KINGDOM OF SWAZILAND

IMPLEMENTING PRIVATISATION POLICY

THE PRIVATISATION ROAD MAP

MINISTRY OF FINANCE

THE PRIVATISATION ROAD MAP

1. BUILDING THE ROAD MAP

The drafting of the Road Map of Public Enterprises was initially desk-based using PEU and public enterprise quarterly and annual reports and accounts of Category A Enterprises. Accompanied by PEU staff, discussions were then held with each CEO on the role of their public enterprise and, using the format of a SWOT analysis, on:

- the strengths of their enterprise and how to exploit them;
- its weaknesses and how to remedy them;
- its opportunities and how to seize them and
- its threats and how to avoid them.

Such an analysis can underpin formulation of business strategy. Consideration was given to the need of each enterprise for regulation and for restructuring together with the benefits that might be gained from one or more forms of privatisation.

Drafts of the Road Map for each enterprise were then discussed with the Principal Secretaries, and in several cases, their staff also, and modified in the light of new facts and understandings. In most cases the views expressed represent a consensus.

2. COMMITMENT TO CHANGE

CEOs almost invariably showed a positive attitude to the needs and opportunities offered by such changes when approached, not as a doctrinaire application of a preconceived privatisation formula but rather as a pragmatic "Win-Win" approach to improving performance for the benefit of all - shareholders, management, staff and customers.

A similar positive attitude to change was also experienced in the discussions with Principal Secretaries coupled with a desire to actually achieve necessary changes and "make things happen".

3. REGULATION IS A PRIORITY FOR UTILITIES

All utilities agreed that a priority task is the creation of an independent multi-sector regulator, appropriate for a small economy. Impact on price levels charged by utilities could be significant with their need to finance heavy capital investment. Regulatory involvement will ensure that these do not adversely impact on the poor who could not afford them whilst striving to make progress with the development of the essential infrastructure of a modern economy. Electricity has a huge investment requirement to reduce its dependence on South Africa, which is itself running short of power supplies. Water and sewage also need huge investment and need to raise profitability to justify this investment and investment already made, by radical reduction of 'unaccounted for water'. Well regulated, modernised telecommunications with broadband services are so essential for growth of a modern economy and Swaziland's telecommunications company will need the effective management from an international strategic partner for this to be achieved.

4. SUMMARY ROAD MAP

The Road Map Summary that follows is designed to indicate possible appropriate action for each enterprise, relevant to effective implementation of the Privatisation Policy. Enterprises are grouped into six lanes:

	LANE AND PEA DIRECTOR RESPONSIBLE	**No.**
1	**Priority Cases for regulation and/or restructuring before privatisation** **Enterprises managed by Director - Restructuring**	**4**
2	**Fast track for immediate privatisation or sale of shares, little restructuring required** **Enterprises managed by Director - Privatisation**	**7**
3	**Parallel Track - Review Category B enterprises and other Government shareholdings with a view to immediate privatisation or sale of shares** **Shareholdings managed by Director - Privatisation**	**16**
4	**Second priority for restructuring with a view to partial or full privatisation** **Enterprises managed by Director - Public Enterprises**	**6**
5	**Inappropriate for privatisation except possible outsourcing of services** **Enterprises monitored by Director - Public Enterprises**	**11**
6	**Enterprises not suitable for privatisation** **Category B Public Enterprises with no PEA involvement**	**5**
		49

Obviously, at this early stage, based in most cases on a relatively brief review, the suggested Road Map is only indicative of the priority workload of the Public Enterprise Agency. It is not "cast in stone" and is based only on preliminary findings. Detailed, expert evaluation of privatisation strategy for each public enterprise is still necessary before a definite commitment is made.

However, it is believed to be a workable basis for prioritising the work.

1st LANE PRIORITY CASES FOR REGULATION AND/OR RESTRUCTURING BEFORE PRIVATISATION

MANAGED BY DIRECTOR - RESTRUCTURING

	Public Enterprise	Assets E m	Sales E m	No Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment	Issues
1.1	Central Transport Administration	556	434	414	No	Yes, High Need to strengthen management	Yes High	Costs to Government down. Minimize job losses.	4,200 vehicles. Annual cost E318m. Buy-out(s) of vehicle service garage(s) could incentivise management & workers to a win-win solution.
1.3	Swaziland Water Services Corporation	557	108	510	Yes, high MultiSect or Regulator	Yes High	Yes Medium	Prices will rise to finance investment Jobs created as investment made	Only 30,011 water & 6,717 sewerage connections. Priority: infrastructure investment - public/private partnership? Low profits, only 2% ROI. Cut 30% unaccounted for water level. Malawi achieves 16%. Consider merger with rural water & sewerage.
1.4	Swaziland Electricity Board	862	388	663	Yes, high MultiSect or Regulator	Yes High	Yes Medium	Lower prices better service. Initial job losses but new jobs created.	Bills to regulate/privatise SEB. Supply security & greater self-sufficiency. 82% dependence on South Africa. Strategic partner makes sense. Independent regulation, followed by industry restructuring before privatisation.
1.5	Swaziland Posts & Telecommunications Corporation	563	377	745	Top priority create MultiSect or Regulator	Restructuring is top priority for survival Management Contract for Telecoms Operator needed	Top priority is to obtain strategic partner	Large job losses but better services lower prices & growing Economy	**Suffers from**: excess prices, excess staff high loans, & virtual insolvency. **Needs:** MD, experienced Board, strategy, technology, good labour relations, expert team for strategy, restructuring, identify & secure strategic partner, achieve new equity & turnaround.

2nd LANE FAST TRACK FOR IMMEDIATE PRIVATISATION OR SALE OF SHARES LITTLE RESTRUCTURING REQUIRED *MANAGED BY DIRECTOR – PRIVATISATION*

	Public Enterprise	Assets E m	Sales E m	Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact prices/ jobs	**Issues**
2.1	Swaziland Railway	259	109	311	Yes, high MultiSector Regulator	Much done Decide structure	Yes High	Changes already occurred	Well-run business has outsourced & increased efficiency. Good opportunities. Clarify possible subdivision of businesses & choice of a partner(s).
2.2	Swaziland Development & Savings Bank	1,086 gross	87		Yes In hand	Probably not	Yes High	Borrowing costs down New jobs	2004/5 accounts delayed due to computer problems. SwaziBank seek strategic alliance with an international banking partner. This seems sensible and could lead to flotation of its shares.
2.3	Swaziland Development Finance Corporation	171	21	35	Yes In hand	Probably not	Yes High	Borrowing costs down New jobs	Government & Tibyo Taka Ngwane cannot fund expansion, so management would welcome an additional shareholder to fund growth plus stability within current mandate of FINCORPP but in line with FINCORP's longer-term privatisation strategy.
2.4	Swaziland Water & Agricultural Development Corporation	41	NA	34	No	Separate assets & staff into 2 Companies	Yes High	Competitive services New jobs	With Government support, this professional Project Team offers an excellent opportunity for a Swazi Management Buy-Out providing services to Government and other clients. It would be far easier to hold this high skilled team together in a private company. Assets remain in Government.
2.5	Royal Swazi National Airways Corporation	Deficit of E87m.	11.4	13	No	Yes. Separate ticket agency	Yes High	Competitive services	Deal first with serious audit issues outstanding since 2001/2. Divest fuelling. Establish as Ticket Agency for South Africa Airlines & seek a Management Buy-Out for a sensible sum.
2.6	Piggs Peak Hotel & Casino (leased to Orion Hotels to 2017)	48	29 rent	Orion Hotels staff hotel	No	Only legal, company changes	Yes High	Competitive services New jobs	Hotel & casino leased for 15 years from December 2002. Its Board does not envisage further privatisation by sale. The justification for its sale is higher priority alternative uses for the funds. Orion would be an obvious but not the only bidder. The opportunity may arise over building a golf course.
2.7	South African Airlink - 60% of shares				Yes High	No	Yes High	No impact on prices & jobs. Government owns airline, disallowing competition & also regulator. Regulation must quickly pass to Multi Sector Regulator. Plan sale of shares.	

