State-Owned Enterprises Restructuring Framework in Eswatini

Summary of Key Findings

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1. Overview of State-Owned Enterprises (SOEs)

State-owned enterprises (SOEs) date back to the 19th century when state ownership of enterprises emerged, encouraging and guiding investment in strategic and public-oriented services. These public service sectors include communications, social amenities, energy and other such strategic sectors (Budiman, 2009). The sectors relate to areas considered to fall under the public sector management of state resources and assets (OECD, 2018) and are an expression of harnessing output from resources that ordinarily are considered the legacy of the people as a polity. Even where the privatisation of SOEs is mooted, the notion is contested. The belief is that it cannot be universal on the basis that such functions are considered as “core government function(s) of national strategic importance or there may not be private-sector interest in assuming the function” (Ministry of Finance, 2006, no. 10).

Up to the 1980s, SOEs remained a prominent feature in the developed world and then there was a move towards the commercialisation and privatisation of SOEs and/or total disengagement from them. This paradigm shift towards privatisation was informed by the New Public Management Reforms (NMPR) (Manning, n.d.), which sought to address one or a combination of SOE-specific challenges arising from socio-economic and political ideologies attendant on SOEs (Toninelli, 2008). These included market failure, facilitating economic growth through long-term planning and industrial and financial recovery as an outcome of economic crises.

In the developing world, SOEs remain a key feature of the economic landscape despite adjustments to approaches (Kayizziza-Mugerwa, 2002; OECD, 2018). SOEs underpin social security for populations frugally endowed and at risk of failing to access critical goods and services otherwise.

Across the divide though, mixed arrangements uniting market-based alternatives under the rubric of public-private partnerships (PPPs) have emerged (Hodge et al., 2013) as SOEs have sought to make themselves competitive without abandoning their goal of protecting vulnerable populations.

Notably, as capitalism grew throughout the 19th century, the state’s influence on markets only gave way to privatisation as a result of the emerging glaring failures of publicly owned entities when compared to privately owned ones (Millward, 2011). As such, modern-day SOEs are now either an extension or a morph of views about the welfare state and crisis management of the economy.

As an example, the post-World War II period saw Western governments use SOEs to develop regions that were economically lagging after having been decimated by war. SOEs provided specialised services that traditional governments could no longer provide as a result of the incapacitation of government functions in the immediate aftermath of the war. SOEs were used to protect industries that these governments considered essential for future economic growth (European Commission, 2016). In other words, SOEs functioned as stabilising factors in situations of danger to facets of the state and markets that could have negatively impacted populations in the precarious aftermath of war.

In African, Asian and Latin American contexts in the 1950s and 1960s, the period following independence presented new states with challenges. Accelerating growth through tactics that needed infrastructural investment was the priority for these states. They had to redistribute their assets from serving just the minority to serving whole populations (Voszka, 2015).

The expropriation of previously existing foreign entities, most of whom externalised resources for private economic interests during colonial times, became a means towards achieving the end (Nellis, 2005). In addition, these newly independent countries centralised control of natural resources, manufacturing, agriculture and mining in the hands of the state. Incidental occurrences, such as the 1970s oil crisis, predicated the extension of the model of state control to other sectors as a matter of necessity for redistributing wealth (Voszka, 2015) and ultimately as an opportunity for informing economic planning and industrial policy.

1.1. Rationale for the Existence of State-Owned Enterprises (SOEs)

The model of state interest in areas of strategic importance underpins the general rationale for the existence of SOEs in as far as these relate to services critical to public welfare (Ministry of Finance, 2006; OECD, 2015). The Keynesian assumption that public interest is best served by centralised intervention, if not control, has played a defining role in giving SOEs their reason to exist (Nellis, 2005).

Thus, it has been argued that SOEs specifically facilitate the balancing out of the profit-orientation of private business with the overall welfare of the people served. Often this is achievable through SOEs intervening in market distortions by ensuring that economic agents internalise the economic externalities linked to their activities. Additionally, SOEs can account for the provision of services where private agents would be ineffective, unable or simply unwilling.

In as far as states are meant to operate in furthering the general interests of the populace (Gondana & Hlatshwayo, 1998), SOEs are viewed as appropriate vehicles for informing the alignment of medium- to long-term growth and policy. This is from the perspective that private players on their own may not always be incentivised to do so (Megginson, 2005) since issues of equity and overall societal welfare are not always aligned to their profit maximisation goals.

Overall and concerning mixed economies, SOEs emerge as the convergence point for complementing the role of the purely private and public sectors of the economy (Ministry of Finance, 2006). This, as highlighted above, is through enabling competition, balancing out conflicts of interest in the market, and making sure equity is approximated towards the distribution of opportunity and wealth.

1.2. Salient Characteristics of SOEs (vis-a-viz Private Sector)

In general, SOEs compare negatively to their private-sector counterparts and the perception invariably is that they are worse off in terms of management and performance as a result of government interference (Phi et al., 2019). As will be highlighted elsewhere, the shift towards state disengagement was, at times, premised on repeated public sector failures in comparison to private-sector shortfalls. In the United States (US), for instance, a string of corrupt state investments that proved to be disasters generated a hostile outlook towards state ownership and led to the rethinking of SOE regulations and even state involvement at all (Toninelli, 2008).

In Africa, despite being touted as essential elements of the economy and social security for the population (Mwaura, 2007), SOEs have been held responsible for leakages in economies emanating from the budgetary burdens they pose, inefficiencies, losses that have to be recouped by the state and the production of poor output to the market. The OECD (2015) locates part of the challenges faced by SOEs in the endemic lack of adherence to the principles of corporate governance such as transparency and disclosure, arguing that this cloudiness greatly compromises the accountability of SOEs.

It has to be noted that SOEs tend to be hamstrung by exceptional situations to which their private-sector counterparts are not exposed. This arises from the fact that SOEs tend to have fluidly defined social objectives, which leave them prone to political interference, in addition to authentic economic objectives (OECD, 2018). The SOE sector has tended to be laden with multiple, ambiguous and conflicting objectives, with governments seeking efficiency and profit from public enterprises while simultaneously insisting on the provision of services and goods at below market value prices to accommodate their poor populaces (Nellis, 2005).

On the other hand, private-sector objectives are clearly defined and revolve around profit and the satisfaction of the shareholder base to which they are accountable. This presents the private sector with narrower and more clearly defined expectations that make for evaluation benchmarks that are largely inaccessible to SOEs.

In most cases, SOEs are easier to understand when compared to their private-sector counterparts. O'Neill et al. (2004) submit that private-sector entities exhibit a more innovative orientation that is not matched by SOEs. This freedom to conceive of and pursue interests is linked to innovation. The political objectives surrounding SOEs often cripple their innovative orientation. The tendency towards protectionism makes it difficult to promote innovation which costs at the beginning.

Linked to this innovative orientation is the human resource orientation of the entities. SOEs tend to be curtailed by a lack of fluidity and dynamism in HR policies whereas the private sector is not (World Bank, 2010). Incentives and censure are more pronounced in the private sector with reward, promotion and recognition feeding the human psyche to succeed and be recognised.

1.3. Politicised Nature of SOEs

The association of SOEs with politics is a recurring theme in the consideration of the political economy of SOEs. This is somewhat unavoidable as government interests are in themselves political in as far as they are driven by the interests of the ruling group (World Bank, 2010). As the ruling group changes in some places, major shifts in terms of the policy and direction of SOEs is evident. This change undermines the performance of the SOEs since it replaces or compromises their pure business rationale and commercial merit (Mwaura, 2007). The fact that the spectrum of stakeholders is broad makes it difficult for SOEs to be held accountable as besides the political angle there are other stakeholders not necessarily aligned to the same political angle. The political imperative informing the selection of board members at the expense of expertise only compounds the problem, according to the World Bank (2010).

Understanding that government is the regulator and author of economic policy is important. Noting that while it may be desirable for governments to maintain their regulatory role and give up their direct control of SOEs (to cure the malady of double-acting), Mwaura (2007) points out that giving up all control is difficult and argues that a commercially oriented parastatal can improve performance. However, it is impossible to get to a clear cost-benefit ratio for SOEs (Chenhall, 2003). While it is possible to raise the performance of SOEs to a level comparable to or that surpasses the private sector's commercially competitive levels, this can only be achieved if the government component is removed (Mwaura, 2007) and once that happens the SOE phenomenon is terminated – which defeats the purpose.

2. Scope of the SOEs Historical Analysis

This historical analysis of SOEs in Eswatini is meant to contribute towards the development of in-depth information on the array of SOEs in the country and is part of a broader study to streamline and strengthen governance and improve the performance of SOEs in Eswatini. Its purpose is to develop a historical timeline, establish context and provide a political economy analysis regarding the establishment of each SOE in Eswatini. Additionally, it gives a general assessment of how each SOE has fared against its set mandate. Emerging issues, which will form the basis for the broader argument towards reform and institutional capacity strengthening, will also be interrogated. The historical method/historiography approach has been adopted in this review and is briefly explained below.

2.1. The Historical Method

The historical timeline of SOEs in Eswatini is based on historical method/historiography. The historical method is a qualitative research approach (Berg, 2001) used to systematically construct past events into a historical presentation (Špiláčková, 2012). From a variety of sources, the approach requires the identification of the most appropriate and efficacious source or collection of sources (primary as well as secondary) from which to arrive at a comprehensive presentation. In other words, the epistemological question of how knowledge can be known is at the heart of this selection of sources that inform the method. Berg (2001) has emphasised this by noting

that the method goes beyond a mere compilation of memories as it adds the aspect of the interpretation of available information.

There is, thus, necessary deference to determining whether sources meet the simultaneous tests of validity, reliability and relevance. The method's functional use is to draw important links between the past and the present (Moore, Monaghan & Hartman, 1997); this aspect will be critical in the in-depth study of SOEs in Eswatini.

This review contends that building scope for the reform of SOEs in Eswatini should emanate from an understanding of the respective SOEs from their formation and establishment to the execution of their mandates or lack thereof. Such an approach would create the means to generally assess the historical timeline of institutional strengths, weaknesses, opportunities and threats as they pertain to the reform and enhancement of operational efficiencies. The study analysed the SOEs across ten discernible sectors, namely utilities, regulatory, marketing, infrastructure, sectoral development/capacity development, government agencies, investment/insurance and purely commercial.

2.2. Key Findings

2.2.1. General Key Findings

- Among the key issues emerging from the study is that the number of SOEs in Eswatini is undoubtedly on the increase, with some mandates admittedly encroaching on each other and creating the risk of duplication of roles. Several SOEs were also noted to be struggling without sound financial management procedures, including public procurement and other significant improprieties.

- Corporate governance deficiencies were also observed in some of the SOEs. These deficiencies are reflected in the institutional performance and inadequate oversight function in some of the entities. It was also generally observed that high staff turnover and the incapacity to attract skilled labour (largely attributable to poor conditions of service) were adversely affecting institutional performance and the delivery of the set mandates in several SOEs in the review. The review also noted generally weak performance monitoring across SOEs; the weakened role and limited capacity of the Public Enterprise Unit (PEU) are problematical. The study generally showed poor knowledge management and the general unavailability of information within many of the SOEs.

