries.

In Swaziland, the legal status of women (and especially married women) is equivalent to minors and they cannot enter into contracts (e.g. property ownership) without the consent and cooperation of their husbands or male family members (Hall, 2002b). Therefore, ETF had to add special terms to its agreement forms in order to ensure that female borrowers could legally be held responsible for their loans. In addition, comparative lack of education makes it difficult for women to keep good records and account for profits and losses. Lack of legal status of women has led to the downfall of many female-owned businesses (for example, tailoring to provide school uniforms). Contracts with customers are often not honoured as it is well known that women may not take legal action.

Since the start of operations, only 5 loans have been written off and it has a current loan book of E100m.

ETF is currently neither a development institution nor a private lending institution. It has been involved in developing small and medium (not micro) institutions since 1995, and has come up with innovative ways of serving this market. It has been less progressive in other areas. It was initially intended to develop small and medium enterprises through funding (where they could not get access to formal loans), training and consultancy services. Looking at its current loan portfolio, a large component of it goes to sugar cane producers. This sector is probably the only agricultural sector that is sufficiently served by the banks and although highly profitable, lending to them is not serving people who cannot get access to formal loans. It is also unclear whether its training and consultancy programmes do in fact benefit entrepreneurs. Furthermore, ETF's wholesale funding did not benefit the targeted clients as the terms were purely commercial and collateral was still required.

As mentioned before, ETF could also provide wholesale funding to 'associations'. This amounted to an attempt at group lending, which proved unsuccessful. Although the individualistic culture may have made the group methodology unsuitable, the main problem was that the group lending scheme was poorly structured. People were forced to form groups when they did not know each other and did not share business interests. They were then expected to take responsibility for each other's loans. Although it was supposed to be based on the Grameen bank model, few of the principles of that model were applied.

Other problems mentioned in connection with ETF include (Imbita, 2000: 46) the long time it takes to process applications and loan policies that make it just as unaffordable to the small entrepreneur as an ordinary bank loan.

### **5.3.2. Export Credit Guarantee Scheme**

The fund is managed by the Central Bank of Swaziland and financed through public allocations to the Ministry of Commerce and Industry. It provides both financing and guarantees to small and medium sized Swazi exporters.

Credit guarantees cover 75% to 85% of the loan provided by a commercial bank. Premiums charged for issuing guarantees range from 0.53% to 2.33% of loan value, depending on the nature of the credit and the length of time for which it is required. The maximum guarantee that the scheme can issue to any one exporter is currently E2.5m.

Under pre-shipment finance, the loan provided by a commercial bank covers up to 70% of the f.o.b. value of the consignment. Under post-shipment, the loan can be up to 85% of the value of exports bills. Interest on credit is charged at the prime lending rate, on the full outstanding value at any given time.

Since its inception in 1991 up to March 2001, the scheme had assisted with the approval and disbursement of 290 loans with a total value of E186.5m, of which 261 loans with a value E167.9m had been repaid (90% repayment rate). At March 2001, there were 8 loans outstanding with a total value of E12m (Central Bank, 2001: 72). Up to that date, the scheme had paid out 11 claims totalling E2.6m (1.4%). Of those 11, there were 4 recoveries valued at E0.54m.

At the end of March 2001, 8 loans with a total value of E12m were outstanding. These are backed by guarantees totalling E9.5m, a figure representing the scheme's commitment to commercial banks (Central Bank Annual report 2001).

### **5.3.3. Public Enterprise Loan Guarantee Fund**

The fund was established in 1993 to provide guarantees to commercial banks financing "Category A" public enterprises (Ministry of Enterprise and Employment, 2001).

As at 31 March 2001, the fund stood at E35.8m. Since inception in 1993, the fund has facilitated the approval and disbursement of three loans valued at E12.8m (Central Bank, 2001: 72). Two of these have been repaid with one outstanding loan valued at E5.5m.

### **5.3.4. Regional Development Fund**

This fund of E40m is divided equally amongst the four regions. Support from this fund is in the form of grants and is aimed at groups who want to invest in infrastructure.

### **5.3.5. Rural Development Fund**

This fund of E20m was established by the King in 2000 and is aimed at decentralising development in an effort to curb rural-urban migration (Central Bank, 2001: 39).

### **5.3.6. Small and Medium Enterprise Unit**

In 2001 the Small and Medium Enterprise Unit was established in the Ministry of Enterprise and Employment in order to unify and coordinate the functions of organisations such as SEDCO. The unit also facilitates the free flow of SMEs daily business, enhances working relations among them and strategises their business environment.

### **5.3.7. Small Scale Enterprise Loan Guarantee Scheme**

This scheme was established by Government in 1990 with the objective of encouraging financial institutions to increase lending to small-scale enterprises in Swaziland by lowering the risk of lending to these entities (through a 75% guarantee).

The banks must evaluate the projects. To qualify for a guarantee, the businesses must be viable, fully licensed operations with Swazi majority shareholders and be able to provide 25% security on the required loan. Loan repayment may not exceed 10 years and maximum credit is E150 000 per customer. Interest charged may not exceed 3% of the prime lending rate.

During the period from its inception until 31 March 2001, the scheme has facilitated the approval and disbursement of 564 loans with a total value of E14.8m, of which 84% (427 loans) have either been fully repaid or cancelled. As at March 2001, the total value of loans outstanding was E2.3m and the default rate stood at 7.4%.