3rd LANE - PARALLEL TRACK - REVIEW CATEGORY B ENTERPRISES AND OTHER GOVERNMENT SHAREHOLDINGS WITH A VIEW TO IMMEDIATE PRIVATISATION OR SALE OF SHARES, BUSINESS OR ASSETS

SHAREHOLDINGS MANAGED BY DIRECTOR – PRIVATISATION

First National Bank
Havelock Mine Corporation
Ion Swaziland
Lulote – BMEP
MNSP Pty Ltd
Nedbank
Parmalat Swaziland

Royal Swazi Sugar Company
Swaziland Industrial Development Company
Standard Bank Swaziland
Swaziland Building Society
Swaziland Fruit Canners
Swaziland Royal Insurance
Swazi MTN (through SPTC)
Shiselweni Hotels & Nhlangano Casino Hotel

Public Enterprises are designated Category “B” where Government either has a minority interest, which monitor other financial institutions or are local Government authorities.

It will be the responsibility of the newly established Public Enterprise Agency, with supporting consulting resources, to review each Category B Public Enterprise and made recommendations, where appropriate, for privatisation. Some enterprises are clearly not eligible for privatisation but may operate services where outsourcing may be appropriate.

Shareholdings in the group of companies listed, appear, on face value, to be appropriate candidates for privatisation. The funds realised can be used to accelerate privatisation. In some cases, there may be good strategic reasons for the retention of the shareholding or ownership, perhaps for a limited time period only.

This is not an exhaustive list of wholly or partly owned state enterprises.

4th LANE - SECOND PRIORITY FOR RESTRUCTURING WITH A VIEW TO PARTIAL OR FULL PRIVATISATION

MANAGED BY: DIRECTOR - PUBLIC ENTERPRISES

	Public Enterprise	Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices/jobs	Issues
4.1	Small Enterprises Development Company	15	4	No	Yes, medium	Possibly Low	Job creation	SEDCO should contribute significantly to job creation but it has gone "stale" and needs reinvigoration by a new CEO. It could be part of a private sector Venture Capital company; needed to create business growth.
4.2	Motor Vehicle Accident Fund	155 against liabilities of 234	NA	No	Yes, high	Yes Defer for some years	Better services	Insolvent. E79m deficit needs funding. E215m claims outstanding, many in Courts for years. Needs able CEO. Proposed law to cap claims. Long-term, transfer responsibility for accident claims to insurance industry when stronger in Swaziland. Tough action needed on accidents.
4.3	Swaziland National Housing Board	96	13	No	Yes High	Possibly Low	Better services Job creation	Stagnant for years, below budget & building few new houses and no "low cost" housing. It needs reinvigoration. Outsourcing of management of housing stock should be considered.
4.4	Swaziland Television Authority		4	Yes High	Yes High	Outsource some functions	Better services Job creation	Modernise & raise quality standards as a priority, possibly co-operating with another broadcaster. Merge radio with TV. Collaborate with SPTC, MTN & radio to develop satellite broadcasting.
4.5	Swaziland National Trust Commission	53	3	No	Yes	Commercialise Reserves	Jobs & better services	With 'vision' & professional management, SNTC could generate significant cultural & eco-tourism.
4.6	Commercial Board			No	Yes, low	No	None	Wind up this defunct organisation and realise its assets.

5th LANE - NOT APPROPRIATE FOR PRIVATISATION EXCEPT POSSIBLE OUTSOURCING OF SERVICES

MONITORED BY: DIRECTOR - PUBLIC ENTERPRISES

	Public Enterprise	Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
5.1	National Emergency Response Council on HIV/AIDS	2	NA	No	No	Appears to be effective in role. The economic impact of HIV/AIDS has yet to be assessed but does the Health Budget adequately address the magnitude of the threat to the nation from ill-health?
5.2	National Agricultural Marketing Board	10	12	Possible collaboration with other food bodies	Yes, to perform role more effectively	Regulate agricultural produce to international quality standards. Encourage home-grown, fresh vegetables to promote exports & import substitution. "Better & cheaper" products offer commercial & health opportunity.
5.3	National Maize Corporation	29	49	Possible collaboration	No, except to broaden its role	NMC fills a useful role in guaranteeing a minimum price for maize to farmers. Its strategy of broadening of its product base could have commercial potential.
5.4	Swaziland Cotton Board	9	0	No	Seriously consider its survival strategy	Survival strategy for industry, initially to irrigate 1,000 hectares for cotton & maize production, deserves sympathetic consideration. Livelihood of 100,000 people at stake rates higher priority than some other spending
5.5	Swaziland Dairy Board	22	10	Possible collaboration	Yes, high	Need for Joint Venture stakeholders in Parmalat, the milk processor, to collaborate to develop the dairy industry, especially refrigerated collection points essential for viable dairy industry to curtail powdered milk imports and on pricing. SDB seeks support from its Ministry.
5.6	Sebenta	5	1	No	Rethink its role	Contributes significantly to supporting orphaned & vulnerable children & training adults but feels it to be an "orphan", ignored by its Ministry. It has 118 facilitators.
5.7	University of Swaziland	118	22	No	Yes, high	E109m annual investment in tertiary education needs to be focussed on the nation's needs expressed in a Human Resources Development strategy and monitored through a Performance Contract. Further outsourcing of non-core activities is planned.

5th LANE - NOT APPROPRIATE FOR PRIVATISATION EXCEPT POSSIBLE OUTSOURCING OF SERVICES

MONITORED BY: DIRECTOR - PUBLIC ENTERPRISES

	Public Enterprise	Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues
5.8	Commission for Mediation, Arbitration & Conciliation	5	NA	No	No	An important contributor to good sense & appropriate behaviour in the working relationships between staff, Trade Unions and management. It commands support and will help create a realistic approach to restructuring and privatisation.
5.9	Swaziland Investment Promotion Authority	4	NA	No	No	Important role promoting foreign direct investment, contributing to creating employment & collaboration with PEA can assist privatisation.
5.10	Swaziland National Provident Fund	741	NA	Yes In hand	Yes, high	For years, auditor's report qualified. It is time its administration was put in order. The Fund is substantially overstaffed but action is in hand. 70% of Fund invested in South Africa looks like "too many eggs in one basket". Fund's deficit eliminated by reduction of interest on deposits from 7% to 4% following 10-15 years of low rates.
5.11	Swaziland Tourism Authority	1.3	0.1	No	Yes, strengthen capability	High standard of marketing professionalism needed for Swaziland's share of the World's largest industry – tourism. There is plenty of scope for development. Swaziland certainly needs it. Commercial activities can be outsourced. STA faces the end of EU funding – 2/3 of its total income.

6TH LANE – ENTERPRISES NOT ELIGIBLE FOR PRIVATISATION - *NO PEA INVOLVEMENT*

6.1 CATEGORY B PUBLIC ENTERPRISES not eligible for privatisation

Central Bank of Swaziland; Manzini City Council; Mbabane City Council; Public Service Pensions Fund; Raleigh Fitkin Memorial Hospital; Swaziland Industrial Development Company

The above enterprises are clearly not eligible for privatisation but may operate services where outsourcing may be appropriate.