- The study revealed that, over the years, the rate at which the government is setting up SOEs to take up one form of mandate or another across the diversity of the socio-economic spectrum has increased. Monitored and governed by the PEU, which was established following the enactment of the Public Enterprises (Control and Monitoring) Act of 1989, the majority of SOEs in Eswatini operate under the objective of being commercialised with only a few meeting non-commercial policy objectives, which is the developmental mandate. Frantic efforts to manage issues of accountability have been made in Eswatini; in 2013, the country enacted a Public Finance Management Bill which regulates the public finances of SOEs. Preceding the Bill was the Finance Management Act of 2012.

- In 2015, two years after the enactment of the Bill, Eswatini enacted the Dividend Policy which requires public enterprises (subvented, profit-making, developmental, essential and regulatory authorities) to pay dividends to the government. Non-profit enterprises are exempted from paying dividends. The rise in the number of SOEs and fiscal strains have provided further impetus for the proposed SOE reforms.

- At the same time, Eswatini has made strides towards improved service delivery, beginning with the promulgation of the Privatisation Policy in 2003, which sought to reform public enterprises by introducing performance contracts to encourage their running on commercial principles and to reduce, as well as ultimately eliminate, dependency on government subventions. In essence, the policy aims to reduce the government's financial burden, improve public finances for funding future economic growth, introduce competition and market discipline, contribute to the development of financial and capital markets, encourage wider share ownership, and improve the delivery of essential public services.

- The current number of SOEs shows that the government's privatisation agenda has been slow. Although there are delays in the implementation of policies, some reforms have led to the privatisation of local public enterprises. In December 2007, the Eswatini Electricity Board (SEB) became the Eswatini Electricity Company (EEC), a private entity. Other enterprises – the Royal Swazi National Airways (which formed a joint venture with South African Airways to form Swaziland Airlink) and the commercial arm of the Eswatini Dairy Board – are partially privatised. However, the number of SOEs in Eswatini is huge and this raises concerns about their sustainability.

2.2.2. *Key Sector Findings*

I. Regulatory SOEs

- Eswatini's heavy dependence on energy (fuel and electricity) imports from South Africa makes it difficult to regulate energy tariffs in the country. In fact, fuel and electricity tariffs in Eswatini are influenced by decisions made in South Africa. This curtails the function of relevant regulatory SOEs such as the Eswatini Energy Regulatory Authority (ESERA). Relying on South Africa threatens the country's secure energy supply and its reliability and quality and heightens the risk of increasing inflation.

- It is also clear that regulatory functions in a sector with SOEs having historical dominance, such as the EEC, poses difficulties for the regulator in terms of decision making and enforcement in the sector.

- The energy sector is especially challenging to regulate since energy is considered a key driver in the socio-economic growth and development of the country, hence the need to ensure that any regulations take cognisance of the existing realities and are not seen to 'stifle' this strategic sector.

- While there is growth, competition regulation has come with many challenges for relevant entities such as the Eswatini Competition Commission (ECC). Among these challenges have been the implementation of competition law, transition in antitrust issues of the current era, changing business practices in response to the existing legal framework as well as an examination of issues involving e-commerce. Capacity and human capital gaps still exist with regards to the country's full rollout of an effective competition regulation system.

- Meanwhile, the study brought to the fore the challenges pertaining to the existence of marketing boards in their current form in Eswatini. Particular problems are the monopolistic control of the movement of goods and products into and out of the country, the holding of sole import licences and price setting that ultimately discourages local production. The study made a case for deregulation, with entities such as the National Marketing and Agricultural Board (NAMBoard) being a case in point.

- More importantly, the study found that the non-bank sector is growing faster than the bank sector which is a source of significant risk for financial stability if it is not regulated holistically. The Central Bank of Eswatini (CBE) is responsible for overall financial stability and so the operations of the non-bank sector need to be enshrined in the financial stability regulations under the CBE. Like the other regulators charging levies on the economy, the growth in FSRA income is primarily driven by the growth in collections made through levies from various industries regulated by the FSRA. Generally for all regulators, there is a need to rationalise the amount of levies charged against the value created by the regulation and to ensure that levies are by and large used to develop the sector they are levied on.

- Meanwhile, the exclusivities contained in the communications legal frameworks continue to make it impossible for the regulator, the Eswatini Communications Commission (ESCCOM), to effectively regulate the market with the view to improve and develop it fully within a liberalised legal framework. The work of regulating the telecoms sector continues to be hampered by the imperative to catch up with the latest trends in technology. This is against the backdrop of limited financial, technical, and technological resources as well as the public having a limited understanding of the work and role of the Commission and results in resistance to the effective execution of its mandate.

- Furthermore, it also emerged in the study that regulating sectors such as the construction industry are fraught with their own challenges; the governance body of the regulatory council itself tended to comprise of members of different associations in the construction industry whom all would have the potential to influence prices. Conflicts of interest could therefore arise either from regulation or from procurement. The fact that some directors of construction firms were board members of the Construction Industry Council (CIC) could potentially create room for the manipulation of decisions in favour of their personal gain. The regulatory mechanism in this sector is also seen to create barriers to entry and expansion since it restricts firms registered at a lower category from bidding in projects at higher categories, and as such, they are always used as subcontractors for the major firms that normally win the tenders.

- The study also noted the importance of regional and international benchmarking in the regulation of various sectors of the economy by SOEs as this would ensure harmony as well as promote best practice. However, the benchmarking exercise needs to also consider the local context in Eswatini and determine viability of the proposed 'best practise' so that it does not overburden the economy and government. The level of development, the size of the Eswatini economy, and overall expected impact from adopting regulations from other economies has to be interrogated.

II. Utilities

- Provision of essential social services such as adequate water and sanitation place relevant utilities tasked with ensuring delivery of such service in the political and developmental spotlight. As in the case of the EWSC, there are huge expectations in as far as delivery of infrastructure development projects that will be implemented particularly to increase access to water and sanitation is concerned. The corporation is indeed expected to lead projects aimed at increasing capacity of bulk water storage through investment in multi-purpose dams, albeit against the backdrop of structural and operational difficulties, among them:

- Aging infrastructure: The structures and materials used in piping systems are reaching the end of, or have exceeded, their life expectancy.

- Rapid pace of urbanisation and industrialisation: The increase in population and industrial output has resulted in the demand for water and sewer services. In some communities especially unplanned settlements it is difficult to provide an adequate supply of clean water and sanitation.

- Cumbersome tariff approval process: The tariff approval process takes a longer time due to the number of approval structures. The absence of an independent economic regulator makes it difficult to charge a cost recovery tariff that would support financial, economic and social goals. The corporation's tariffs for water and (limited) sewerage services are agreed with the Government and are set at levels that enable the EWSC to fully cover its operational and financial costs. Residential service is heavily subsidised by commercial consumption, which may have longer-term impacts that may need to be addressed in future adjustments to tariff structures.

- Lack of adequate water storage: There is a critical need to increase raw water storage through the building of strategically located dams so that current and future water demand is catered for. Of concern is also the problem of raw water storage. Eswatini is not better placed to meet short to medium term water demand because of the lack of storage facilities for raw water. The lack of raw water storage is a major threat to the sustainability of water supply. There is also the need to upgrade infrastructure to increase supply capacity.

- Lack of financial resources for the development of water and sewer infrastructure: The non-availability of an adequate budget for accelerating the provision of the necessary infrastructure for water and sanitation access has slowed down progress on meeting socioeconomic targets. Investment in water and sanitation infrastructure requires huge capital outlays and even if finance is made available, the payback period is longer resulting in low liquidity to meet operational costs.

- Climate change induced droughts: Climate change resulting in drought spells affect water sources and threatens sustainability of long-term water supply. Its recent operational and financial performance has somewhat declined because of drought-related water shortages that resulted in lower water sales, in particular from some high-consuming industries, which turned to private boreholes to meet their water needs.

- Increasing costs of production: The rising costs of production inputs (electricity, chemicals, materials, and consumables) usually at a rate above inflation affects the fixing of a cost reflective tariff in that tariff determination is normally a function of the consumer price index (CPI) which Government uses as a base to set the "major rate."

- The currently prevailing difficult economic conditions continue to weigh negatively on utility SOEs' growth and expansion plans, with fiscal consolidation strategy which has resulted in cuts in recurrent and capital expenditure has slowed down the completion of critical water and sanitation infrastructure projects for instance. Government's debt for services such as water and sanitation is also unsustainably high and severely impairing the relevant SOE's capacity to deliver mandated services. As it currently stands, it does not look like Eswatini will be able to meet its targets related to water and sanitation service provision as set in Vision 2022.

- Meanwhile, in other utilities such as electricity provision, the imperative to adjust the tariffs to reflect the real costs of delivering electricity to the customer have been emphasised for years now. Unfortunately, the relevant SOE, the EEC has, over the years, been granted tariff increases that are below the rate at which its business costs are rising. This has created a funding gap in the business. While the need to cushion the customer against inflationary pressures is understandable, this concern would need to be balanced with the imperative to sustain the business that delivers a crucial service to the nation. In 2019, EEC overhauled its tariffs and developed a new structure, resulting in the introduction of 'time-of-use tariffs' for large industrial and irrigation customers. EEC also introduced a new tariff, the "life- line tariff'" to benefit low-end customers who consume below 150 kWh per month.

- The other challenge has been the downward spiral of the Lilangeni/Rand value compared to the US Dollar over the years. This necessitated the temporary suspension of the EEC's Power Supply Agreement with Mozambican power utility, Electricidade du Mozambique (EDM), as the cost had surpassed the selling price to unsustainable levels. Furthermore, EEC's internal generation in hydro power stations was halted in the 2015 and 2016 because the water volume had dropped below the required level for electricity production. As such, the company would be forced to import electricity from South Africa's power utility, Eskom and the Day Ahead Market (DAM) under the Southern Africa Power Pool (SAPP) at exorbitant prices, especially during peak hours and the high season. The country relies entirely on imported electricity for base load which is normally around 80% of the total electricity consumption.

- Further, the country is prone to continuous high-lightning incidents and harsh summer storms. In the past, this would often result in regular unplanned power outages. Whenever transformers are destroyed by lightning therefore, it would result in huge replacement costs and longer outage periods.

- The illegal by-pass of EEC supply increases commercial losses and undermines efforts of revenue collection and system losses management. EEC embarked upon a programme to encourage whistle blowing and also to conduct meter inspection, with many culprits being apprehended and handed over to the law enforcement agents for prosecution.

- Copper theft remains a challenge for EEC and the vandalism of EEC infrastructure continues to compromise the company's Network Protection System and this adversely impacts upon the customers. Various initiatives are currently being explored by the company to step up security and surveillance measures at key sites, especially at the major substations.