Initially there was large growth in guarantees issued. This was primarily driven by Swazibank. Since Swazibank

ran into problems, the growth has tapered off and the scheme is currently working at an estimated 25% of capacity. Several reasons for the scheme's limited performance have been advanced :

- The scheme guarantees 75% of loans. The remaining 25% still represent significant risk to the banks and they require collateral on this remaining amount. Many of the applicants cannot provide sufficient collateral, even on this reduced amount.
- The process of claiming the guarantee is long-winded and costly. The banks are required to first pursue the delinquent borrower through the normal legal channels. If this is not successful, it may apply to the guarantee fund. The fund will then investigate the matter and only once they are satisfied that the banks have gone to sufficient measures will they pay out the guarantee. The costs incurred are borne by the banks.
- Cost of screening: Banks are required to handle the first level screening and then recommend good/viable projects to the guarantee fund. A large number of the applicants will be turned down by the banks themselves. In addition to this, the fund then evaluates the 'successful' proposals and may still refuse to issue the guarantee if they do not agree with the bank's assessment. This implies that there are significant evaluation costs that cannot be recovered by the banks.
- Lack of marketing: The scheme currently resides with the Central Bank, but it is administered through the commercial banks. This is not optimal as the Central Bank is not allowed to advertise. Marketing is left to the commercial banks who are hesitant to push the scheme. This situation has improved somewhat with the establishment of the SME promotion unit under the Ministry of Trade and Finance.
- Many of the potential applicants may have defaulted on debt with the banking sector before and do not want to go through the banking sector to obtain funding.
- There is no follow-up programme from government's side and it is too costly for banks to do this.

Standard Bank estimated their claims to be about 70% of their guarantee portfolio.

#### 5.3.8. Small Enterprise Development Company (SEDCO)

This wholly government owned organisation has been operating in the SME sector for more than 20 years. Initially it also provided finance, but the focus was then changed to only provide training and consulting services. When assisting a business to draw up a business plan, one of the aspects it looks at is the sourcing of appropriate financing. One of SEDCO's tasks is to keep track of all the funding available and help their clients to apply to the relevant institutions for financing.

Although it is funded by government, SEDCO is run on a semi-commercial basis, charging clients for the various types of services that it provides. These charges do not seem high in comparison with the benefits provided, and many entrepreneurs make use of its services. By signing a 3 months, 6 months or 12 months contract with SEDCO, the entrepreneur gets access to all the services shown in the table below at a significantly lower cost.

Examples of SEDCO Services and Fees	
Service	E
Contract Fee:	
3 months	400
6 months	750
12 months	1400
If costed separately:	
Problem Analysis	765
Costing & Pricing	313
Accounting System	1045
Bookkeeping	3600
Restructuring	313
Final Accounts	3000
Application for Workshop Space	25
Tax Return	300
Project systems	55
Project Identification	50
Business Plans, without Funding	300-800
Business Plans, with Funding	300-1200
Source: SEDCO	

Many entrepreneurs come to SEDCO only for business plans. This points towards a general problem that business plans are seen just as tools to get finance, and not as a planning tool for the proposed business. Many so-called business plan consultants have also realised this and are selling 'off-the-shelf' business plans that work well for getting finance, but are of little use or relevance to an entrepreneur's venture. SEDCO is trying to get around this by involving the entrepreneur in the process of setting up the business plan. They have a good success rate with about 90% of their clients succeeding in getting finance for their ventures.

Government is planning to change the small business guarantee scheme to make it more effective. One of the suggestions is to use institutions like SEDCO and Lulote to provide business advice to their clients, as well as monitor their progress for the first two years of the loan. The cost of this will be incorporated into the loan. Initially it was thought to charge around 5% of loan value for these services, but this has proved too high and will probably be reduced. To make this cost-effective for SEDCO, the loans must be larger than E25,000 (based on 5% commission). If this type of monitoring and support is put into place, the government will be willing to provide a 100% guarantee for the loan.

There are some problems with this proposal:

- There is an element of conflict because SEDCO, a business consultancy, must monitor the loans and report to the banks. It may create incentives for the clients to be less than honest with SEDCO about their businesses. This can be prevented by putting proper accounting and reporting systems in place.
- A further issue is whether SEDCO will have the capacity to handle the increased number of clients. At current full capacity, SEDCO employs six consultants who are each expected to do six business plans every three months (adding up to about 170 business plans per year). The workload will also increase dramatically if they must monitor all the clients' performance (not all clients currently choose the monitoring option). If the government is to go through with these changes, SEDCO will have to increase their capacity to cope with the workload.

In addition to the training and business consulting, SEDCO also provides workshop space to some of their clients. Currently they have 10 estates across Swaziland. These estates are divided into several small workshops that are rented by clients. The demand for workspace greatly exceeds the available space.

SEDCO received technical assistance through DFID in cooperation with the Government of Swaziland (Business Year Book, 2001: 41).

### 5.3.9. Social welfare

There is no old age pension. A medical scheme for civil servants (referral scheme) exists. Subsidised medical care is provided at specific public medical facilities, predominantly in the rural areas. It costs around E10.

### 5.3.10. Swaziland Industrial Development Corporation (SIDC)

SIDC is a private development finance company formed in 1987 as a joint venture between the Government of Swaziland and several major international and local financial institutions. The main objective is to spearhead investment in the country by mobilising resources to finance private sector projects. This is achieved by financing joint ventures through long-term loans, equity participation, asset leasing and providing factory shells (Central Bank, 2001: 57).