5. IMMEDIATE ACTION PLAN

The recommended Immediate Action Plan which the Government should follow is:

- SCOPE to take decisions on:
    - Changes to the Public Enterprise Act
    - Creation of Public Enterprise Agency, reporting to SCOPE through Minister of Finance and responsible for enterprises to be restructured/privatised
    - Initiation of Project to create a Multi-Sector Regulator
    - Assignment of companies to PEA to be restructured and/or privatised

- Amend the Public Enterprise Act to authorise creation of the PEA

- Establish Public Enterprise Agency

- Transfer public enterprises to be restructured & privatised under control of PEA

- Initiate preparations for establishment of Multi Sector Regulator

- Initiate work on Priority Cases for Regulation &/or Restructuring before Privatisation
    - Central Transport Administration
    - Swaziland Water Services Corporation
    - Swaziland Electricity Board
    - Swaziland Posts & Telecommunications Corporation

- Initiate Fast Track for Immediate Privatisation or Sale of Shares in:
    - Swaziland Railways
    - Swaziland Development & Savings Bank
    - Swaziland Development Finance Corporation
    - Swaziland Water & Agricultural Development Corporation
    - Royal Swazi National Airways Corporation
    - Swazi Airlink shares in South African Airlink
    - Piggs Peak Hotel & Casino

- Realise assets by selling off shares in Category B Enterprises in Track 3:
    - Royal Swazi Sugar Company
    - Swaziland Fruit Canners
    - Havelock Mine Corporation
    - Lulote - BMEP
    - Swaziland Royal Insurance
    - Nedbank
    - SwaziMTN
    - Standard Bank Swaziland
    - Swazispa Holdings, Shiselweni Hotels & Nhlangano Casino Hotel

6. IMPLEMENTING THE ROAD MAP

The key principle followed is to design the organisation for the tasks and assign qualified personnel to the fulfilment of those tasks giving them adequate resources. The following actions illustrate how the PEA's Director and Chief Executive Officer and his colleagues will address the key tasks in the first year in order to implement the Road Map:

- Achieve a clear meeting of minds with SCOPE, the PEA's Executive, as to mandate and modus operandi. Meet regularly with the Chairman, The Minister of Finance, to keep him well briefed on progress and problems.
- Recruit and train PEA staff and establish the PEA in appropriate offices with the necessary infrastructure and budgets.
- Meet with Ministries to achieve and maintain a good working relationship.
- Visit enterprises to meet their management, understand their businesses, and ensure they are well managed and have Boards with the requisite skills. Stress that the PEA is there to help them achieve their goals of creating and running effective companies. Take early remedial action as necessary. A rota of regular attendance at meetings will be established.
- Quickly establish prescribed formats and procedures to monitor and control enterprise performance through budgetary control, strategic plans, monthly accounts and reports and annual accounts.
- With such a large portfolio, managing 33 enterprises and monitoring a further 11 enterprises, PEA management will be largely "hands off", leaving it to the executives of the enterprise and its board to manage its affairs except in those cases where matters are seriously adrift from budget or strategy that a "hands on" approach is vital for remedial action to be taken.
- Management of the process of regulation and /or restructuring the four enterprises which are priority cases for regulation and/or restructuring before privatisation will be assumed by the PEA's Director - Restructuring. He will initiate a preliminary review of SPTC & CTA which most urgently require restructuring. Such major tasks will involve a team approach with any or all of the management of the PEA playing a part. Tasks beyond their resources will be undertaken by advisers, hired by competitive tender, possibly on a success-fee basis.
- The Director and CEO will also initiate the engagement of advisers to the electricity and water companies on ways to finance investment in infrastructure and achieve privatisation and ensure action is taken to create the Multi-Sector Regulator.
- The Director – Privatisation will seek to achieve early successes in privatising the seven fast track enterprises. The assistance of advisers should be sought in seeking strategic partners for Swazi Bank and FINCORP. Selling the16 Category B enterprise shareholdings can be a significant source of finance for the PEA and its advisers and will be an urgent objective.
- Management of the six companies in the 4th Lane, as Second Priority for Restructuring with a view to Partial or Full Privatisation, will be assigned to the Director-Public Enterprises who will also assume a monitoring role for those 11 enterprises where privatisation is not appropriate, except for possible outsourcing. These latter enterprises remain under the direct control of Ministries. The monitoring and control will be jointly exercised with Ministries through Performance Contracts and other means.
- A transparent approach will be taken with the media and Trade Unions. CMAC will be involved at an early stage in staff restructuring.

THE PRIVATISATION ROADMAP

1st LANE PRIORITY CASES FOR REGULATION AND/OR RESTRUCTURING AS PART OF PRIVATISATION

1.1 CENTRAL TRANSPORT ADMINISTRATION (CTA)

Governed by the Administration of the Central Transport Board Special Fund Regulations, 1975

Assets E m	Sales E m	No Staff	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
556	434	414	Yes, High	Yes, High	Need to strengthen management. Costs can reduce dramatically. Potential saving of jobs & creating an important business through a buy-out.

CTA's Assets CTA has no adequate accounting system & no balance sheet. An asset register being prepared may show assets exceed E556m. CTA has 4,200 vehicles & 7 workshops. Some vehicle repair is outsourced. E5.8m was spent rehabilitating CTA's Mbabane premises.

CTA's High Costs Annual running costs, excluding depreciation, of Government's 4,200 vehicles are E318m. The Minister of Finance seeks to cut costs by curtailing vehicle replacement & charging Ministries with controlling fuel costs within budget. Vehicle purchases reduced from 837 vehicles in 2002 for E200m to 30 purchased in 2005 for E10m. The E75,700 annual costs per vehicle may be double what it should be for this size of fleet. Average annual usage per vehicle is 20,000 kms; the majority, based on accident reports, are private journeys. With heavy depreciation as vehicles age, vehicle costs per km are lowest at an utilisation of 40,000 kms p.a. Optimum utilisation of the fleet could be achieved if Ministries scheduled journey requirements, halving costs & cutting vehicle numbers by 40% to 2,520. Excess vehicles are confirmed by delay in collecting repaired vehicles, Ministries' assumed 30% vehicle downtime & only 273 vehicles hired out by CTA of 411 vehicles available.

Preventative Maintenance E146m of E318m running costs, excluding depreciation, was spent on preventative maintenance. Ideally it would be E92m but for several reasons:
1. The policy of non-replacement of vehicles has resulted in a 55% increase in maintenance costs of old vehicles, indicating the need to operate a discretionary replacement policy.
2. Vehicles are not being serviced when services are due, so costs are greater.
3. CTA's large fleet is supposed to operate a 'Self-Insured Fund' which is credited with surcharges on employees & payments from 3rd parties who were responsible for accidents. These receipts would offset accident repairs. The scheme is not being practiced.
4. Consumables, at E186m, were 59% of CTA's costs. Sub-contractors overcharge for spares & services & install sub-standard parts. Repair charges by private garages were E98 million, 31% of the bill. Attempts to impose motor industry standards on suppliers are meeting opposition.
4. Only 3,870 hours for repair & maintenance were utilised in the December quarter against 5,000 hours budgeted. Workshop productivity was 30% but has risen to 50%; absenteeism at 25% & employees attitudes are a serious issue. CTA's Annual Report refers to "some restructuring in a bid to instil some order, discipline & control of the enterprise," and "Glaring

inefficiencies, both operationally & financially". CTA has 414 staff but workload justifies far fewer. CTA is not replacing those leaving, retiring or dying.