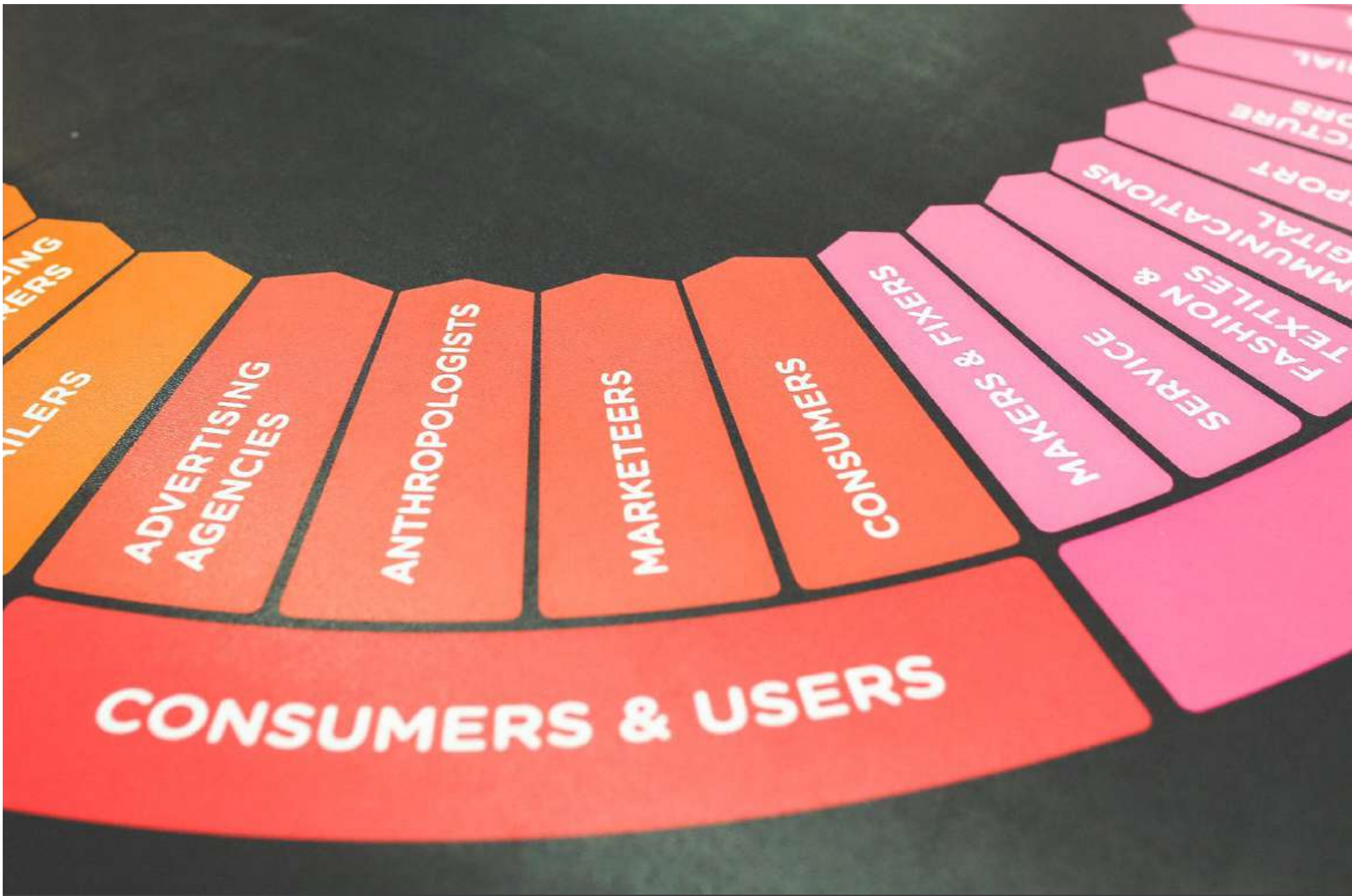
- An interesting issue from the study has been the disquiet that has been caused in the past with utility SOEs being both service providers and industry regulators at the same time, with the EPTC being a case in point.

- Up until 2013, the Corporation doubled up as the national regulator of the communications sector and a shareholder as well as active participant in providing the utility service, thereby giving it unfair advantage over competitors. A lawsuit was in fact then instated by major actor in the industry, Eswatini MTN, with the Supreme Court ruling in the complainant's favour in aspects of the conflation

- The eventual passing of the Eswatini Communication Commission Act of 2013 into law liberalised the telecommunications industry by establishing the Eswatini Communication Commission (ESCCOM) as an independent regulator, a development seen as having been important in evening the playing field.

- The provider currently battles catching up with fast moving technology, especially the threat provide by mobile telephony. Fixed telephony technology continues to be impaired by thefts to copper wires among other acts of criminal sabotage. The SOE generally lags behind in terms of investment to remain at par with other fully market facing competitors

- The quest for viability versus affordability and accessibility of services remains contentious in as far as rationalisation of tariffs is concerned. Now the current practice of price setting, without a regulator often results in utilities not recovering their costs of providing the service and limits effective maintenance and the rate of investment in infrastructure. There is a strong need to establish an independent regulator for utilities so that tariff proposals can be independently evaluated and approved. This can significantly reduce the time between tariff proposal and tariff approval.The Privatisation Policy of the Kingdom of Eswatini makes provision for the establishment of an independent regulator. The independent regulator would consider tariff proposals whilst considering the interest of stakeholders and that of the utility in terms of pricing and quality of service.



III. Marketing SOEs

- As it emerged from the study, management of perceptions in the country's socio-political economy, ease of doing business indicators does have an unavoidable linkage to the attractiveness of Eswatini as a tourism as well as investment destination.

- Further, regarding investment promotion, one of the key challenges faced by the relevant SOE (EIPA) includes the low skills transfer especially in corporate institutions that will have been established by foreign nationals in Eswatini. This is largely in view of the fact that most managerial and supervisory positions are held by expatriates, who are recruited specifically in their home countries. There is very little and in some instances no training, is given to the workers and there is little room for advancement to a better position. The textile industry is one such prolific example. The question then is how to attract investment that also couples with capacity development for locals in the country.

- Again, negative perceptions regarding labour rights create risks in the country's access to export markets and donor support and is a huge challenge that the relevant investment promotion SOE has to deal with as it works towards achieving its mandate.

- Interestingly, it appears a lot of the drive is towards marketing the country as a tourist destination to outsiders (perhaps understandably so due to the bigger sums they bring into the economy). There seem to be gaps in understanding how best to promote local level products and services to locals (both in tourism and investment), considering instability in the global economy due to challenges such as the COVID-19 pandemic.

- In terms of promotion of agriculture, price setting (against the backdrop of high production costs) continues to discourage agricultural production by local farmers and thus create shortfalls in milk and essential grains such as maize at national level. This would be made up by imports from which levies are collected. The levies collected are absorbed in operational costs of the Boards than development of the sector.

- There are SOEs such as the Youth Council, Eswatini Sports and Recreational Council, and the Eswatini Arts and Culture Council, whose important work in promotion of Swazi arts and culture including sports needs to be quantified and connected to the national economic agenda in terms of contribution to GDP, number of jobs the sector creates as well as the other value chains in the economy it enhances. There would; however, be need for increased investment in building consensus and engaging stakeholders to ensure vibrancy and continued engagement of the sector by ENCAC and ENSRC as non-government organisations or private sector-led organisations that can become a platform to consolidate, voice out, and manage the interest of these sectors. Government's subvention to these entities is simply not enough to implement mandate or to make significant contributions to the economy. At the same time, there is no evidence showing that these entities are engaging in intensive resource mobilisation to supplement the subvention to implement impactful national programmes. Youth development, be it in sports, arts, culture, entrepreneurship, etc., is not well coordinated with youth initiatives implemented haphazardly not leading to meaningful and measurable national impact. The Ministry of Sports, Youth and Culture needs to play an advocacy role to ensure that all central agencies and their parastatals have programmes addressing social and economic issues faced by the youth. There is a need to strengthen the coordination of youth initiatives and bolster resource mobilisation to support overall youth development in a strategic manner.

IV. Sectoral Development/ Capacity Building

- SOEs under this sector face a huge risk due to 'over-reliance' on government subventions for their sustenance.

- Fixed term, project based contracted employment has also meant that such entities would have high turnover as staff look for greater predictability, with an unfortunate effect on project delivery. However, good leadership and attractive incentives become the necessary ingredients for managing these staffing, retention, and performance issues.

- Meanwhile, high failure rates of starting up small businesses (not just in Eswatini) or the slow rate of turning over to profitability means that the vast contribution of capacity building SOEs, in this case like SEDCO may be masked.

- The need for capacity development, whether it is for new and small businesses or in building resilience and adequate disaster management, due to resource constraints, tend to be focused on the main urban areas that are most accessible. The questions then arise on how to decentralize such important services and most of the capacity building SOEs have been struggling in that regard.

- With changes and advances in technology and limited resources, capacity building SOEs find themselves also trapped in being inadequately prepared to train and capacitate the nation on emerging and new approaches.

V. Government Agencies

- A majority of the government agencies still need government investment is systems and operational structures to ensure that they able to effectively implement their mandate. The two major government agencies are the Eswatini Revenue Authority (SRA) and the National Disaster Management Agency (NDMA).

- SRA subventions have been growing quite significantly over the years since its establishment in 2012. It is one of the highest subvented entities by government. The entity has been in the process digitizing some of its processes for tax collection and compliance in order to improve efficiencies. Despite the digitilisation efforts and streamlining of service implemented by the SRA in recent years, the entity has also been growing significantly in terms of administration.

- Undoubtedly, the role of SRA in revenue collection cannot be over-emphasised. While tax collection is a critical and ever relevant function that must be implemented by the SRA, there is also a need to take a systems approach to reduce the cost of implementing this functions and ensure that it maintains sustainable performance ratios. Closely linked to this challenge is the fact that the informal sector still represents about 40% of Eswatini national income. This means that the majority of the country's revenue is still in the hands of people and companies that are likely not registered or technologically inclined to use the ICT systems in place to comply. This remains an untapped revenue source for the country.

- Government created the SRA in 2010 because it recognised that a static organisation would not effectively collect money from the private sector hence the need to have a semi-autonomous dynamic tax collection agency. Since SRA was established, growth in revenue collection has been significantly above GDP growth. On average revenues increased by 11% per annum with average inflation of 4% and economic growth of 2%. This is a strong indicator of consistent improvement in the effectiveness of SRA as a revenue collection agency for government. However, the difference between revenue growth and GDP growth is declining over time. The underlying issue now a hand is that traditional methods of revenue collection will no longer be relevant. The SRA need to shift to now focus on data analytics and technology to encourage and ensure compliance. A starting point would be for SRA to establish a digital record of have a digital record of person/entities in the Eswatini economy.

VI. Investment/Insurance SOEs

- The study established that participation rates in pension fund systems have remained relatively low, largely due to the still-predominant role of informal sector jobs in the country's private sector and the biggest fund, the PSPF, is created solely as a pension management vehicle for civil servants. Formal and permanent employment in Eswatini accounts for a small percentage of the eligible labour force, which leaves the bulk of the national population without any pension or social safety net. In the specific case of PSPF for instance, coverage of the pension fund, is low (under 10% percent of the population) and targets only civil servants, who account for a minority of relatively highly paid workers in formal sector employment.

- It goes without saying that this makes for a highly regressive system, and even the PSPF is increasingly becoming overburdened as pension payouts often exceed contributions. As early as 1999, it was reported that the PSPF was running into trouble due to the extent of AIDS related claims and the fund was not designed to cope with this risk and has been struggling since. At that time, 76% of the claims were due to AIDS related deaths and 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 died much younger and with small children, this placed a very large burden on the fund .

- It should be noted that the urgent issue for ENPF reform is not only in the need to introduce a social protection system, which covers more people other than civil servants. The fund should also be a vehicle to help alleviate demographic pressures, poverty amongst the elderly and provide support for households headed by grandparents following the HIV/AIDS pandemic and loss of income as a result of the world economic crisis between 2007 and 2010.

- Related to industrial development, there is notably a general shortage of skilled labour in the country, particularly in SOEs. With the increasing importance of the service sector, especially in financial services and telecommunications, the economy bears an increasing need for skilled and semi-skilled labour. This generates a substantial mismatch between required skills and the existing labour force, in this instance, with technical experience and knowledge in assessing applications from enterprises that require support.