SIDC provides equity and loan financing up to 50% of total project cost. Loans are usually not less than E100,000 and may go up to E8m. Loans may only be used for the acquisition of fixed assets and may not be used for working capital. SIDC may take a minority shareholding in a new company of up to 35% but will not participate in its management.

In 2000/2001 eighteen projects were approved with an estimated value of over E24.6m, creating 3790 new jobs. The company is currently investigating opportunities to extend its services to SME's by facilitating joint ventures between SME's and foreign investors (Central Bank, 2001: 57).

### 5.3.11. Swaziland Investments Promotion Authority (SIPA)

This organisation was established in 1998 to attract foreign investment to Swaziland. One of its key functions is to provide facilitation services to investors, whereby it undertakes to arrange for the prompt and equitable consideration of all applications for Government authorisations and service, effectively serving as a representative for these companies in their dealings with government (Business Year Book, 2001).

Through the efforts of SIPA, four companies were established during 2000 by Swazis entering into joint ventures with foreign companies. They started operating in 2001 (Central Bank, 2001: 57).

### 5.3.12. Tibiyo Taka Ngwane

Tibiyo Taka Ngwane means 'core of the Swazi nation' and was established through a royal charter by King Sobhuza II in 1968 to complement government's development efforts. The objectives of the organisation are (SADC, 2001) :

<sup>30</sup>The FAP scheme was aimed at encouraging development in the manufacturing sector. Specifically, it was also aimed at creating employment and hence the grants were structured to favour projects that will create more jobs <sup>31</sup>This is judged by CEDA staff based on the business plan and market research done by the applicant.

<sup>32</sup>As part of the agreement with CEDA, applicants have to agree to 'be guided' on how to conduct their business <sup>33</sup>This is based on the assumption that there are no hidden barriers to getting access to CEDA and no reason why businesses will be willing to pay the much higher market rates if they can get cheap funding from CEDA.

- To complement government in fostering economic independence and self sufficiency
- To increase formal sector employment
- To increase income in the hands of citizens
- To earn and save foreign exchange
- To develop rural communities
- To foster and support the maintenance of Swazi tradition and cultural heritage
- To assist financially and materially in the education and training of citizens.

Tibiyo was funded through mineral royalties until 1976, by which time it had grown sufficiently to operate on profits and dividends from investments. Total assets grew from E420m in 1996 to about E604m in 1999. Tibiyo's significant growth enables it to be funded entirely through internally generated resources. The organisation possesses a portfolio of some 30 diverse interests embracing mining, manufacturing, property, finance, agriculture, tourism and transport, among others. These are held in trust for the Swazi nation and in many cases operate in partnership with other major companies and international development agencies. Profits are reinvested into further activities intended to benefit the country and its people. Tibiyo Taka Ngwane is headed by His Majesty King Mswati III under whom the main committee operates.

Tibiyo Taka Ngwane invests mainly in large joint ventures with foreign and local technical partners, taking equity stakes and occasionally providing shareholder loans not exceeding 60% of the total cost of the project. Its shareholding is usually between 25% and 50% and the technical partners are expected to provide management (Ministry of Enterprise and Employment, 2001).

### 5.3.13. Tinkhundla Empowerment Fund

Each of the Tinkhundla (parliamentary constituencies) is allocated an equal amount (E70,000 per year at June 2000), which is distributed in the form of grants to selected projects. Evaluation is done firstly at chiefdom level and then forwarded to a constituency development meeting, where all the chiefdoms are represented as well as the Member of Parliament for the constituency. Selection criteria and allocation vary from constituency to constituency. The general guidelines are that there should be equitable allocation for all chiefdoms and the funds should go to tangible/identifiable assets (for auditing purposes). For disbursement three quotations are required after which a purchase order is issued to the approved supplier.

### 5.3.14. Trade Promotion Unit

This department falls under the Ministry of Foreign Affairs and Trade. It supports private sector enterprises by promoting goods produced in Swaziland on world-wide markets.

## 5.4. Cooperatives

The cooperative movement is very big in Swaziland and a large number of people save and obtain credit from these institutions. They are supervised by the Minister of Agriculture and Co-operatives through the Cooperative Societies Act. This Act requires a cooperative to:

- Register with the Commissioner of Cooperatives
- Submit annual financial reports
- Have a common bond amongst members
- Only take savings from and issue loans to members. (They may get additional loans from banks to increase their lending capacity, though this is not encouraged.)

The Cooperatives Act is currently being revised as it is outdated. The proposed changes to the legislation will give more autonomy to the cooperatives and reduce the powers of the commissioner. It also requires cooperatives to notify the commissioner when writing off bad debts.

There are various types of cooperatives, but the ones of interest here are Savings and Credit Cooperatives (SACCOs) as they focus only on providing savings and credit services to members<sup>35</sup>. There are currently 225 registered cooperatives of which 60 are SACCOs. The Commissioner's office is currently busy cleaning up the cooperatives database to remove all defunct ones. Over the past year, 4 cooperatives were liquidated and 10 cancelled. The main reason for this was that some communities have ceased to be income generating (e.g. after one of the mines closed down).

Monthly saving is compulsory for SACCO members, but there are different levels to suit each member's ability (e.g. E20, E30 or E50 per month). Members may borrow up to twice their savings at an interest rate of 1-2% per month (as at June 2000). Larger cooperatives may have a wider variety of products, including short-term loans, emergency loans, school fees loans and larger long-term loans. Short-term loans are usually repayable over one month and attract a high interest charge of about 12% per month (as at June 2000). Loans of less than about E30,000 usually do not require additional security, but for larger amounts collateral in the form of title deed or insurance policies may be required (Imbita, 2000: 23). Several of the cooperatives use salary deductions and debit orders to deduct their loan payments at source.