5. Salaries annually are E9m plus overtime of some E4m, E13m in total of which 80% goes to technical staff. 20% of the departmental cost is administration. Vehicle running & maintenance are legitimate costs but, without doubt, CTA's costs are totally excessive.

Action Planned and Proposed - The Need for a "Win-Win" Solution

Given a strong management team, this garage has the potential to provide low cost, high quality services to Government and other customers including public and private enterprises.

Essential restructuring to reduce costs was planned 7 years ago, but management & employees, fearing job losses, went to the King and blocked economies. Since then the bleeding has not been staunched. A more creative solution is now sought, on which the Prime Minister and King should be briefed to pre-empt another coup, which would incentivise management & workers to achieve a "win-win" solution whereby they would become part owners of these garages, through a buy-out(s), enabling them to benefit from participation in a restructured, competitive, privately-owned garage business. Strong management under "the owner's eye" could rapidly change the situation. Probably vehicle procurement and ownership should remain within Government with a high integrity, commercial buyer exercising the role.

CTA is the largest employer of properly qualified technicians in Swaziland whose remuneration package is better than local garages. These workers deserve better management. CTA, equipped with modern computer testing equipment, could compete for new business supplying public enterprises & the private sector. They could hire out vehicles in competition to Imperial, Avis & others. Essential increases in employee productivity might then be achieved, at least partly, through increases in sales volume rather than large scale retrenchment.

This bold but positive concept requires expert planning & a talented team to take the lead, create a viable enterprise that can attract venture capital equity funding & loans. The prerequisite for success, whether installing new systems designed by the Consultants, restructuring or eventual privatisation is putting in place a team with integrity & real ability which will "make it happen". It needs an experienced Chief Executive who can command respect from all, from Government to workers; an Operations Director who has successfully managed large garages, & a Finance Director who can put in place the necessary accounting & IT systems & controls & subsequently raise the finance for a management buy-out.

Government should not misconceive this as "giving CTA to the employees". Contingent liabilities for redundancy & employees' share of the pension fund could be offset against the price of assets sold to the new company. It is encouraging that CTA & the Ministry of Works appear resolved to tackle efficiency issues now & then seek to privatise the business.

Since finding the right team will be difficult, an alternative could be to invite an able and honest South African garage business to take a minority stake & a management contract. Potentially, this sizeable company could have market dominance so monopoly implications

have to be considered. Possibly it should be split up into several independent, competing businesses. It is worth examining this and other options. Government must, in any case, greatly tighten its procurement practices to ensure value for money for vehicle services received from this and other competing garages.

1.2 SWAZILAND WATER SERVICES CORPORATION (SWSC)

Governed by the Water Bill, 1998; the Water Services Corporation Act, 1992

Assets E m	Sales E m	No Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
557	108	510	Yes, high MultiSector Regulator	Yes High	Yes Medium	Prices will rise to finance investment with safeguards for the poor. Jobs created as investment made
Issues: 30,011 water & 6,717 sewerage connections far short of goals: 50% population with clean water & sewerage by 2015; a priority for infrastructure investment. Low profits - only 2% ROI, due significantly to the low sales relative to assets. Cut the 'unaccounted for water' level. Raise performance & finance growth in infrastructure urgently. Consider public/private partnership. Consider merging with rural water & sewerage.						

Financial Results The low 2% return on investment arises primarily from very low sales of E108m relative to assets of E557m, a capital turnover rate of only 0.2. A commercial capital turnover rate of 2, 10 times as much, would be expected in manufacturing business. This clearly indicates action required to raise sales by greater exploitation of existing investment, reduce debtors and minimise unaccounted for water. There is said to be widespread illegal tapping into the system with a lot of water not being invoiced to customers.

An E0.33m surplus (including an E3.7m grant) was made in the quarter to 31st March 2006 on E25.2 m revenue, 11.4% below budget. This compares with an E1m surplus in the previous quarter on revenue of E27.6m. Water is 10.5% below budget; Sewer 11.1% below budget and Effluent 73% below, due to wet industries pre-treating waste before discharge. Government debtors stood at E9.4m, of which E4.7m is over 6 months old, but receipts in the quarter were E12.5m, a significant contribution. Government Departments must pay bills by due dates. The 100 days target for debtor levels is much too high.

SWSC's mandate is to provide quality potable & wastewater services in 22 urban & peri-urban areas. At 31 December it had 30,011 water & 6,717 sewerage connections which cannot represent a very large proportion of its potential market. It is hoped sewerage connections will be doubled in 3 years. A ratio of 17 staff to 1,000 water connections is better than most developing countries whose ratio is 20. It had E557m of assets under management. In the half year to December, treated water produced monthly was between 1.6 and 1.8 million litres, but of this, invoiced consumption accounted for only 0.9 million litres and up to 0.8 million litres was Unaccounted for Water, 45% on average in the second half of 2005. SWSC say it is 33% normally but this compares with Lilongwe, Malawi which achieves 16%.

Its Construction Department with 30 employees, motor vehicle workshop, cleaning services and security have been outsourced. SWSC's 2004 annual report highlighted problems of overstaffing but, rather than make staff redundant, SWSC has relied on attrition and retraining staff to switch to other departments.

Rural Water, under the Ministry of Natural Resources, provides water but, under cost pressures, leaves system maintenance to village authorities who do not always maintain the systems adequately. SWSC maintains the water supply & sewage systems it installs throughout their lives. A merger seems logical to share expertise and resources.

At the start of the summer, depleted water levels and serious water shortages threatened but after weeks of thunderstorms, the Hawane dam filled. However, its capacity only meets four months' demand. A new capital budget request has been made to Government for water abstraction and treatment works on the Lusushwana River upstream of the Luphohlo Dam to augment the Mbuluzi River source. Government of Swaziland funded capital schemes include: Water Supply Projects at Mankayane, Enhlambeni, Lomahasha & Siteki Water Supply. SWSC funded projects include Nkoyoyo water supply, Imphilo Clinic and business extensions in Big Bend. Impending Capital Budget requests include: Siteki Water Supply including Skhuphe Airport E60m; Nhlangano water & sewer; 10 ML reservoir for Ezulwini water supply. They focus on viable investment projects; a number of proposals prove not to be viable.

Unaccounted-For Water (UFW) – a prime cause of low Return on Investment

In 2004, Unaccounted-For Water (UFW) was 47%, & in 6 months to December averaged 45% partly due to building the Ngwenya-Mbabane Highway and widespread illegal tapping into the system. It is said to be normally 33% but that is still very high, representing a nil return on perhaps an E100m investment! Possibly funding for the specific task of cutting water losses may be available. This rate compares with well-run utilities at 15-20%. In 1997, Lilongwe, Malawi reported 16% unaccounted-for water so it can be achieved in Africa. Government should press for progressive & dramatic reduction of water losses to 15%. It could save heavy investment in additional capacity and provide high incremental revenue. SWSC's increased profitability, from 2% on capital employed, would make it easier to service its long-term debt.

Action Planned and Proposed

Millennium Development Goals envisaged 50% of the population having access to clean water and sanitation by 2015 but there are no specific goals in Swaziland for achievement of these objectives. A "Vision 2009" strategy is currently being mapped out, setting targets. SWSC seeks Government financial assistance in developing a master plan for water and sewage. This is needed – when will it emerge?

Computerised telemetry, a strategic objective, by locating "tapping in" and leakages, would be self-financing. Computerised water management information systems with water pressure monitoring over the network could greatly enhance returns on the investment.