VII. Infrastructure SOEs

- The study has shown the importance of investment and technology upgrades by SOEs working in the infrastructure sector, including maintaining relevance of rail against competition from road transport alternatives, in the case of Eswatini Railway.

- With the country's slow economic growth, resilience is also key and being asked across, especially transport SOEs as their respective sectors take a knock as consequence of the economic factors.

- Meanwhile, such SOEs as are existing in the tech and innovation spaces, for instance the RSTP continue to face the risk of spreading themselves too thinly as they try to reach as many start-ups as possible, thereby presenting the risk of ineffective/insufficient interventions as long as the numbers are there.

- Partnerships with private sector have also been seen as key especially to sustain a continuous flow of investment in tech and other resources to enable the relevant SOEs to continue fulfilling their mandate.

VIII. Purely Commercial SOEs

- SOEs working within the tough openly competitive and purely commercial markets yet without the requisite institutional infrastructure do struggle to keep afloat and the best way would be to restructure them and set them on pathways as purely commercial entities, run by professionals and expected to abide by corporatised codes of conduct and practice. The Government of Eswatini should avoid setting up SOEs to compete with the private sector, which in most cases ends up crowding out the already thin private sector. Government should set up the SOEs to **provide services where the private sector would not,** to **create new markets,** and **to induce growth that will expand the private sector** and thereby **increase the economic and tax base.**

2.3. Key Reforms

In view of the identified challenges, a number of recommendations are made to enhance performance of SOEs in Eswatini, including among them institutional reforms in areas such as corporate governance and strategy. The review recommends strengthening the PEU and remodelling it into a fully-fledged and fully capacitated agency managing and monitoring the performance of SOEs in the country.

The review further suggests that a system of clear and effective incentives be designed and implemented to reward the managers and employees for improvements in efficiency, productivity, and consumer satisfaction. However, a one-size-fits-all approach will not be effective and sustainable. Particularly for the purposes of monitoring performance and tracking progression towards realisation of key performance indicators. It is also important to enhance SOEs' capacity in data collection, reporting and knowledge management, including making use of their often obsolete and outdated websites and digital media platforms.

High staff turnover and incapacity to attract skilled labour emerged in the review, with poor conditions of service and the issues of inadequate skills and limited capacity to retain highly qualified personnel (due to low remuneration and incentives) had a bearing on performance and delivery on set mandates among many of the SOEs.

The review further encourages the scope for reform to be considered in its broadest sense to go beyond privatisation and look into the wide spectrum they may include rationalisation.

Recommendations for reform

- Government's **footprint on the economy is quite substantial:** want to rationalise SOEs and service delivery to gain on social and economic development.

- The **pace at which the country is setting up these enterprises is concerning;** most Bills tabled in Parliament are now coming with a quasi government entity attached to them, which points to lack of policy/framework for establishing SOEs/parastatals in Eswatini.

- Eswatini's SOEs are **now huge burden on the economy and on the fiscus,** with transfers to Category A parastatals approaching the E3 billion mark (E2,4 billion) in 2020/21.

- Ideally, parastatals should play a role where the private sector would otherwise not, should be **developmental in their approach** and contribute to the expansion of the economic base, socioeconomic sustainability, and enhanced government service delivery.

- Government needs to define and **separate the operations of the public entities (PEs) from any similar functions within the relevant line ministry.** Once a PE is created through a need identified within a lineministry, the PE should not operate as a department but as a semiautonomous public entity with a focused mandate. Where the central government finds that it needs control over the functions of a PE, that PE is better placed as a department under the relevant line ministry.

- **PEs need to be fully accountable to the PEU** and their creation and amendment of functions need to occur through the PEU. However, the PEU and the PEs are to maintain good relations with ministries to ensure the effective implementation of mandates as per the priorities of national development plans, national policies and sustainable development goals.

- Government must **develop a PE Development Policy** to provide the framework for the establishment of PEs in Eswatini. One of the key reforms necessary for streamlining to be effective is that the PEU needsto be established as the gatekeeper for all processes relating to the creation of PEs in Eswatini. All central agencies need to conform to this new approach, which will require all requests to create/dissolve PEs to be processed via the PEU for approval.

- All the PEs need resetting to form new entities. There is a need to **set new rules for the remaining PEs:** which need to be restructured and revamped –new culture of service delivery and alignment with national development goals.

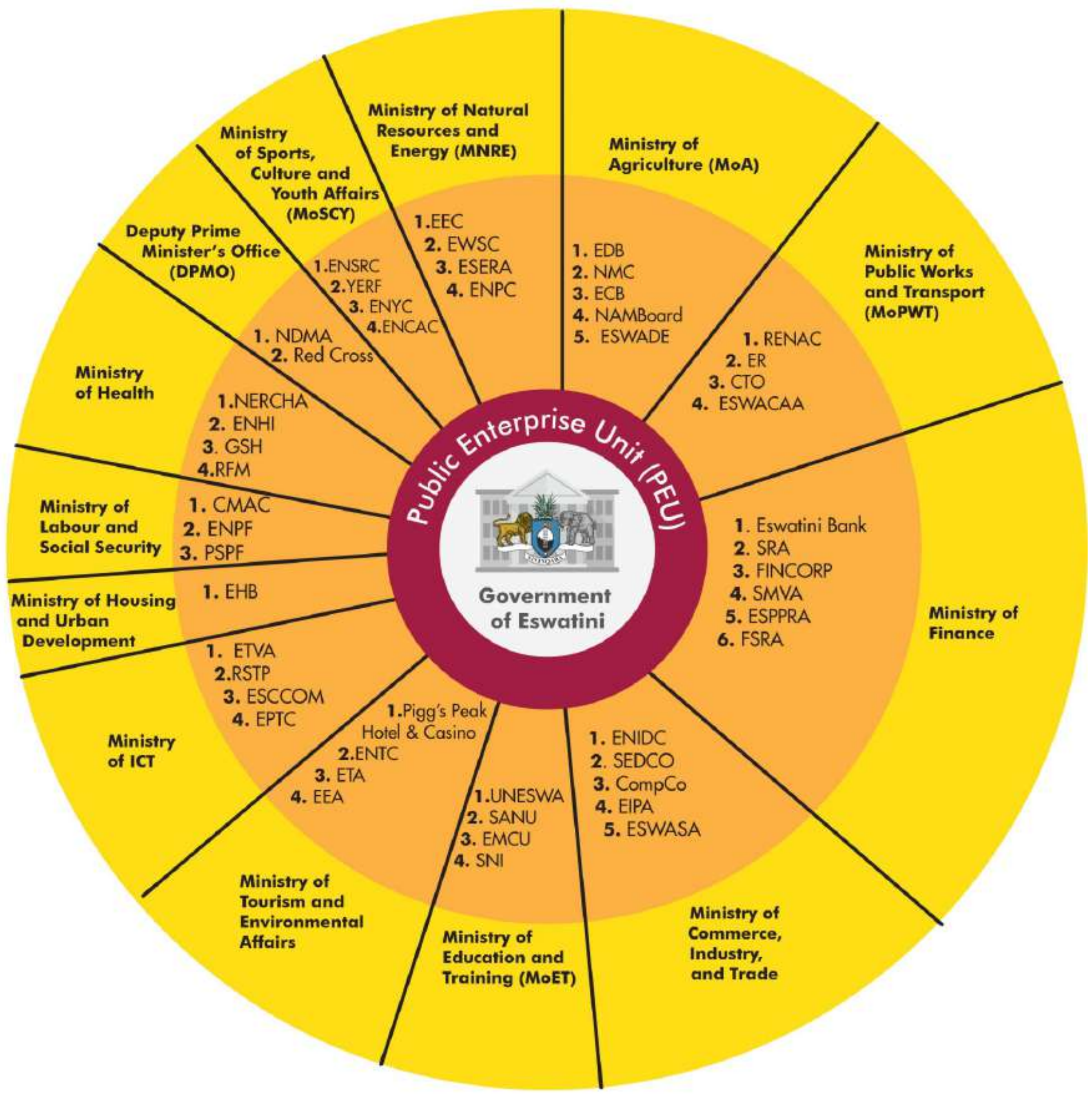
- Government needs to **review and amend the current PE (Control and Monitoring) Act to align with the Policy.** The New Policy and the PE Act need to support and heighten the controls stipulated in Public Finance Management (PFM) legislation. A key issue to be addressed is the collection of levies, which must be done to develop sectors of the economy, enable the operations of the regulators and ensure that the management of these funds is in line with the PFM. The levies need to be kept in a special account at the Central Bank of Eswatini so that entities will withdraw funds based on approved strategic plans detailing the costs and benefits to the economy.

- The PEU needs to **develop a performance measurement system (PMS)** appropriate contracts and remuneration structure for executives of the PEs. A critical element of the PMS is to ensure that key performance indicators align with the mandates of the PEs.