On the savings side cooperatives often have differentiated products like fixed deposits and school fees savings.

<sup>35</sup>Some multi-purpose cooperatives also provide savings and credit services to members, but only to a limited extent.

Examples of bigger cooperatives are Asikutulisane, Swaziland National Association of Teachers (SNAT), Lubane, Green Pastures and Sibonelo. These cooperatives have also tapped into the Enterprise Trust Fund to boost their lending pool for business loans (Imbita, 2000: 21).

#### **EXAMPLES OF COOPERATIVES:**

##### **Asikhutulisane Savings and Credit Cooperative:**

This is one of the biggest SACCOs.

Membership:

- Minimum age is 18 years.
- A E300 joining fee is required.

Loans:

- Members only become eligible for loans after six months.
- The maximum size of the loan is based on the member's investment with the Society in the form of shares, permanent savings and normal savings.
- Loans include personal, business, building, school fees, mortgage, farming and several others and are processed within 2 days.

Savings:

- Members must save a minimum of E10 in normal savings.
- A minimum of E120 per annum in permanent savings is required.
- A member can hold shares valued at not less than E100 and not more than E300 for the duration of membership.
- Special deposits, similar to demand savings, are available to approved members.

##### **Phaphamani Maswazi Savings and Credit Cooperative:**

This cooperative was formed by and for employees from the Swaziland Railway (SR).

Objectives:

- To promote and improve the standard of living for SR employees.
- To provide loans to members at affordable interest rates.
- To invest in micro-project development by investing in members' projects.

Loan Terms:

- Joining fee of E30.
- Monthly subscriptions of not less than E60.
- Shares of E500.
- Savings depend on the ability of each employee.
- Lending ratio of 1:2 of employee total contributions.
- Repayment period is 36 months.

The cooperatives are typically members of larger 'apex' organisations. The biggest two apex institutions are the Central Cooperatives Union (CCU) and Swaziland Association of Savings and Credit Cooperatives (SASCCO):

#### **5.4.1. Central Cooperatives Union (CCU):**

Members of CCU are mostly farmers' cooperatives and are not involved in savings and credit schemes. CCU offers insurance brokerage services to members and provides life and general insurance products, all underwritten by Swaziland Royal Insurance Company. As at June 2002, it had about 268 general insurance policies on its book (all types including liability, vehicle and theft insurance) and no life insurance policies. It also offers a Group Funeral Policy that provides funeral benefits for an extended family. The minimum size of a group is 25 and the maximum age is 65. No medical test is required. As at June 2002, the premiums varied between E63 and E160 per month (depending on the amount of coverage selected), and the policy covers the member, his/her spouse and up to six children (below the age of 21). The policy also allows for the coverage of more than one wife (polygamous culture) at an additional cost of E25 for each wife. The members of the farmers' cooperatives are generally older, and therefore less affected by HIV.

#### **5.4.2. Swaziland Association of Savings and Credit Cooperatives (SASCCO)**

SASCCO caters for savings and credit cooperatives and has about 24,000 members in 35 cooperatives. An additional 30 newly formed savings and credit cooperatives are registered with the Commissioner of Cooperatives, but are not yet members of SASCCO.

SASCCO provides several services to member cooperatives including a Risk Management Programme, training, liquidity management and lobbying on behalf of members. The Risk Management Programme effectively offers credit-life insurance and is strictly speaking illegal as SASCCO is not registered as an insurance company. The policy covers the outstanding loan amount (up to E150,000), also pays out an additional E10,000 and covers AIDS fully.

SASCCO is trying to set up an apex institution that will serve as a cooperative bank as they are not happy with the service provided by the commercial banks. They envisage that this will allow more optimal allocation of funds among cooperatives. Profits made by this institution will be returned to the members. As part of this initiative, SASCCO is developing a large office building that may eventually house a cooperatives bank as well. In addition, it will have office space and conference facilities that can be rented out. The whole development is financed purely by members' contributions (between E2,000 and E10,000 each) and provides a unique (though risky) investment opportunity to SASCCO members. The project is in its initial phases.

Until recently, the Central Bank did not realise the extent of SACCO activities and the amount of funds that are handled by them. Upon realising the actual size of the industry, it has been pushing for regulation of these institutions (similar to banking regulation). As at April 2002, SASCCO members had savings and loan portfolios of E137m (1.4% of GDP) and E118m (1.2% of GDP) respectively.

Although SACCO's have shown strong growth over the last few years, their membership requires regular income and is therefore effectively restricted to employed individuals. This constrains future growth, as employment is severely limited in Swaziland with limited prospects for future growth. This already impacts SACCO's. Several of the rural cooperatives that were formed for self-employed or farming communities have failed, due to the lack of regular income flows.

## 6. Money and Capital Markets

The capital and securities markets in Swaziland are severely underdeveloped. The stock exchange has been in existence for several years, but is struggling to build up sufficient market capitalisation and is highly illiquid. The liquidity problem is similar to that in the other BLNS countries and is caused by the small number of investment opportunities available. Institutional investors following buy-and-hold strategies quickly purchase all these shares. If the government goes through with its plans to institute minimum capital requirements on fund managers without building up a sufficient local market to channel the investments, it will lead to severe distortions of the local equity market.