A detailed study by an expert in water and sewage should review water & sewage requirements throughout Swaziland, how they could be financed, whether privatisation in some form is appropriate & what public health safeguards, legal and regulatory changes might be required. Public/Private Partnership should be considered to support the Government in the financing a significant increase in potable and wastewater services. The PriceWaterhouseCoopers Report on Public/Private Partnership should be reconsidered by the Cabinet. The Ministry of Housing would like to explore this possibility. Can Government agree to this option being considered?

Two organisations serve rural & urban provision of water & sewage, sharing common skills & resources. Merger should be considered. Water regulation should come under the Multi-Sector Regulator. The PEU and SWSC need to finalize the Performance Contract, against which SWSC is monitoring its performance.

1.3 SWAZILAND ELECTRICITY BOARD (SEB)

Governed by the Electricity Act, 1963

Assets E m	Sales E m	No Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
862	388	663	Yes, high MultiSector Regulator	Yes High	Yes Medium	Competition leading to lower prices & better service. Possibly initial job losses but new jobs created
Issues: 3 Bills to regulate & privatise SEB await Cabinet approval. Swaziland is 82% dependant on South Africa for electricity so supply security & greater self-sufficiency, perhaps with a strategic partner makes sense. Independent regulation, followed by industry restructuring before privatisation is the right sequence.						

The Business In 2004/5 SEB's customers rose by 4,312 to 52,824. Costing E50m, financed by grant, the Rural Electrification Project focussed on 33 schools & clinics raising households served from 18% to 25%, 12,000 customers. Anyone within 1km could be connected for E3,000. Coverage at 25% remains low compared with Cote d'Ivoire, 38%, Ghana 35% & Senegal 32%, reflecting the skewed distribution of a relatively high per capita income. Moving to 30% coverage would cost E50m with higher percentages expensive & arguably unjustified with low usage rates. Average monthly bills per household are only E400-500 in Mbabane.

New Laws and Regulation Parliament has approved 3 electricity industry Bills now subject to Cabinet approval: 1. Defining players in the industry & providing for regulation of generation, transmission, distribution & supply of electricity; permitting generators other than SEB to distribute electricity. 2. Setting up the energy regulator; 3. Establishing SEB as a private company to which assets and personnel will be transferred and in which the private sector can invest. Who will be responsible for rural electrification is a key issue in distribution.

Financial Results In 2004/2005, SEB profit was E66m on sales of E384m, compared with E35m on sales of E358m. Tariffs rose 6.5% with only 0.8% real growth faced with a four year downturn in the economy. System losses reduced from 16.4% to 14.2% but outages are still common. Staff have reduced from 743 to 663 over three years. In the 9 months to December 2005, SEB made a Net Operating Income of E42.29 million on revenue of E302.4 million. Funds employed totalled E834.4 million at December 2005 of which E209.8 m. was financed by loans. Included in accounts receivable of E104.4 m. was E45.3m over 90 days. "Government slow payers" totalled E5.1 m. over 30 days. Bad and doubtful debts look high. Clarification as to whether loans of E44.4m bear interest or are really equity is needed.

Electricity Supplies 82% of power is bought from ESKOM, rising to 94% during low water levels in the dam. Internal generation was only 16%. Swaziland needs 160MW of power but produces only 40MW. Maguga Hydro Power Station will increase this by 25% during peak hours, generating 19MW. It cost E200m financed by SEB E41m, EIB E87m & other donors.

In 1998 Swaziland entered a 25 year contract with South Africa to supply up to 250 megawatts of electricity, against current peak demand of 170 MW, so long-term security of supply is assured. The threat of "South Africa stopping supplying electricity from 2007" is overstated. Eskom said it in order to raise tariff levels although there is an eight year agreement fixing tariff levels until 2006. ESKOM has been asked to issue a statement to allay fears.

However, the SADC Region is running out of energy supplies, a deterrent to new investors in Swaziland and substantial additional capacity is required. Eskom is committed to meeting peak demand and a certain number of units of energy at two tariff levels. It assumes a certain amount of local generation. There are four Independent Power Producers, (IPPs); sugar & forestry companies, using bagasse and wood pulp with a 77MW peak output. Current generating capacity is 41.6 MW, with sugar companies generating 28 MW of electricity. Encouraging local generation to supply the peak load can reduce overall tariff levels. Peak-time price is 33 cents per unit & off-peak only 10 cents per unit.

Feasibility Studies for Additional Power Generation The lead time for creating additional capacity is many years. Cabinet approved a feasibility study to create a 1,000 MW Coal Fired Power Station & a sugar cane, or 100 MW Bagasse Fired Electricity Generating Plant both with export potential. Independent Consultants, formerly with National Grid, are advising SEB on an appropriate size since a 1000MW station would be very reliant on exports. A variety of proposals will be evaluated. Canham Mining International contemplated reopening the Iron Ore Mine at Ngwenya and establishing a 3500 MW thermal power station at Mpaka. The EU has funds to help augment generating capacity. Botswana is looking at a 400MG coal fired power station located close to a coal mine & water supply for cooling station with 50% export capacity. A $1 billion 600 MW power station could last 40 years. There are discussions with other African countries on the development of hydropower. Less than 7% of the hydropower potential has been developed. The Inga River in PRC narrows from 6 kms wide to gorge 80 metres wide where a large dam is not required. It has huge potential but is very remote so that a 20% electrical loss would occur before reaching Cape Town.

Action Planned and Proposed

Security of electricity supply is a key issue for SEB & the Swazi Economy & is already putting off key potential foreign investors in South Africa. In a strategic partner SEB looks for a long-term investor with credibility, reputation and knowledge of the industry. SEB has already had approaches from companies interested in transmission.

A Regulator needs to be established and staff trained to understand pricing from more than the consumers' viewpoint. The Bill needs to establish the timetable planned for licensing new power generation and distribution. Sugar & Forestry need licences as power generators selling their output to the Grid. SEB want them to sell to them and not to consumers. SEB personnel are concerned about their future. The current arrangement is for other power generators to sell their excess output to the SEB.

Government needs to move quickly to establish the Multi-Sector Regulator, consider restructuring/privatization of SEB and allow other producers of electricity to enter the industry on a competitive basis, possibly using a public/private partnership arrangement in order to

urgently raise levels of service delivery. It would be appropriate to second staff from the Ministry of Natural Resources & Energy to work on the Regulatory Project.

A Performance Contract was drafted in 2000 but never signed. It should be finalised.

1.4 SWAZILAND POSTS & TELECOMMUNICATIONS CORPORATION (SPTC)

Governed by Posts & Telecommunications Corporation Act 1983 & Amendment Bill, 1998

1. FIRST THOUGHTS ON A SURVIVAL STRATEGY - SUMMARY

Assets E m	Sales E m	No Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
563	377	745	Top priority create MultiSector Regulator	Restructuring is top priority for survival	Top priority is to obtain strategic partner	Substantial job losses. Privatisation is essential to survive. Competition will give better services, lower prices & grow the economy
Issues: The first task is to escape insolvency by Government loan guarantees. The second task is to establish effective leadership and control of the enterprise. For this it needs a very able and experienced MD, who may need to be on a short-term, turnaround, contract, to strengthen the management team and, with an experienced Board and the help of consultants, to agree a survival strategy. Post must quickly be split from Telecom, equity finance required secured and CMAC involved in an assessment of manning requirements and planning downsizing. Above all, the multiple weaknesses of the enterprise indicate the urgent need to engage an international telecoms company on a management contract to accomplish the turnaround. This may precede or accompany agreement with a strategic partner, who will acquire a 49% equity shareholding, introducing Swazi Telecom to investing in the new technologies vital for survival. Issues to be addressed include high international call charges, low local charges, high loans & excess & overpaid employees. Unless this is soon achieved, SPTC will not survive market liberalisation.						