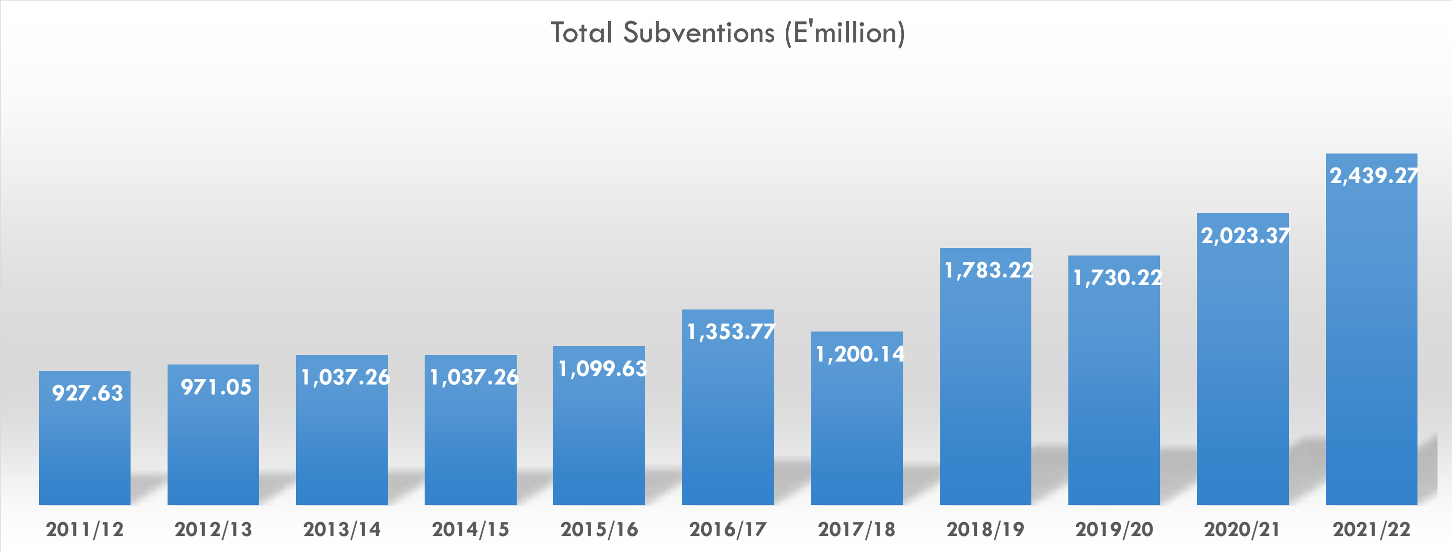
Recommendations for reform

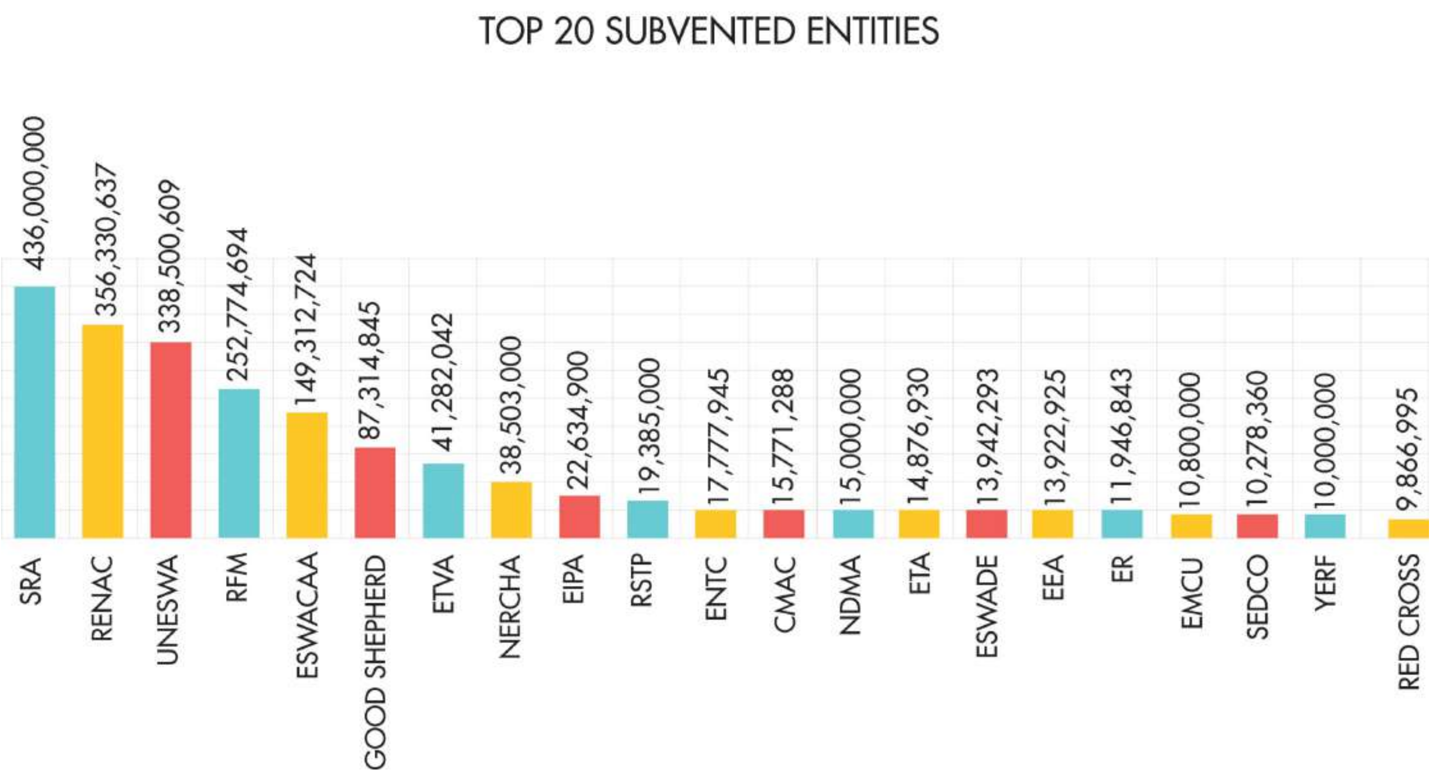
- The PE Governance Structure needs to be reformed to improve performance and accountability. Board members need to understand that their fiduciary responsibility in the PEs is to serve the interests of government and the overall sustainability of the PEs.
- **Government must commit to the legislative changes** that come with the recommendations of the PE Reforms Report and establish a system to fast-track the development and amendment of legal frameworks within set deadlines.
- Finally, the Government of Eswatini needs to cost the reforms in terms of exit packages, conduct an inventory of assets and liabilities accumulated by all PEs and ascertain the resources that will be needed to establish the new structure of PEs – Phase 2 of the Study.
- Government needs to **commit to the implementation process.**

Current structure of SOEs



What is the cost of the current structure?





Classification of Parastatals

Utilities
- EWSC
- EEC
- EPTC
- ETVA

Regulatory
- ESERA
- FSRA
- EEA
- CompCo
- ESPPRA
- ESWASA
- ESWACAA
- CIC
- NAMBoard
- ESCCOM

Marketing
- EIPA
- ETA
- ENTC
- Dairy Board
- Cotton Board
- NMC
- ENCAC
- ENSRC
- ENYC

Infrastructure
- ESWACAA
- ER
- RSTP
- ENPC

Sector Development
- SEBENTA
- ESWADE
- NERCHA
- SEDCO
- EHB
- Red Cross

Investment/ Insurance
- MVA
- PSPF
- ENIDC
- ENPF

Financial
- YERF
- Eswatini Bank
- FINCORP

Government Agencies
- SRA
- CMAC
- CTA/CTO
- NDMA

Subsidised Services
- UNESWA
- SANU
- ECMU
- GSH
- RFM

Purely Commercial
- Pigg's Peak Hotel
- RENAC

ROADMAP FOR STREAMLINING PEs

01
RESTRUCTURE PE REGULATORY FRAMEWORK
PEU to become gateway for creation, supervision, and dissolution of PEs

02
CREATE EFFECTIVE REGULATORS
Focus on holistic regulation of sectors instead of cubic regulators

03
CREATE WORLD CLASS UTILITIES
Government to support infrastructure development and utilities to operate infrastructure to enable access to affordable, reliable, and quality utilities

04
ENHANCE SECTOR DEVELOPMENT
Invest in critical sectors of the economy: agriculture, ICT, financial inclusion, business, education, health, etc

05
STREAMLINE GOVERNMENT AGENCIES
Streamline, monitor cost of implementing function, invest in systems to control administration costs and bureaucracy

06
PRIORITISE PRIVATISATION OF COMMERCIAL PES
Sell, contract out management, explore PPPs, develop aggressive business and marketing strategies

07
RECOGNISE ATYPICAL PES AND TRANSFORM STRATEGICALLY
Explore emancipation and commercialisation of these entities

08
COMPLETE AND CLOSE OUT PROJECT PES
Complete programmes and close out

09
COMMIT TO THE IMPLEMENTATION PROCESS
Reset and Set new rules for the remaining PEs

1. Create Sector Regulators (7)

Consolidate into seven (7) Sector Regulators

A CEO and Board for each Group

Focus on Centralised Common Services Administration for each Group

Holistic Regulation of each sector

Portfolio of Sector Regulators

Infrastructure	ICT & ENERGY	Business	Environmental Management	Financial	Agriculture	Health	Education
Transportation – Rail, Road, Air	1. Communications 2. Energy (power, petroleum, & water)	1. Competition 2. Consumer Protection 3. Intellectual Property 4. Standards	1. Environmental Protection & Licensing 2. Industrial Processes, Hygiene, and Licenses 3. Construction Standards & Licensing	1. CBE to be in charge of overall Financial Stability (both bank & non bank) - FSRA 2. Financial Inclusion component to be part of CBE 3. Public Procurement	Regulatory functions of NAMBoard, Cotton Board, and Dairy Board	Regulatory functions of the health sector	ESHEC and all other regulatory functions of the education sector

2. Create World Class Utilities (5)

1. **EWSC**

- To continue operations as per business as usual but now to be subject to regulation by the energy regulator
- EWSC to continue to explore network expansion in peri-urban and rural areas where it makes business sense but this does not mean that the entity needs to merge or consolidate with the Department of Water Affairs (DWA)

2. **EEC**

- Ring-fence EEC business model so that it only focuses on operating, maintaining, and expansion of national grid
- Establish a method to account for generation, transmission, distribution, and supply of electricity; however, there is no need to unbundle the EEC into three separate entities...for now.
- To provide power as one of the country's independent power producers (IPPs): ring-fence the power procurement method so that there is a separate entity that deals with implementing the power procurement agenda and facilitation of power purchase agreements from all the IPPs.
- Must focus on efficiency gains and to lower cost to consumers

3. ESWATINI ENERGY AND POWER PROCUREMENT UNIT

- Establish independent unit for power procurement and to enable implementation of IPP Policy
- To handle power purchasing agreements
- To implement power procurement as per the Energy Master Plan working directly with the Ministry
- To maintain a lean administration
- To increase power generation through facilitation of the IPP Policy
- Can be house under the utilities group of the sector regulators
- To be funded through the energy regulatory fees

4. EPTC

- Unbundle EPTC to form an ICT backbone infrastructure company, a telecoms retail company, and a postal company
- The ICT backbone infrastructure company to establish, operate, and maintain the national telecommunication infrastructure/to service all licensed telco operators in Eswatini
- To sell last-mile service to the private sector licensed operators
- The telecoms retail company to provide fixed line/wireline and wireless services to consumers
- The postal company to revive the postal sector and venture into other services such as door-to-door courier, etc.

5. **ETVA (PRIVATE SECTOR OPERATOR)**

- Restructure ETVA to make it financially sustainable as well as find a private sector and/regional/international partner for programme development.
- In the short-medium term, to ensure ETVA has access to facilities, the Ministry of ICT and the PE can facilitate MoUs with EBIS to allow the institutions to cooperate and share facilities such as studios
- Commercialise the operations of ETVA by contracting out management & operations of the TV station in order to attract investment and development of commercial TV programmes
- Consolidate collection of TV license with broadcasting component under communications regulator - broadcasting levy

  The TV license fee collected needs to support all TV service providers not just ETVA alone

3. Enhance Sector Development (6 PEs)

1. Royal Science & Technology Park (RSTP)

- RSTP must refocus on its mandate, which is to promote science, technology, and innovation in Eswatini.
- Enlist the services of a private sector operator to run the Biotechnology and Innovation Parks to implement core mandate.
- Prioritise completion of sections under RSPT that can enable the entity to fast-track income generation and self-sustainability.
- Determine a clear schedule for completing RSTP and weaning it off from subvention.
- Leverage RSTP for the provision of government services such as computer services, procurement ICT system, data centre, national data recovery centre, etc. However, the departments such as Government Computer Services Department do not need to merge with RSTP.

2. Eswatini Livestock Development Enterprise

- To be responsible for all livestock development services.
- Extension, R&D, market establishment & marketing, value chain development & commercialisation of small-scale farmers, industry engagement, etc.)
- Develop livestock sector strategy & implement it
- Transform Eswatini Dairy Board and expand mandate to include all livestock development.
- No regulation function.

3. Eswatini Crop Development Enterprise

- To be responsible for all the crops/ horticulture development services.
- Extension, R&D, complete value chains, market establishment & marketing, commercialisation of smallholders, industry engagement, etc.).
- **Transform ESWADE** to be the anchor PE. **Consolidate NAMBoard, NMC, Cotton Board into this newly formed PE.**
- The new PE will not have a regulatory function.

4. Tourism Development & Promotion Enterprise

- To develop Tourism Sector Comprehensively.
- Re-envision the tourism sector to include health tourism, services, etc. Market Eswatini as a destination
- To provide product development services for Eswatini's natural resources.
- Find commercial solutions (e.g. privatise) for operating Eswatini's National Parks, cultural village, cultural heritage sites, and tourism information centres.
- Oversee the management of National Museum and improve product and service delivery
- Oversee operators for ICC&FISH and leasing out of Pigg's Peak Hotel
- Transform ETA to be anchor PE. Consolidate/merge functions of ENTC into this PE.