At the end of 2000, six companies were listed on the Swaziland Stock Exchange (SSX). Market capitalisation fell dramatically in 1996 due to the delisting of a "major player in the market". Towards the end of 2001, some of this was recovered through a rights offer following the merger of Royal Swaziland Sugar Corporation and Mhlume Sugar Company. The market capitalisation is shown below:

Swaziland Stock Exchange	
Year	Market Capitalisation (Em)
1996	2204.4
1997	630.0
1998	500.3
1999	583.9
2000	552.8
2001	1525.8

Source: Central Bank

The Capital Market Development Unit<sup>36</sup> reviewed current legislation applying to capital markets and found that it fell short of the minimum international standards in the area of securities regulation. They intend preparing draft legislation that will :

- Provide an enabling environment for increased regulator power and responsibility
- Allow self-regulation by securities exchanges
- Provide for enforcement of securities legislation
- Foster cooperation with other regulators
- Regulate issuers of securities, collective investment schemes, market intermediaries and a secondary market (Central Bank, 2001: 28).

In addition to the legislative changes mentioned above, a number of initiatives were undertaken in 2000 to facilitate the establishment of an effective exchange:

- A more representative committee to run the affairs of the SSX was inaugurated in 2000. This committee has adopted operating procedures which regulates its powers with regard to members, as well as trading, clearing and settlement systems and procedures.
- ISIN codes were adopted by the exchange.
- The SSX was received as a member of the Federation of International Stock Exchanges (FIBV).
- It formalised trading using the call over system of trading (1 September 2000).
- It held meetings with issuers of listed securities to discuss concerns surrounding the listing requirements.
- A project is also underway to harmonise the Trading, Clearing and Settlement Procedures in SADC stock exchanges.

At the end of 2001 three debentures with a nominal value of E43.5m were listed (Central Bank, 2001b: 7). No new debentures were issued over the last three years.

The establishment of Standard Corporate and Merchant Bank (SCMB) in Swaziland during 2000 added two more unit trust funds to the market bringing the total to eight. Due to the limited domestic equities market and the need for diversification, the funds' investments are spread across the region with 15% invested in Swaziland, 65% invested in South Africa and 20% invested on international exchanges.

<sup>36</sup>The division of the Central Bank responsible for supervising the stock exchange.

## 7. Conclusion

As identified in the above discussion there are several development initiatives being undertaken in Swaziland. Despite the good efforts of these initiatives, there is a great deal of fragmentation and duplication. In addition to this, the institutional, legal and commercial environment in which they operate is hampered by several problems. These are summarised below:

- Low economic growth means that there is very little growth in the formal sector. This includes both the slow growth in the establishment of new companies that the banks can serve, as well as a stagnation of the formal employment market, which constitutes the banks' bankable market.
- A large component of the population still live in rural areas and are predominantly involved in subsistence farming. These farming operations are usually without irrigation and are therefore dependant on natural rainfall, which has proven to be very unpredictable over the last decade. These farmers also farm on Swazi National Land. As they do not own this land, it cannot be used for collateral and therefore restricts the development of these farming operations.
- Banks lack incentives to find ways of serving the lower income market. The banks consider the market to be over banked, but this is because they confine their activities to less than 30% of the total population, which is the sector that they consider to be 'bankable'. Cooperatives are serving the remainder of the population but banks have not actively pursued linkages with these institutions to tap into and expand this initiative. A partnership between the banks and the cooperatives could allow banks to serve a much larger component of the population.
- Parent company mandates. Banks do not have a specific mandate to find new opportunities or to develop the market. Essentially the banks are there to offer the standard South African products to a small qualifying market. The local banks with South African parents were initially established to support South African corporates operating in these countries. When they realised that this market was very small, they extended their services to the expatriates and formally employed.
- Legal status of women: Women married in community of property or by traditional law have to get the consent of their husbands when entering into contracts. This is problematic in the cases where the contracts are for loans where the husbands feel threatened or do not agree with the venture undertaken by the women. It can be especially debilitating when a woman is going through a divorce (until she is officially divorced, the consent of her husband is still required). Although this is a problem that must be addressed, it is questionable whether it affects the population on a large enough scale to stifle economic development.
- Non-repayment culture when it comes to government or royal interventions. The people consider the King's money to be a grant that they do not have to repay. (This is both because previous projects were structured in this way and because there are still 'soft loan' funds managed and disbursed through the constituencies). This is exacerbated by the poor structure of official projects, the lack of follow up and prosecution of delinquent borrowers, and the fact that people confuse normal commercial projects with government ones. In general, this leads to the so-called 'non-repayment' culture.
- Court processes. Although the legal system seems to be working fine, there is no commercial court to speed up cases pertaining to debt and commercial contracts.
- Corruption and the use of loan schemes for political purposes. Some of the loan schemes administered by government are used as marketing tools by the members of parliament in their constituencies. These loans do not always go to economically viable projects and the monitoring and administration of repayments are often poor. The 'soft' nature of these loans contributes to the so-called non-repayment culture.
- Lack of information on the size and characteristics of the unbanked market. Although it is common knowledge that there is a large component of the population that do not currently have access to financial services, very little information exists on the exact numbers and characteristics of this group. Without this information, it is impossible to create financial products that will fulfil the needs of the population. Survey data is required that can provide information on the demographics of this group.
- Lack of healthy communication between banking sector and government. Banks and governments often find themselves on different sides of debates on financial services provision. There are many ways in which the two parties can work together in achieving common goals. For this to happen, there needs to be proper channels of communication between the two parties. A neutral platform to discuss these issues would prove useful.
- Free movement of money back to South Africa (no local asset requirement). If money is allowed to flow to the best investment opportunities, the flows will tend to be biased towards South Africa. If Swaziland cannot retain some of this investment, it will not be able to develop its opportunities and compete effectively with South African companies. The absence of a well functioning exchange and securities market adds to this problem by not providing investment opportunities for the funds that do want to invest in Swaziland. It would be futile to impose minimum local asset ratios (as is proposed in the new pension funds bill) if the infrastructure is not in place to handle the increase in funds. If this is the case, the funds will flow into government securities instead of productive investment.
- Swaziland's recent economic development was largely based on global trade sanctions against South Africa. During this period trade to and from South Africa was routed through Swaziland to circumvent sanctions. The large foreign