2. UNDERSTANDING THE PROBLEMS & CREATING A SOLUTION

When a business is loss-making & failing it is natural to attribute blame for failure, but analysis of problems in search of a solution is the most constructive approach. Board and management of SPTC are now taking this approach by engaging consultants to prepare and help implement a strategy. It is hoped these thoughts contribute to the search for a survival strategy.

3. SPTC's PREDICAMENT SEEN WITH THE WISDOM OF HINDSIGHT

A decade ago, Swaziland rightly identified the potential of mobile telephony and wisely chose MTN as a strategic partner to exploit this technology, but sold the licence for only E2m – a give-away! SPTC had a 51% controlling shareholding in the new jointly owned company and saw Swazi MTN as the instrument of its mobile strategy. It was not realised that the new company would rapidly outgrow its majority shareholder, expanding the market, seizing part of SPTC's market share and becoming a threat to its very survival.

Given the threat to fixed line companies from mobile technology apparent throughout Europe a decade ago, the appropriate strategy would have been to split SPTC into Swazi Post and Swazi Telecom and select an international player in fixed line telecommunications as Swazi Telecom's strategic partner. The two companies, Swazi Telecom and Swazi MTN, could then have

competed in the Swaziland market, cutting costs of fixed & mobile telephony & internet, exploiting new technologies and enlarging the market for the good of the economy.

Eight years ago, privatisation was promoted but lack of understanding & inaction has left SPTC's privatisation until it is almost too late. SPTC has never received equity finance from Government. As a monopoly it financed itself from retained profits and loans.

But with loss of market share & failure to raise staff productivity, it became loss-making & now insolvent. Losses & loan repayments forced it to abandon its capital expenditure programme on which it embarked in a bid to acquire new technologies to ensure survival. Restructuring, Government equity finance and a strategic partner are all essential and urgent requirements.

SPTC management is demoralised. It feels the Government is unresponsive to its needs and has no intention of refinancing its business. Consideration of the Spirit Telecom Joint Venture is the action of a management that feels it has no better options open to it and is "clutching at straws". Without Government understanding of the situation now and the initiation of immediate action to achieve turnaround of the business with the help of a strategic partner, before liberalisation of the market to competition, SPTC cannot survive as a viable business.

4. SPTC'S FINANCIAL SITUATION

Results for 2002/5, Forecast for 2005/6 & Draft Budget 2006/7 - E million

	2002/3	2003/4	2004/5	2005/6	2006/7
Income					
Telecom	282	293	330	353	374
Post	21	27	25	27	29
Depreciation	33	44	71	71	72
Interest	22	69	58	43	34
Abnormal expenses *	10	80	21	19	17
Net Profit/(Loss)	**15**	**(151)**	**(67)**	**(19)**	**(12)**
Swazi MTN: Dividend	0	25	46	39	50
Profit on share sale	0	0	23	16	0
Group Net Profit/(Loss)	**15**	**(126)**	**2**	**36**	**38**
Capital Expenditure	**209**	**121**	**31**	**7**	**13**
Working Capital Deficit	**138**	**144**	**85**	**191**	**57**
Loans	**224**	**424**	**406**	**173**	**158**

* Abnormal expenses include voluntary retirement, pension & gratuity provision and UT Starcom E6m.

4.1 TRADING LOSSES

From 1997 to 2005, SPTC's sales multiplied by three from E120m to E356m but expenditure multiplied by nearly five times from E90m to E431m. SPTC employees fell from 895 in 1997 to 790 in March 2005 (now 745; 160 in Post; 424 in Telecom & 161 in Common Services). It has not raised employee efficiency, so profits of E32m became losses of E68m, an E100m p.a. decline in eight years, leaving book value at only E157m, plus the Swazi MTN share value.

SPTC blames its decline into losses on a "*disadvantageous interconnect agreement & loss of market share to Swazi MTN"*. Phone lines have reduced from 44,000 to 41,000 in the past two years but Swazi MTN's market growth was never available to a fixed line operator. Serious over-manning, overcharging for international calls, under pricing of local phone calls & postal services, & management shortcomings have contributed to SPTC's losses.

The 2004/5 Annual Report claimed the company was '*now profitable*', but a loss of E67m was only turned into a profit by the E46m Swazi MTN dividend and E23m profit on its share sale. In 2005/6, losses of E19m are lower but again needed the E39m Swazi MTN dividend and an E16m profit on share sale to turn the loss into a profit of E36m. This forecast profit is still subject to audit. If provision had been made for the UT Starcom E37m contingent liability and for personnel reductions which are desperately needed, it would have been a substantial loss.

To its credit, Swazi Telecom's turnover grew 7% in 2005/6, without a tariff increase. International call rates, formerly 2.75 times South African rates, were cut in off-peak times to the UK & US by 40% & have now been cut permanently. This could grow its market share. On the other hand, Swazi Telecom's local call charges at E0.57 per 3 minutes compare with R1.35 in South Africa and are the lowest in the region. A proposal, being prepared, to "rebalance tariffs", i.e. lower international call rates and raise local tariffs, is certainly necessary.

4.2 LACK OF EQUITY + OVER-BORROWING + LOSSES = INSOLVENCY

SPTC has never had an injection of equity or capital grants from Government except an E15.8m Japanese Grant. Unlike several other major public enterprises in Swaziland, it has financed itself solely from retained profits and loans. Needing to modernise its facilities & technology, SPTC embarked on a heavy capital expenditure programme. Equity finance was again not available so it mistakenly tried to finance the programme by three year loans. No restructuring was done to cut costs; the business went into heavy losses, resulting in a use rather than a generation of funds from trading. So the capital expenditure programme became unsustainable, and the repayment of the relatively short-term loans resulted in insolvency. PricewaterhouseCoopers, then its auditors, qualified their report on the 2005 accounts to say SPTC was still loss-making & unlikely to be able to repay E116m loans falling due on 30 April 2006. This proved correct. The enterprise was heavily over-borrowed so Government equity was sought in November 2005. Loan guarantees were offered but nearing the end of June are still awaited. The company is paying high interest on emergency finance. With guarantees, it will remain heavily over-geared, desperately needing equity finance.

Delays in payment by Government make matters worse. Debts of E5.7m beyond 30 days are due from the Police & the Umbutfo Swaziland Defence Force, over half Government debts of E10.1m beyond 30 days. The enterprise has to employ an incredible 26 staff on credit control, demonstrating the problems of retail business on credit in Swaziland!

To avoid bankruptcy, the Acting MD froze capital expenditure, which fell from E209m in 2002/3 to E7m last year. But telecommunications desperately needs investment in modern technology, especially wireless. With what appear to be good reasons, management feel Government is unresponsive to its needs and has no intention of refinancing its business to finance new technologies to ensure survival.

Consideration of the Spirit Telecom Joint Venture is an example of management "clutching at straws"; seeing no better options open to it of accessing essential new technology without available finance.

5. SHORT TERM ACTION FOR SURVIVAL

5.1 RAPID ACTION IS NEEDED TO SOLVE THE CASH CRISIS

Parliamentary approval for loan guarantees is urgently needed to save heavy interest on short-term borrowing. A further loan of E80m must be repaid this month. Government was reminded by CEOs of public enterprises at the Privatisation Workshop of the need to avoid long delays. It is a principal motivator of many CEOs in their aspirations to achieve privatisation.