5. Eswatini Investment Promotion Agency (EIPA

- The new generation investment promotion agency to focus on attracting investment into Eswatini, promote improvements in ease of doing business, and improve trade activities for both local businesses and FDIs
- Need to develop Investment Strategy for the sectors earmarked for growth under Government's Strategic Roadmap as well as identify new sectors to channel investment.
- Establish one-stop-shop investor support service centre for locals and FDIs.
- Produce and update investment framework based on sector analysis and business growth potential, support potential investors navigate the system and comply to Eswatini's investment requirements.
- To finance the activities of the new EIPA, government can transfer management of factory shells to the entity and allow it develop a model for construction and maintenance of factory shells in Eswatini to service all qualifying investors.
- House it under the Business multi-sector regulator in order to enable it to cooperate and work with the regulators to improve the ease of doing business in the economy.
- Transform/Reset/Restructure EIPA into this new generation

6. FINCORP

- To focus on its development mandate: To focus on MSME development finance.
- To be the entry point for access to MSME finance in the economy.
- To offer venture capital and operate as a DFI not another commercial bank.
- Consolidate SEDCO under FINCORP: establish a fully-fledged MSME business clinic to be a subsidiary of FINCORP that can support the generation and operations of viable MSMEs in Eswatini.

4. Streamline Government Agencies (6)

1. SRA

- Tax collection agency.
- Focus on a systems approach to tax collection and leaning out administration.
- Expand reach for tax collection and compliance.
- Focus on efficiency gains to reduce cost of collection.

2. CMAC

- To focus on mandate for the first contact for conciliation, mediation, and arbitration of labour issues.
- To be the first line responder for all dispute management and resolution services in Eswatini for labour, business, and private individuals.

3. NATIONAL EMERGENCY & DISASTER MANAGEMENT AGENCY

- To coordinate all national emergencies and disasters in Eswatini.
- To be responsible for both natural and anthropogenic emergencies/disasters.
- To implement emergency and disaster response programmes using a multi-sector/multi-stakeholder approach.
- A lot of people are still HIV negative and must be kept negative.
- NERCHA plans to mainstream HIV in the next 2-3 years, as it is expected that the number of new infections and people dying from AIDS will be met by 2024/25 and these will be below the 1,500 mark. This will mean that Eswatini would have achieved its goal to reduce the number of people dying from AIDS, that is, Eswatini would have ended AIDS.
- The country needs the new generation national emergency and disaster management entity and the functions of NERCHA will be implemented under this entity. The institutional memory and network with communities and funders that each institution has established will be maintained and enhanced under this new structure.

4. MVA

- To re-focus on its mandate.
- Ensure timely processing of claims.
- Lean and restructure MVA's organisational structure.
- Restructure and leverage MVA to establish the roads agency administrator: to account for component of fuel levy allotted to road maintenance and construction. The Road Fund Administrator under MVA will then issue and manage road maintenance and construction contracts to private sector companies as per the Ministry of Public Works and Transport's needs. A fully-fledged and standalone Roads Agency would drain the levies, rationalise implementation of non-viable projects, and end up costing the economy without improvements on road maintenance.
- The new generation MVA will probably need a name change to encompass its additional functions.

5. ENPF

- Government should exercise caution in transforming the provident fund into a national pension fund. Primarily, the MoLSS wants a fund that can address national social security needs.
- Before transforming ENPF into a national pension fund, it must be noted that government is liable for any social security scheme. In other words, government has to guarantee the fund.
- A national pension fund will not be viable unless the conversion of ENPF will involve a significant increase in premiums as well as ensure that all working citizens are able to contribute to the Fund. The evidence suggests that caution still needs to be exercised and the issue needs to be fully interrogated to prevent overburdening government. Government can consider the conversion from a provident fund to a pension scheme if the current premiums (E155 from employer and E155 from employee) will be used as E310 premiums that will guarantee an employee a specified monthly income when they retire instead of cashing out a lump sum savings amount. Even so, the conversion will fail to meet social security objectives because it will only focus on employees who have permanent employment in the economy.
- Further analysis and extensive stakeholder engagement is necessary before making a conclusive and binding decision.

6. PSPF

- Government needs to maintain oversight of the fund.
- Contributions and length of employment need to be commensurate with final pay-out.
- Conversion of ENPF to a national pension fund could negatively impact the financial capacity of PSPF and subsequent performance. The proposed national pension fund could erode revenue for this entity.

5. Prioritise the Privatisation of Commercial PEs

PUBLIC ENTERPRISE	TYPE OF PRIVATISATION	ACTION STEPS FOR PRIVATISATION
PIGG'S PEAK HOTEL AND CASINO 01	Selling the hotel is the best option. If not, find a competent operator.	• Sell the hotel or find a competent operator to run it. • Enlist the services of the tourism PE to find an operator and to draw up a contract for leasing the property.
ESWATINI BANK 02	Remodel it into an efficient development bank with a new brand to compete with the commercial banks. Government can use the bank as a vehicle for operationalising some of its development funds.	• Remodel the bank through an aggressive restructuring and marketing strategy. • Find an international partner for capitalisation and to improve the technological capabilities of the bank.
ESWATINI CIVIL AVIATION AUTHORITY (ESWACAA) FOCUS ON KMIII INTERNATIONAL AIRPORT 03	Unbundle ESWACAA by separating regulatory functions from airport operations. Government needs to privatise the operations of the airport by getting a private sector company to run the airport. Regulation of the aviation industry to be implemented under a sector regulator.	• Find a reputable/competent international operator to run the airport and bring in traffic to land at KMIII International Airport. • Border Control and Immigration Services to be carried out by the ministry responsible for this service. • The Ministry of Home Affairs will run the immigration function and RENAC will be one of the operators using the airport. • The airport operator to attract other regional and international airliners to use the airport to increase traffic. • The operator can induce and drive the implementation of the special economic zone at KMIII/Sikhuphe area.
ESWATINI RAILWAY (ER) 04	Privatise by subdividing the railway into manageable components, some of which can be leased out/concessioned to the private sector. Each operator to focus on its core business.	• Develop an aggressive marketing strategy to off-load heavy road cargo onto the rail. • Expand its footprint in the Eswatini economy and government revenue mobilisation through rail. • Explore privatisation strategy for some components of the rail business.
5.ROYAL ESWATINI NATIONAL AIRWAYS CORPORATION (RENAC) 05	Implement an aggressive commercialisation strategy for all operations and use earnings to subsidise operations and the maintenance of state aircraft.	• Commercialise RENAC activities and wean it off from subvention. • Establish a travel agency with an IATA Clearing House license for competitive travel itineraries. • Renegotiate contract with SA Airlink for expansion of routes and to increase benefits to Eswatini. If contract renegotiation does not work out, establish independent airliner and explore additional routes to increase network of flights to and from Eswatini. • Establish charter airline to subsidise the cost of maintaining the state aircraft. • Engage private sector to establish an airfreight business through KMIII International Airport.

6. Recognise Special Case PEs and Transform Strategically

PUBLIC ENTERPRISE	SPECIAL CASE ISSUE/ ACTION	ACTION NEEDED FOR REFORM
UNIVERSITY OF ESWATINI (UNESWA)	01 Restructure the national university to become sustainable. Government should pay cost-reflective tuition for students instead of subvention that does not translate to improved skills development.	• UNESWA is a public/government institution for which government's role in developing the entity will always remain important; however, government has to devise a plan to wean UNESWA from dependency on subvention and supplementary budgets. • Restructure and lean out administration. • Rationalise programmes/courses offered by UNESWA to align with the needs of the economy. • ESEPARC together with the MoET need to conduct an in-depth analysis of the education sector to determine the best way to restructure UNESWA so that it becomes sustainable.
SOUTHERN AFRICA NAZARENE UNIVERSITY (SANU) AND ESWATINI MEDICAL CHRISTIAN UNIVERSITY (EMCU))	02 These are private universities that have been incorporated under the PE Act due to the support/subvention they are receiving from government. They both have a Memorandum of Agreement with government which is a ticket for receiving the subvention. Financial stability is a problem for both and subvention has become the main source of revenue to carry out all the functions of these universities.	• Emancipate these universities to ensure that they become sustainable private sector entities. Government should pay cost-reflective tuition directly to support qualifying students to study at their university of choice. • Government should stop subventions for payment of salaries/administration costs in these universities. • Focus on supporting students directly and the universities will rationalise and transform their courses to meet the demands of the industry.
ESWATINI NATIONAL YOUTH COUNCIL (ENYC)	03 The Ministry of Sports, Culture & Youth Affairs will continue to advocate for youth, sports, and culture issues in all of government policies, development plans, and programmes.	• Capitalise to establish a self-sustaining public entity that will advocate for youth issues and assist young people to access services from the government and private sector. • Need an aggressive Youth Sector Engagement Strategy for resource mobilisation to attract private sector and international funding. • To become anchor PE for implementing mandate of the Ministry of Sports, Culture, and Youth.
ESWATINI NATIONAL SPORTS AND RECREATION COUNCIL (ENSRC); ESWATINI NATIONAL COUNCIL OF ARTS AND CULTURE (ENCAC); AND YOUTH ENTERPRISE REVOLVING FUND (YERF)	04 Consolidate both the YERF and ENSRC under Eswatini National Youth Council to be run as specialised departments of the Council. Consolidate the ENCAC with the Eswatini Tourism Development Enterprise to have a specialised function for the development of arts and culture.	• Government will support the development of sports, arts and culture at the policy level (conducive policy environment) and by providing the necessary public infrastructure/ amenities to enable the development of the sectors.

7. Complete and Closeout Project PEs

PUBLIC ENTERPRISE	FUNCTIONS TO BE COMPLETED	ACTIONS FOR CLOSING PROJECTS
SEBENTA NATIONAL INSTITUTE (SNI)	Free primary education is now ensuring access to basic literacy and the National Development Plan has ensured the achievement of an 87.5% literacy rate in Eswatini.	• Sebenta Institute was a project to improve adult literacy. • The institution is now deviating from its mandate and tapping into Technical and Vocational Education and Training (TVET) skills development. • Government must complete activities with the current cohort and close the project once the group graduates. • Repurpose SEBENTA: for establishment of one non-formal education institution to coordinate skills development centres such as MITC, Mpaka and Nhlangano Vocational, etc.
ESWATINI NATIONAL HOUSING BOARD (EHB)	The entity was established to provide affordable housing to the middle class. Without a fully fledged national social housing policy and funding budget/mechanism, the current mandate of the ENHB will not work.	• Complete current projects and dissolve the functions of the ENHB. • Government can repurpose the entity by transforming it into a leaner organisation/unit under the MoPWT (Buildings Department) for leasing civil servant houses and the maintenance of government houses and buildings. The actual maitenance can be done by the private sector, while the entity manages the contracts, lease agreements, invetory of government's assets, etc. • Need to rationalise mandate, conduct an inventory of assets, sell some of its assets, explore the Sectional Title Act and transform to focus on a new mandate if the government finds it valuable.
SMALL ENTERPRISES DEVELOPMENT COMPANY (SEDCO)	Primarily established to promote entrepreneurship and increase the formal MSME sector.	• Government must carry out an inventory of assets. • Consolidate the functions of SEDCO with FINCORP. • MSME development remains relevant for economic empowerment of emaSwati hence the reason to establish a new generation national business clinic that can increase success of the MSME sector. The key is to link up the ideation of start-ups with the financing mechanism, that is, link FINCORP with SEDCO.
ESWATINI NATIONAL INDUSTRIAL DEVELOPMENT CORPORATION (ENIDC)	Primarily established to increase investments in the manufacturing sector.	• Finalise any outstanding investment deals and dissolve the ENIDC. • Government can ensure manufacturing sector investment through the Industrial Development Company of Eswatini (IDCE), FINCORP, Eswatini Bank and the Investment Promotion PE.