investments in the country during that period were aimed at getting access to the South African market. Once sanctions were removed, investments switched to the more developed South Africa and other SACU countries and Swaziland had little to offer to attract investment.

A study done by Imbita (2000: 42) and sponsored by EU Microprojects evaluated all types of credit providers in Swaziland and noted the following problems in accessing finance:

- Most of the providers stipulated that the business loans may only be used for working capital. The client is expected to contribute the capital assets, which are often a prerequisite for accessing loans. As many of the entrepreneurs come from poor backgrounds, they are unable to put up sufficient funds.
- Many of the credit providers require borrowers to be members of their organisation. This requires joining and training fees, often obligatory savings and waiting periods before being able to apply for a loan (and having gone through this, loans are not guaranteed, so it may have been a waste of scarce time and resources for the applicant).
- Collateral requirements: The nature of assets required to secure a loan makes it inaccessible to youth, low-income individuals and women. For example, Swazibank tried to help by allowing cattle to be used for collateral, but women seldom own cattle.
- Group lending: Alternative forms of collateral offered through group lending makes it more accessible for women. This is confirmed by the figures that show that for one scheme 20 out of 117 individual loans were to women, while 375 out of 597 group loans were to women. However, it is difficult to form coherent groups in the urban and peri-urban environment. There is also frustration in groups because defaulters prevent others in the group from accessing further loans.
- Appraisal procedures: Entrepreneurs do not have the skills to draw up business plans and cash flow projections that are required to access loans. Using consultants to do this is very expensive and often the applicant does not understand the contents of the business plan. Training is available but once again, the costs are a problem. This whole process also causes long delays before the applicant can get access to funds.
- As is evident, lack of managerial and business skills amongst entrepreneurs is a serious problem. A possible way forward would be to set up appropriate training and support structures for entrepreneurs, as is being done with the redesign of the guarantee scheme with SEDCO and Lulote as training institutions. Although this may not be a sustainable long-term solution, in the short-term it could help people who would not otherwise be able to start their own businesses. It would also be a good idea to test the effectiveness of the training provided by these institutions through empirical research. Such research could also help to shape the existing and new institutions to better serve entrepreneurs.
- Repayment: Implied transaction costs (transport and time) for rural borrowers to go to towns to make loan payments are quite large and in some cases may even exceed the loan payment. A partnership between the Post Office and Swazibank has been suggested as a possible way to overcome the geographical barriers to accessing to financial services. This could, for example, allow Swazibank clients to transact banking business through the post office infrastructure.

Furthermore, loans from commercial banks are particularly difficult to access due to:

- Lack of rural representation.
- Strict appraisal procedures that are intimidating to applicants who are not used to bank procedures. The impersonal nature of and the complexity of language used in banking procedures contribute to this problem.
- Collateral requirements: Even the reduced 25% requirement with the guarantee scheme is beyond the means of the individuals trying to start up a small business.
- Interest rates: Although it is also mentioned that borrowers find the banks' interest charges too high, this is unlikely to be the case as the same individuals borrow from microlenders at much higher costs. Swaziland is similar to the other BLNS countries where it was found that the problem is not the cost of finance, but the access to finance.
- Inflexibility of loan products: Banks require repayment to start in first month regardless of when the project starts producing an income.
- Account with a bank: Commercial banks require that the applicant have an account with the bank (usually a current account) for at least six months before being able to apply for funding.
  - Lack of support services and monitoring schemes: Banks do not provide business training or follow-up counselling, as this is considered too costly. The lack of interaction between borrower and bank means that the bank does not understand the nature and circumstances of the venture and cannot address issues in a pro-active manner.

All of the above indicates that commercial and sustainable lending is still a far off ideal and much development work is still needed to put talented individuals in the position to start and grow their own businesses. This is also the finding of the Imbita report (Imbita, 2000: 50) and it suggests defining different providers of credit for different levels of poverty and development. The reality is that all but the highest level of providers will require subsidies and will not be able to operate without these.