5.2 MANAGEMENT

The critical task is to establish effective leadership and control of the enterprise. Telecom Africa's December 2005 consultancy study, seen only this weekend, reports *"the total absence of trust amongst and between management and staff"* and *"lack of teamwork within and across departments".* For this it needs the very ablest and experienced MD, who may need to be on a short-term, turnaround, contract. The MD will need to strengthen the management team and, with an experienced Board and the help of consultants, agree a survival strategy. If necessary, interim management under contract by an experienced and successful former Chief Executive should be used. The multiple weaknesses of this enterprise are so great they argue for the urgent engagement of an international telecoms company on a management contract to accomplish the turnaround. The present management is simply not capable of achieving it. This management contract could precede contracting with a strategic partner acquiring a 49% shareholding, who will introduce Swazi Telecom to the new technologies vital for its survival.

5.3 SWAZI POST

Post & Telecom must, as soon as possible, be split, legally & practically, confirming ownership of assets, especially buildings. The lack of teamwork at SPTC prevents this being achieved until management control has been established. Swazi Post also needs a survival strategy. Indications are that it sells its services too cheaply to make a profit. For example, stamps on mail to the UK are far cheaper than stamps on mail from the UK to Swaziland; South Africa's annual charge of R341 for a mailbox is six times the Swaziland charge of only E55.

5.4 OPENING THE MARKET TO COMPETITION – THE THREAT TO SURVIVAL

The Telecommunications Bill, as drafted, is seen as a "*death knell"* for Swazi Telecom because it seeks to confine its monopoly to voice telephony only, which has little future. SPTC seek to "*defer opening of the market to further competition, until SPTC is capable of surviving. Modify the Bill to let Swazi Telecom retain its monopoly in voice and data until a strategic partner has turned around the business and established a firm foothold in wireless technologies".*

It is said that the Spirit Telecom proposal has attracted new potential competitors, with proposals of their own to "cream' the market. Spirit Telecom is proceeding independently with the creation of the Call Centre which, if successful, should create a number of jobs.

5.5 RECOGNISE SWAZI MTN AS THE PRINCIPAL COMPETITOR & SELL ITS SHARES

Once seen as a partner, Swazi MTN is now clearly seen as SPTC's major competitor. Swazi MTN has damaged SPTC which has not restructured but has become loss-making. The impact of creating Swazi MTN has been unfavourable to Swazi Telecom which, itself, needs to become a player in wireless technology if it is to compete and survive. Swazi MTN has plans to go into data transmission – a major threat. SPTC management no longer see benefit to their business in owning Swazi MTN shares. Note that the 41% Swazi MTN shareholding is included in assets at nil value but at the recent sale price of a 10% shareholding it would have an E160m value.

Sale for E160m of these Swazi MTN shares should be part of an overall strategy which includes investment by a strategic partner in Swazi Telecom for a 49% shareholding. The sale could be through the Swaziland Stock exchange, allowing telephone customers to buy shares at a discount as the fruits of privatisation. This sweetened the privatisation of utilities in the UK.

5.6 REFINANCING – A BROAD ESTIMATE OF THE AMOUNT NEEDED

SPTC needs refinancing, by sale of Swazi MTN shares, by Government equity replacing loans and an injection of equity by a new strategic partner. Up to E750m, in total, may be required:

	E m
Working Capital - convert a working capital deficit of E57m into an E43m surplus.	100
Convert E150m of loans into equity	150
Redundancy of all staff including a pension liability of E78m (*See Note)*	200
Capital expenditure to complete projects & take Swazi Telecom into wireless.	300
"Broad Estimate" of Total Funding Needed	**E750m**

Note: There is substantial overstaffing and salaries of junior staff are too high. SPTC management propose ending everyone's employment contract, re-engaging only those needed on new contracts. Terminating *everyone's* contract is questionable and CMAC must be asked for their advice to confirm it would be the right and most economic course of action.

This E750m financial restructuring would be sourced partly by sale of Swazi MTN shares, for say E160m, the remaining E490m equity coming from the strategic partner in exchange for a 49% shareholding and the balance of equity from the Government of Swaziland.

5.7 AN INDEPENDENT MULTI-SECTOR REGULATOR

An independent multi-sector regulator must urgently be established to agree future structure of the telecommunications industry, review the Telecommunications Bill, with authority to make future decisions on bandwidths, licensing of new competitors & interconnect charges.

5.8 RESTRUCTURING & PRIVATISATION NEEDED NOW

Too much time has already been lost and Swaziland can no longer afford delay. This year, an expert team in turnaround management, telecommunications, law & finance must devise and begin to implement a restructuring & privatisation strategy including the following:

- address over-manning
- separate Swazi Post and Swazi Telecom into discrete companies
- suggest a redraft of the Telecommunications Bill to retain monopoly on data to ensure Swazi Telecom's survival
- create a strategy for survival
- agree criteria for a strategic partner for Swazi Telecom, possibly from outside SADAC
- initiate search & negotiate a management contract & shareholders' agreement with a strategic partner
- agree a contract to provide Swaziland with high quality, low cost, modernised telecommunications, including the use of CDMA, with mobile hand sets competing with GSM hand sets and WIMAX technology for high speed wireless transmission of data.

(It may even be appropriate to employ an international telecommunications company on a management contract to achieve the above). The strategic partner will manage the company, build the team, finance essential investment & carry out essential changes. But no reputable telecoms company would invest in SPTC as it stands. Action is essential to restructure finances & organisation, transferring only necessary assets, contracts, licenses & staff to a new company in which a strategic partner invests for say, a 49% shareholding.

The strategic partner should take over management as soon as possible, knowing what is needed and able to provide the expertise needed. Rapid privatisation at what some may see as a poor price may be the best solution for Swazi Telecom and for Swaziland. Delay was never a viable option. Further delay will ensure Swazi Telecom's demise.

6. THE SPIRIT TELECOM PROPOSED JOINT VENTURE

Spirit Telecom has proposed a joint venture in wireless with SPTC in the Mbabane – Manzini corridor, which has some 60% of the telecommunications market, which would compete with SPTC & Swazi MTN. Spirit Telecom, also proposed that the joint venture build a *"cyber city" or* call centre, which would not compete with SPTC. The sales and profits predicted sound very optimistic, but wireless is certainly an opportunity Swazi Telecom must exploit. A call centre might also be an investment opportunity, even if Spirit Telecom goes ahead on its own.

The proposed Joint Venture in wireless would involve divestment of majority ownership of SPTC's future core VOIP business. The impact on SPTC can be inferred from the fact that France Telecom estimates that up to 40% of all its calls will use broadband telephony by the end of 2006 and is planning to shed 17,000 jobs.

SPTC's report on the Joint Venture concludes: *"Whether SPTC undertakes this Joint Venture or not...restructuring is inevitable".* So, unless SPTC substantially downsizes its workforce from its present 745 "*SPTC will need a subvention from Government of about E200m per year to sustain the Corporation and invest in infrastructure".* There is no supporting evidence.

The report also warns: "*Should Spirit Telecom go ahead with the cyber city and wireless projects without SPTC, the chances for SPTC to survive are very slim".* This raises the question: Is Spirit Telecom free to go ahead with the wireless project under SPTC's monopoly powers?

No strategic partner would have an interest in SPTC if it had divested the majority of the income of its core business and become entitled only to a minority share, net of Spirit Telecom's management and licence fees, whilst still liable for 100% of its expenses, employees & liabilities and maintenance of its infrastructure. The proposed joint venture with Spirit Telecom, a niche player in VOIP and not a telecommunications operator, cannot be recommended. It would deprive Swazi Telecom of a majority of its core business & prevent the acquisition of a strategic partner.