BAPHALALI RED CROSS

This is an international non-government organisation that should be left to operate as an NGO. What is peculiar is that the NGO is now dependent on government for its existence, yet government should only support it based a co-funding/co-sharing strategy for managing certain disasters or emergencies in the economy. The NGO also supports government in operating clinics in rural/peri-urban areas. Government also has the NDMA and is also responsible for disaster risk reduction and management in the country. Red Cross should be emancipated to become an independent NGO to attract international funding from the Red Cross Society.

RFM & GOOD SHEPHERD HOSPITALS

These hospitals do not need to be public enterprises under the PEU. They need to be independent hospitals that government will support based on the public service they offer. Government needs to review the current MoU with the hospitals. This should include a revision of the pricing structure and administration of health services under the hospital (public side). The governance structure of the hospital is torn between two systems (The Church & Government), which impact the management and sustainability of the hospital. Thus the role of government as an owner/supporter of the hospitals needs defining, and the support provided to the hospital clearly articulated, to reduce the hospital's dependency on government subvention and allow autonomy in its operations.

The private wing of the hospital can do more than what it is doing now in providing better quality services at a higher cost than the public wing. RFM needs a marketing strategy for the private wing and product development to attract Eswatini's middle class, at affordable rates (median to public and private hospitals).

Government subvention caters mostly for staff salaries and a few of the cash and care supplies (recurring expenditure). RFM does not have enough money for capital projects and to fund its daily opera-tions. It is quickly turning to another UNESWA.The fee structure of the hospital is highly controlled by the government in the objective of providing affordable health care to the 40% of the Eswatini population in the Manzini region. The hospitals revenue comes from the government subvention (90%), yet the church still owns the hospital. RFM need to fully become a public institution or govern-ment must let it thrive as independent private sector institutions. The quality of service is quickly deteriorating, which is a much worse disservice to the population that use these hospitals.

8. Other Key Considerations...

The Ministry of Sports, Culture & Youth Affairs will continue to advocate for youth, sports, and culture issues in all of government policies, development plans, and programmes. The Ministry needs to strengthen the coordination of youth issues and support resource mobilisation to encourage investment in youth programmes in the various programmes offered by government.

The Eswatini National Youth Council can become the anchor PE through which the Ministry of Sports, Culture and Youth implements its mandate. The main function is to sensitise and coordinate Eswatini's youth and ensure that it channels the youth to the relevant private and public institutions for access to services. To implement its mandate effectively, the Youth Council needs to develop a Youth Sector Engagement Strategy in order to attract significant private sector and international funding for development and implementation of national youth programmes. Government's subvention is not enough to implement the mandate, the Council needs to be at the forefront of developing strategies for designing and financing its key youth programmes. Government can support based on the programmes identified in the strategy.

The Youth Council can house the Youth Fund through which youth entrepreneurship and MSME development can be supported.

The Youth Council must attract private sector/development funding to match government's capitalisation of the Fund so that it can grow. At the same time, the businesses financed by the Youth Revolving Fund need to be linked to FINCORP for further development and graduation into higher levels of the MSME sector.

Likewise, the Eswatini National Sports and Recreational Council (ENSRC) can be part of the National Youth Council but become a department focusing on development of sports and recreational activities in Eswatini. Government can support this mandate through infrastructure/amenities development. However, programme development and implementation can be structured to attract investment and can be self-sustaining.

The Eswatini National Council of Arts and Culture (ENCAC) can be consolidated under the Eswatini Tourism Development Enterprise so that it becomes a specialised department focusing on the development of Arts and Culture in Eswatini. Part of the products of the tourism sector include the commercialisation of Eswatini's arts and culture, hence the recommendation to merge this function under the tourism enterprise.

8. Other Key Considerations...

continued

CTA/CTO

- Some of the activities under the CTO can easily be absorbed into the Ministry of Works and Public Transport or within the relevant Ministries, for instance the procurement and fuelling of vehicles. This calls for the improvement of procurement processes within the Ministry and with SPPRA.

- Fundamentally, the CTO should be consolidated into a unit within the Ministry of Public Works and Transport for Goverment Fleet Management and Monitoring. This should be a lean supervising structure of government that will issue/manage contract for fueling and maintenance of government vehicles to create demand in the private sector. The CTO can also be responsible for tracking/monitoring authorisation of use of government fleet to reduce misuse and reduce the cost of the CTO to the consolidated fund and the economy at large.

- It is clear that a bulk of CTO's functions can be implemented through the private sector, the country does not need a fully-fledged SOE to provide these services.

- The digitisation of processes and establishment of newer entities such as the SPPRA, Petroleum Company, etc., has warranted the review of the role of the CTO in the country. The ease and complexity of service delivery can be improved to increase efficiencies and cut down on wastage. Ministries must also be repositioned to manage their own fleet of vehicles while the Central Transport Unit should only focus on supervision, tracking vehicles and authorisation, managing contract for fueling and maintenance of the fleet through the private sector.

Eswatini National Petroleum Company

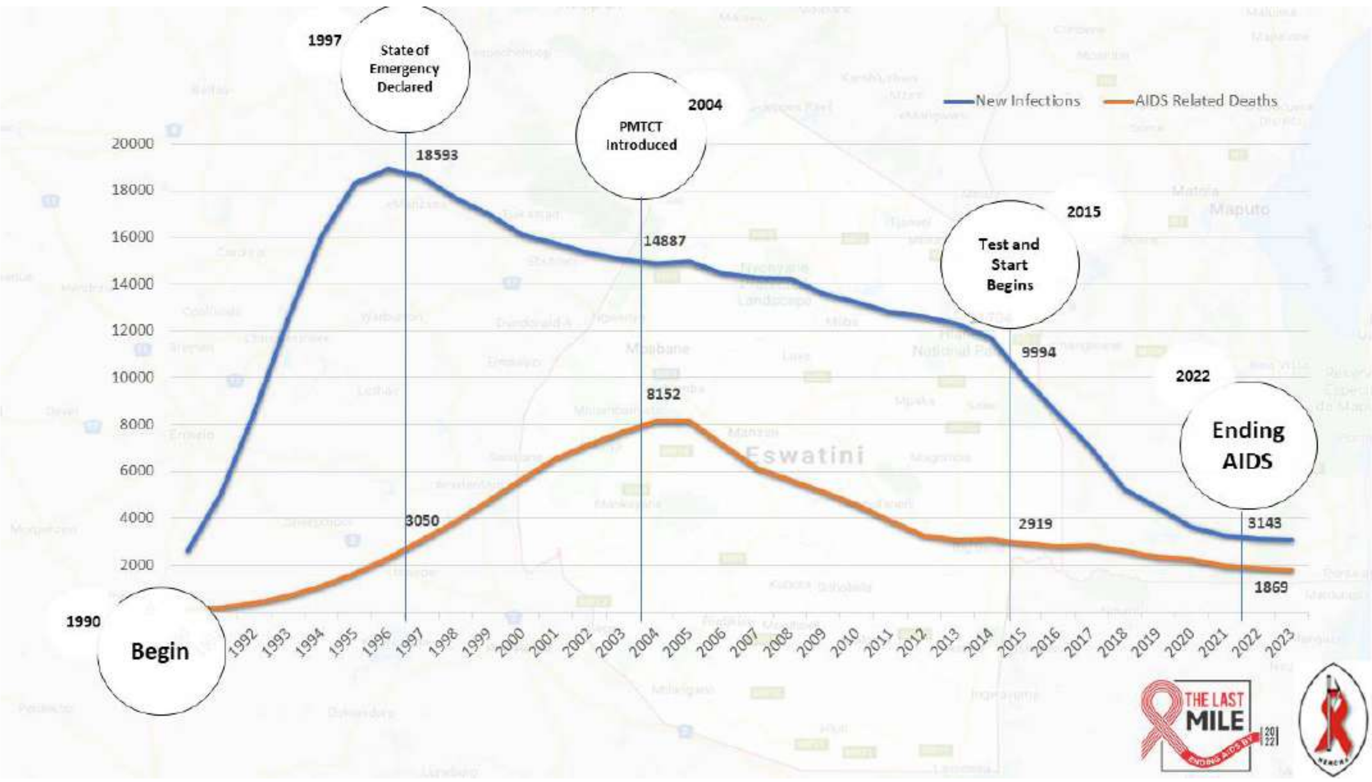
Eswatini needs a strategic oil reserve, but does not necessarily need a fully-fledged public entity to build and operate the facility. Through PPPs, the ENPC can find suitable private sector investors and operators to construct the facility. The evidence suggests that the ENPC can be established for the purposes establishing the strategic oil reserve but under strict control measures by the PEU to make sure it does not overstep its boundaries and inflict additional costs to the petroleum industry. The petroleum pricing model already caters for the storage component of the petroleum product. Government and the PEU need to ensure that the levy afforded to ENPC stops once the loan has been fully paid. Furthermore, the ENPC should be established at a smaller scale, which should initially focus on 1-month instead of a 3-month storage capacity. The PEU, the ENPC, and the MNRE have to monitor petroleum demand so that additional capacity investments on the storage facility are only made based on justified demand/need.

NERCHA

NERCHA's role in the economy is to ensure that HIV remains at the centre of people's minds and at the centre of development. NERCHA gives oversight to the Ministry of Health on HIV treatment and prevention. According to NERCHA it is expensive for the country to take care of people that are HIV positive (people that are on treatment), hence it is the organisation's mandate to reduce the number of new infections. Presently the country has reduced new infections by 50 – 65%. A premature decision to mainstream interventions on HIV/AIDS may cause an even worse relapse in the management of the disease, therefore such decision should be informed by research and setting of targets. For example, Botswana is currently experiencing a resurgence of the HIV pandemic due to premature mainstreaming of HIV programming. The rate of HIV transmission in Eswatini is low, but sub-groups experience lower levels of 95-95-95.

HIV can generate domestic financing (e.g. private sector buying ARVs not subsidised), however, NERCHA is generating and attracting more money for the government than they are being subvented. Government subvention is used to get core-financing from international donors. There is however, an observed duplication/inefficiencies in the disbursement of HIV funding. Government through different ministries continues to fund institutions that receive subventions from NERCHA for HIV related programmes. Sustainability opportunities for NERCHA going forward include a deep focus in generating domestic funds, taking over the central medical stores operations as a department within the institution and management of biological disasters not just HIV. In the future, NERCHA will focus on the transmission of HIV among subgroups in the population, mobility across countries, intensifying prevention and treatment, and reducing the number of deaths resulting from AIDS.