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## Appendix A: Timeline

Timeline		
Swaziland Building Society established under the Building Societies Act .	1962	
	1963	
Cooperative Societies Act No. 28	1964	
Swaziland Development and Savings Bank founded.	1965	
	1966	
Swaziland Sugar Association founded	1967	
Cooperative office established within Ministry of Agriculture Tibiyo Taka Ngwane established	1968	Swaziland gains Independence, constitutional monarchy declared
	1969	
SEDCO established	1970	
Swaziland Royal Insurance Company launched ("early 70s")	1971	
Swaziland's first post-independence elections	1972	Chinese Agricultural Mission (CAM) started operations
	1973	Swaziland Constitution suspended, parliament dissolved
Swaziland Central Bank established Swaziland National Provident Fund established	1974	Monetary Authority of Swaziland (MAS) established through an Order of Parliament. The Lilangeni currency launched. SACU agreement renegotiated. Rand Monetary Area agreement signed.
	1975	
Mineral royalty funds now accrue to Tisuka Taka Ngwane (no longer Tibiyo)	1976	Constitution formally abolished
	1977	
Parliament reconvenes after four years, new constitution vests all power with King	1978	The Monetary Authority of Swaziland replaced by the Central Bank of Swaziland, under the Monetary Authority (Amendment) Act of 1978.
	1979	
Imbita Women's Finance Trust established	1980	
	1981	
African Cooperatives Trust (ACAT) established	1982	Security agreement signed between Swaziland and South Africa. King Sobhuza II dies
	1983	
	1984	
	1985	
Business Management Extension Programme (BMEP) (now LULOTE) established. Rand Monetary Area (RMA) replaced by Common Monetary Area (CMA).	1986	King Mswati III ascends the throne.
Swaziland Industrial Development Company (SIDC) established	1987	
Current Standard Bank of Swaziland founded as Union Bank of Swaziland.	1988	Swaziland Association of Savings and Credit Cooperatives (SASSCO) established.
	1989	
Small-Scale Enterprise Loan Guarantee Scheme begins operations.	1990	Swaziland Stock Market (SSM) began operations.
BCCI fails world-wide. Meridien BIAO establishes in Swaziland by taking over BCCI and BIAO.	1991	Export Credit Finance Guarantee Scheme established.
Small Business Growth Trust established.	1992	Severe droughts
Union Bank changed to Stanbic. SACU renegotiation process initiated.	1993	Swaziland's first parliamentary elections. Prime minister appointed.
Swazibank goes bankrupt and process of restructuring starts BMEP changed to Luhlelo Lolunotsisa Tembhizinisi (LULOTE).	1995	Meridien Bank fails. Re-emerges as First National Bank after sold to FNB South Africa. National Assembly and the homes of the deputy prime minister and the vice-chancellor of the University of Swaziland were burned in student riots. Later this and subsequent years, absolute power of King relaxed.
Nedbank buys out Standard Charter Bank PLC	1996	Enterprise Trust Fund (ETF) established
Section 21 of the Financial Institution (Consolidation) Order, 1975 withdrawn with effect from 31st May 1996. Under this section, banks were required to maintain a local asset ratio of 95 percent.		
Standard Bank acquires 60% stake in Barclays Bank of Swaziland from London-based Barclays Bank plc. Barclays and Standard operations in Swaziland merge under the banner Standard Bank Swaziland.	1997	In February 1997, the Central Bank issued a licence under Section 11 of the Financial Institutions Order to NedBank (Swaziland) Limited (A member of the Nedcor Group in South Africa) after the latter had acquired 55 percent of the shareholding of Standard Chartered Bank Swaziland Limited.
Small Business Growth Trust liquidated.	1998	
Capital Markets Development Unit established within Central Bank.	1999	
Swaziland Stock Exchange (SSX) inaugurated.	2000	
	2001	
Swaziland Development and Savings Bank restructured, becomes Swazibank.	2002	