The final steps to ending AIDS



8. *Other Key Considerations...*

continued

Eswatini National Housing Board

The entity was established to provide social housing but because of lack of a national social housing policy and funding mechanism, the entity is forced to operate at a commercial rate and thus making it difficult to achieve its mandate. Given government's current fiscal space, it may be too ambitious to formulate a comprehensive and fully funded social housing policy. Government can leverage ENHB for leasing and maintenance of institutional housing and civil servant housing. It can be an entity under the MoPWT Buildings Department. Instead, government can use some of the skill within the institution to transform it into a leaner organisation/unit under the Ministry of Public Works and Transport (Buildings Department) for leasing of civil servant houses, and maintenance of government houses and buildings. In fact, some of the activities conducted by ENHB such as the construction of institutional housing can be absorbed by the Ministry of Works Buildings department through these newly transformed unit with a clear and relevant mandate.

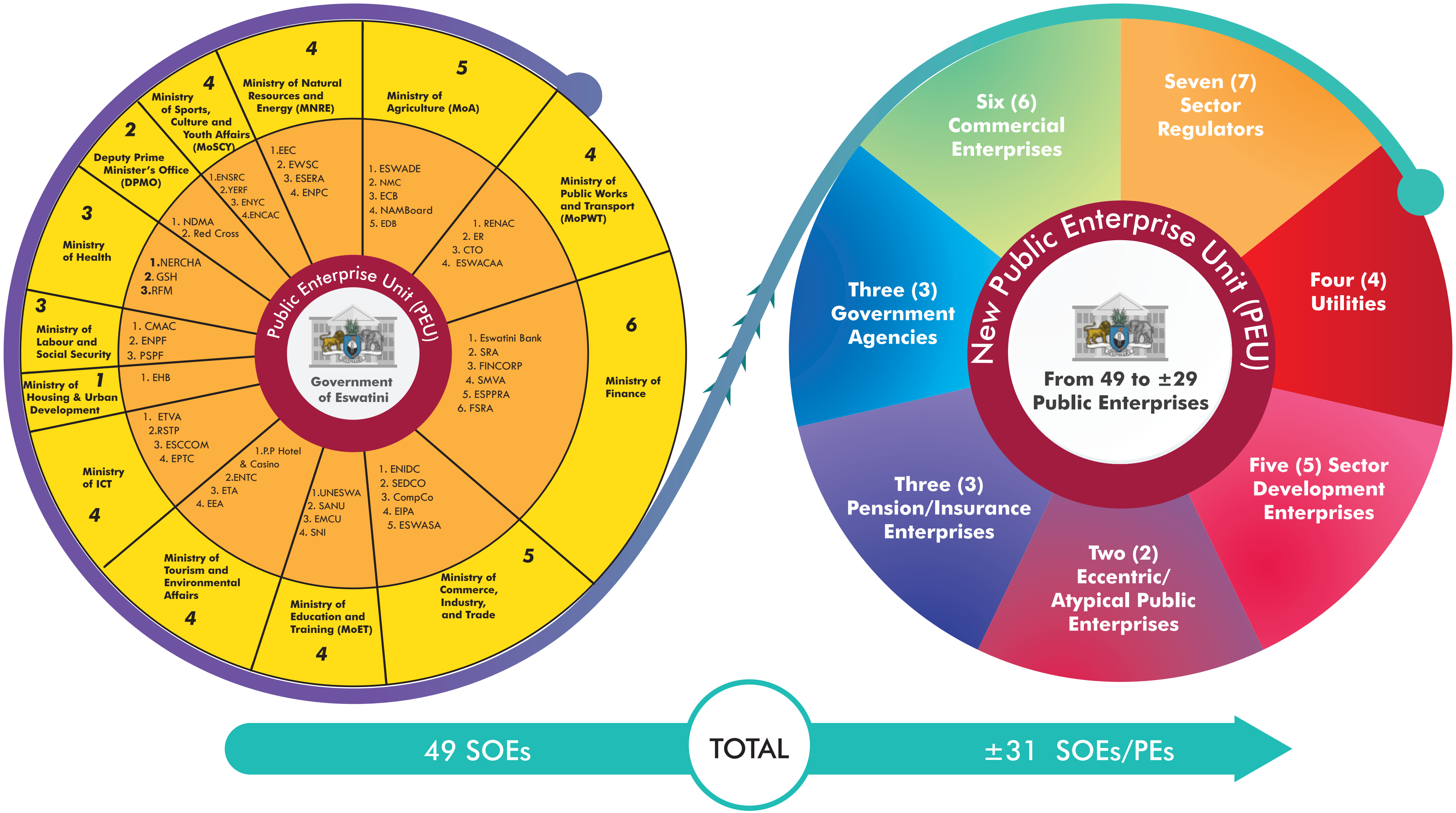
Competing with township developers; now focusing on high income estates instead of affordable housing for the middle class.

The industry level competitive rates charge by ENHB and the mismanagement of property has led to lower profits for the entity, increasing their dependence on the government

Need to rationalise its mandate, conduct inventory of assets, sell some of its assets explore Sectional Title Act, and transform to focus on new mandate if government finds it worthwhile. Otherwise, can completely disband ENHB

The leasing and maintenance of Government commercial and institutional should be left to the private sector. Need to empower the local construction industry, improve industry standards and caliber of skill in the sector. This entity will manage the assets/lease out and account for all government building

Final Outcome



Expected Outcomes and Savings

The reforms will reduce the **E2.4 billion** transfers made to 49 Category A PEs to just under **E700 million** transfers made to ± 31 Category A PEs. Also, there is an expected savings on the E380 million worth of levies collected from the economy.

1 — **Seven (7) sector regulators** with no subvention required.

2 — **Four (4) utilities and a power procurement unit** with no subvention required. However, the utilities need government support in terms of infrastructure development and financing mechanisms.

3 — **Six (6) sector development enterprises** requiring ±E65 million in subventions. Four of the sector development enterprises will be self-sustaining.

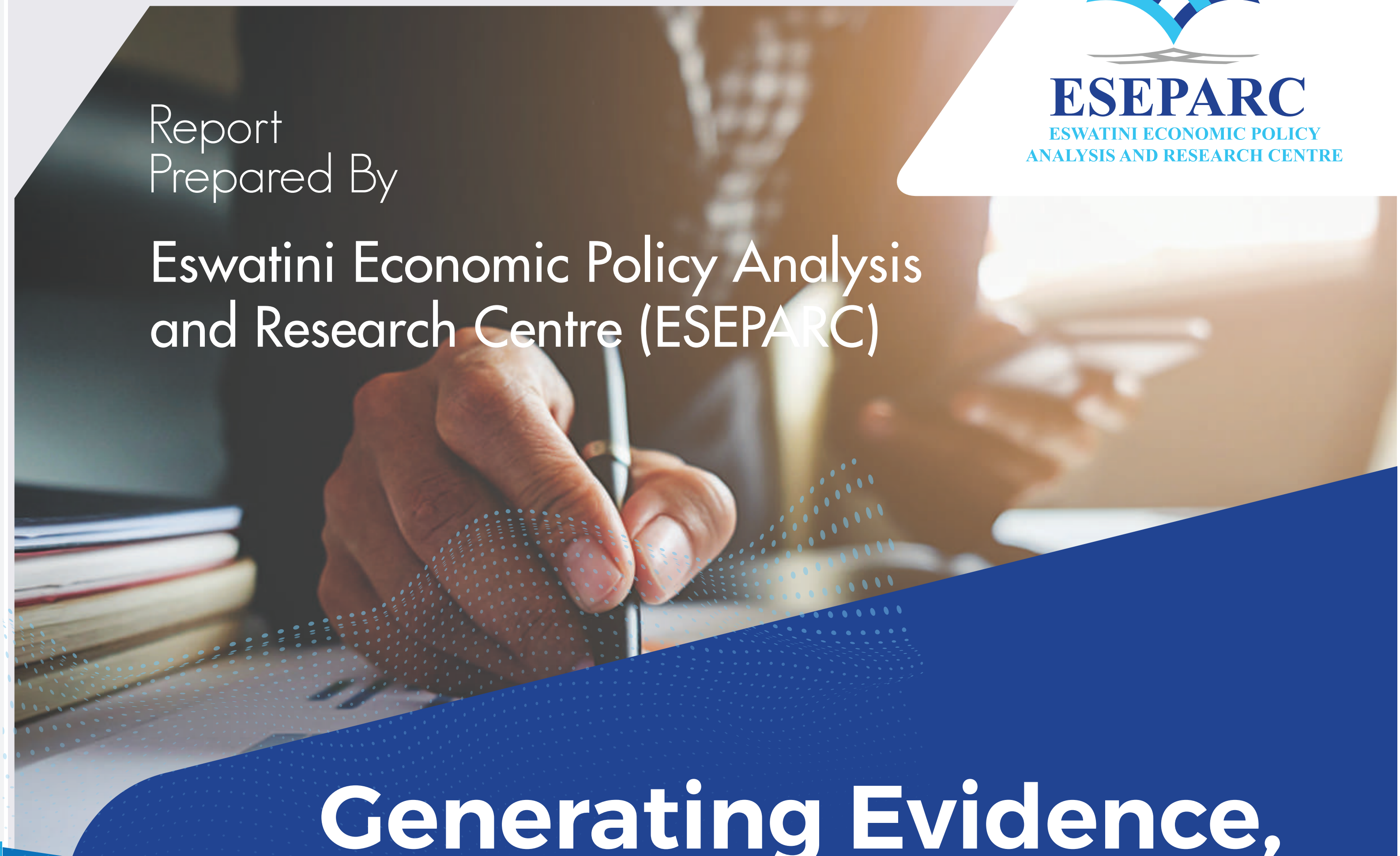
4 — **Six (6) government agencies** requiring ±E570 million in subventions.

5 — **Six (6) commercial enterprises** requiring no subvention.

6 — **Two (2) strategic public entities** that will require a once-off/weaning off strategy from subvention to eventually become self-sustaining. Government can recapitalise these entities from time to time depending on need.

KEY MESSAGE

- REFORM to ±31 public entities
- This exercise is necessary in order to resuscitate the economy and improve the fiscal space for funding social and economic development.
- Need to avoid/stop monetised mandates but focus on government's core business – its development mandate. The enterprises need to chase development instead of chasing profits. The SOEs are an extension of central government, they are specialised semi-autonomous department that are implementing government's development agenda in a flexible and agile manner.
- The issue of human deployment in these parastatal also needs rationalisation. The PEU Act has created another central government within these SOEs, starting at board level down to the operations of the individual parastatals. Some parastatals can actually be run by 2 people, yet the way they function has resulted in top-heavy administration that is basically now an employment creator rather than a means for highly specialised and effective service delivery. On the one hand, these SOEs are expected to implement their commercial function while being locked into a box by the super-structures/super boards government has created to control the SOEs e.g. SCOPE. The PEU should be able to monitor the performance of the CEOs and put the parastatals to task on all the agreed deliverables. A one-size-fits-all approach in monitoring and supervising the performance of the SOEs is not sustainable nor yielding the desired outcomes.
- The focus of the reform should put the economy first. Even if an entity is profitable, there can be still economic reason to consolidate it.
- Focus should be; "government should be all eyes on and hands off!"
- The current process of governance is not sustainable.
- There are notable conflicts between parent/line ministries and some parastatals: Government needs to rationalise the existence of all parastatals against the functions of each ministry entity to avoid duplication. Functions implemented by the parastatals cease to exist within the line ministry and the resource allocation should represent this change. Ideally, central government should focus on the legislative function.
- A lot of savings can be made but even more importantly, a lot of value can be created through proper streamlining of these parastatals.



Report
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ESWATINI ECONOMIC POLICY ANALYSIS AND RESEARCH CENTRE

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