## Appendix B: Examples of Bank Products in Swaziland

Examples of Bank Products in Swaziland		
Bank	Product Name	Description
Nedbank	Sivuno Savings Scheme	Minimum of E1,000,000. Any period of investment. Access to other bank services (e.g. Personal Loans AND Educational Assistance Loans). Interest calculated daily. Unlimited number of withdrawals. Free ATM card.
Nedbank	LEAP Account	Lusiba Educational Assistance Programme (LEAP) provides finance for educational expenses. Paid out to parent/guardian who has banking history with Nedbank. Targets students at recognised schools or technicons. Interest to be serviced monthly via stop order. Only to Nedbank clients, up to E5,000.00. To be repaid in 12 months to qualify for fresh loan in ensuing year. Both savings and current account holders eligible. School prospectus/letter to accompany application. Special interest rate. For full time and part time study. Will cover: tuition, registration fees, books, boarding residence and special equipment required for course.
Nedbank	Savings Account	Available to individuals, clubs, partnerships and other groups. Targets clients in lower and upper scale. Debit/stop orders permitted. Minimum of E500. To earn interest, maintain balance of minimum E1000. Interest calculated daily. Funds over E250 000 can negotiate special rates. Balance below E500 will forfeit interest and be charged E25.
Nedbank	Cheque Account	For private individuals earning a minimum gross income of E3000 per month. Exceptions: immediate family members of existing Nedbank clients, professional and graduates whose income has the potential to grow, small businesses, companies and corporations, informal bodies. Gives access to other financial services (e.g. Debit orders and stop orders, electronic funds transfer, overdraft facility by negotiation). Can access through cheque, ATM card, stop order, debit order, electronic payment, transfer and third party payment. Entry to home loans, instalment credit, etc. Service fees: E4.20 per transaction for personal and corporate accounts. Cash handling fee: 0.55% per deposit and for all withdrawals. E7.00 per stop order transaction.
Swaziland Building Society	Gold Account	For individual and institutional savers. Minimum deposit of E1,000. Two cash withdrawals per month, not exceeding E8,000 each free of charge. Cheques withdrawals for large amount subject to notice for withdrawals over E50,000 for personal and E250,000 for institutional accounts. Interest calculated daily. Premium rate increases according to the sum and period of investment.
Swaziland Building Society	Paid up Permanent Shares	Long term investment for individual and institutional investors. Open with minimum of E1,000. After 30 months can request shares to be redeemed after a further period of 6 months. Permanent Shares may be pledged against Personal loans not exceeding 90% of their value and up to 100% if loan would be repaid by Stop order from salary. Personal loans are repayable within 36 months. Dividends paid half yearly, by cheque or by crediting an account held with Society or re-investment in Permanent Shares.
Swaziland Building Society	Subscription Shares	Save small amounts monthly. Pay at any branch or sign a stop order.
Swaziland Building Society	Fixed Deposits	Short or medium term investment. Deposit at fixed interest rate for fixed period. Minimum of E500. Periods of 3, 6, 12 or 24 months. Additional deposits (minimum of E500) permitted, but no funds to be withdrawn before expiry of period of fixed deposit. Fixed deposit may be renewed on expiry, transferred to other investment accounts or withdrawn. Fixed deposit receipts may be pledged against personal loans not exceeding 90% of their value and up to 100% if loan be repaid by Stop Order from salary. Personal loans to be repaid within 24 months. Interest paid at expiry of fixed deposit.
SwaziBank	Ordinary Savings Account	Minimum balance of E100. Deposit or withdraw at any branch. Salary can be paid through this account. Interest capitalised at the end of the year.
SwaziBank	Lukhotse Savings Plan	Minimum balance of E100. Deposits of not less than E50 at a time. No withdrawals allowed. After 6 months of continuous deposits, can get personal loan of minimum E1000. This savings account may be pledged as security against personal loans not exceeding 80% of their value. Repayment period not to exceed 12 months. Re-advance after full repayment. Satisfactory conduct of 2 years will result to a loan entitlement of 1.5 times of accumulated savings.
SwaziBank	Regular Savings Account	Minimum balance of E500. Deposits at any branch. Only 2 cash withdrawals allowed per month. Interest capitalised monthly.
SwaziBank	Litsala Notice Account	Notice of intention to withdraw required ( period of notice contracted at inception). Period ranges: 30, 90 and 120 days. Deposits exceeding E100 000 are catered for under Fixed Deposits. Entitled to personal loans up to 80% of the value of investment, with deposit pledged as security.
SwaziBank	Target Savings Plan	Targets farmers. Minimum of E100. No withdrawals allowed. Mandatory lodgement of 25% of crop proceeds into account yearly. Deposit should form 25% of total loan amount at any time. Increase in savings allows increased amount that can be borrowed.
SwaziBank	Ludvondvolo Personal Loan Account	For full time pensionable salaried employees whose salaries are paid direct to SwaziBank account. Maximum loan limit of E10 000. Payment of level term insurance required. Loan repayment period of 12 months.
SwaziBank	Silver Account	People earning between E96,000 and E156,000 with net asset worth of E55,000. Telephonic application. Call interest on credit balance of at least E1,500. Cheque account that allows guaranteed cheques for up to E1,500. Overdraft provision for E15,000.
SwaziBank	Platinum Account	People earning 156,000 or more annually with net assets of minimum E80,000. Telephonic application. Call interest rates for credit balances over E1,500. Guaranteed personal cheques for up to E3,000. Overdraft facility of E25,000.

Examples of Bank Products in Swaziland		
Bank	Product Name	Description
SwaziBank	Overdraft Facility	Short term lending facility linked to Current Account subject to application and approval. Stable income or eligible businesses and good account history required. Interest charged on utilised portion only. Repaid anytime without penalty.
SwaziBank	Corporate/Government guarantee Scheme	Organisation places deposit with Bank to be loaned to their staff. Individual recommended by employer, bank will do independent assessment of application. For housing, personal or ca loans. Organisation and Bank signs agreement with regard to the operation of the scheme.
SwaziBank	Corporate lending/Corporate Overdrafts	Linked to current account. Customer can overdraw account to agreed or authorised amount.
SwaziBank	Agricultural Loans	Available to farmers for farm purchases, farm development and sugar can plantations.
SwaziBank	Syndicated Lending	The Bank will spread and/or share the responsibility with other Financial Institutions.
SwaziBank	Venture Capital Financing	Provides long term committed share capital to help unquoted companies grow and succeed. Swazi Empowerment tool for local Swazis.
SwaziBank	Foreign Exchange	Business can perform all foreign deals through Letters of Credit Bills of Exchange and also buying and selling of Foreign Currency
SwaziBank	Autoeasy Vehicle Finance: Instalment Sale	Personal and company use. Deposits referred to as installments are not tax deductible. Insurance, licence, certificates etc are individual's responsibility. Full use of vehicle. Age vary between new to 10 years old, Cash contribution 10 % - 35 % and repayment periods 24 to 60 months. First premiums to be paid before it is released to individual and renewed annually for duration of installments.
SwaziBank	Autoeasy Vehicle Finance: Financial Lease	For business purposes. Lessee gets usage of vehicle. Upon expiry vehicle is returned to bank or can be purchased from the bank for the outstanding value or nominal amount agreed by SwaziBank. Or enter into secondary rental agreement on the same vehicle. Insurance, licence, certificates etc are own responsibility. Full use of vehicle. Rentals due on first of every month.

Source: Various bank pamphlets and websites.



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