7. CONCLUSION

This report constitutes "First Thoughts on a Survival Strategy". It needs detailed validation by an expert team including experts in telecommunications but there is no doubt that SPTC is in deep crisis requiring immediate refinancing & restructuring with a view to privatisation with a competent strategic partner, a serious player in international telecommunications.

2nd LANE - FAST TRACK FOR IMMEDIATE PRIVATISATION OR SALE OF SHARES LITTLE RESTRUCTURING REQUIRED

2.1 SWAZILAND RAILWAY (SR)

Governed by the Swaziland Railways Act, 1962 & the Loan Act, 1997

Assets E m	Sales E m	Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
259	109	311	Yes, high MultiSector Regulator	Much done Decide future structure	Yes High	Changes to prices & jobs have already occurred
Key Issues Swaziland Railway is a priority case for regulation and restructuring as part of privatisation, since it is a well-run business which has outsourced & increased efficiency. Having undertaken much preparatory work, it has thought through and is implementing its strategy for privatisation. It has substantial business opportunities. It needs to clarify possible subdivision of the businesses & choice of a strategic partner(s).						

The Business

The railway's capacity is 10m tonnes but is currently carrying only 4m tonnes. Although the smallest railway in Africa, it can move 80 wagons at a time, no.2 in Africa. Transit business represents 48% of Swaziland Railway's total revenue, its routing largely being determined by Spoornet, South African Railways. Import/export traffic represents 41% of SR's revenue. Reduction in EU's sugar import subsidies has led to sugar traffic being lost to road transport. Capital expenditure budget 2005/8 of E91.7m includes 5 locomotives & a shunter for E75m.

Restructuring began in 1992, with the change from steam to diesel; employees were reduced by 90. In 2003 there were 344 redundancies from 702 with outsourcing to sub-contractors of track & wagon maintenance. Employees have reduced from 1,500 in the 1980's to 328 today. The East West line has been rehabilitated. Unfortunately, High Care Clinic & Black Mamba Security are both failing to perform to required service levels & have been cautioned.

A weakness is the lack of access to funds. Government has assisted, but much more needs to be done. Consideration is being given to inviting an investor to build a line and make his return from the tariffs. Loss of business to road transport is a continuing threat. A change of port from Richards Bay to Maputo could forfeit traffic from northern countries.

Financial Results	**2003/4 Em**	**2004/5 Em**	**2005/6 Em**
Sales	92	99	109
Profit before Tax	7.5	21.5	
% Return on Capital & Reserves	3.6	9.3	

Business Opportunities

1. Magnetite for China –PMC Fosket Contract has potential of 240m tonnes over 15 years.
2. Manganese 300m tonnes, DRC for China, co-ordinating several Southern African railways.
3. Canaham Mining reopening Ngwenya Iron Ore mine. Potential: 59m tonnes in 35 yrs.
4. 2.1 m tonnes of raw phosphate carried for FOSKOR.
5. Resource of 1.5 billion tonnes of coal could be carried using rail spur to mine or power station. Potential for export & power generation given South Africa's power shortage.
6. Following rehabilitation of the East-West line, extend rail line west to Lothair in South Africa on existing rail bed to create an additional line from Johannesburg to Richards Bay.
7. Co-operate with Spoornet, SA railways that control routing of 75% of traffic flowing through Swaziland. North South corridor, Komatipoort to Richard's Bay is very important, reducing transit time for South African traffic by four days.
8. Recover carriage of sugar by rail from road traffic.
9. Create intermodal service offering carriage by road/rail.
10. The Southern African Railways Association could be a useful means of railway promotion.

Advantages from Privatisation

The lack of access to funds can be remedied by a strategic partner who can invest in building the extended East-West line and make his return from the tariffs. The partner would add other strengths in corporate governance, financial management etc.

Impacts of Privatisation

There would be few impacts of privatisation since restructuring is substantially complete; the creation of competition will keep down prices; regulation will impact on safety, prices and competition with road transport where a level playing field is sought.

Regulation

Cabinet has approved a railway privatization bill which is being reviewed. Establishing an independent regulator is a priority before further restructuring or privatisation. Issues include prices, safety & competition with road transport. Railway regulation could come under the Multi-Sector Regulator with aviation & road transport. Competition is a principal objective.

Restructuring and Privatisation

Options for restructuring the railway have been examined, including concession of the railway line to private operators.

The railway could be structured in two divisions:

1. Owner of the assets. Maintenance of the track is already outsourced to a private company**.**
2. The Operating Company would have the right of access for transit and passenger traffic.

For this to be profitable, costs of operating need to be well understood to ensure the company charges the right amount. Co-operation with Spoornet will continue to optimise railway performance but they are not interested in a joint venture.

2.2 SWAZILAND DEVELOPMENT AND SAVINGS BANK (SWAZIBANK)

Governed by the Swaziland Development and Savings Bank (Amendment) Order, 1993

Assets E m	Income E m	Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
1,086 gross	87		Yes In hand	Probably not	Yes High	Borrowing costs down New jobs
Key Issues SwaziBank is in the Fast Track for Immediate Privatisation because it seeks a strategic alliance with an international banking partner. This seems a sensible strategy which could lead to flotation of its shares. Accounts for 2004/5 are delayed due to computer problems.						

Financial Results	**2003/4 Em**	**2004/5 Em Forecast**	**2005/6 Em Budget**
Profit before Tax	42*	35	18

* 2003/4 profit included E29m credit for overstated provisions for doubtful debts but the audit report was unqualified. By June 2006, the audit for the year to 31.3.05 was still incomplete due to problems with the Globus IT Banking System. This cost E15m and is being depreciated over 5 years which is less than conservative. The Venture Capital & Empowerment Fund, set up in 2001 with E80m, had made only 11 loans for E16m by the end of 2004.

Readiness for Privatisation

SwaziBank provides business & development finance from 8 branches, has grown rapidly & turned around from losses in 2001. From overdependence on agriculture, in 2003/4, it increased corporate clients from 5% to 27%, especially in retail, motor vehicle finance & housing. SwaziBank's 2003/4 accounts achieved a satisfactory audit report, but the delay in audited accounts gives fuel to the bank's detractors and could delay privatisation. If satisfactory, the enterprise rates as a high priority for privatisation. SwaziBank majors on its public relations, some might call it "spin", but

Action Planned and Proposed

SwaziBank seeks "a strategic alliance with an international banking partner which will ensure continuity of good leadership and management, bring new banking technologies, access to new products, links into the international network, greater capital strength, access to strategic partners, client base and related trade finance opportunities in and outside the country". "Empowerment of locals, management and staff through the acquisition of shares is also sought". An efficient international banking partner would raise standards of corporate governance; needed in Swaziland.

2.3 SWAZILAND DEVELOPMENT FINANCE CORPORATION (FINCORP)

Governed by the Administration of the Small and Medium Scale Business Development Fund (The Enterprise Fund) Regulations, 1996; Notarial Deed of Trust No.5, 1998

Assets E m	Sales E m	Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
171	21	35	Yes In hand	Review mandate	Yes High	Borrowing costs down New jobs through provision of funds
Issues: Since neither Government nor Tibyo Taka Ngwane wishes to fund expansion, management would welcome an additional shareholder who can offer funding for growth plus stability within the current mandate of FINCORP but in line with the FINCORP's longer-term privatisation strategy.						

Financial Results	½ year 31.3.04 Em	2004/5 Actual Em
Income	9.0	21.3
Impairment of loans & advances & bad debts written off	3.2	12.9
Profit before Tax	2.3	1.0
Loans & advances	90.0	113.4

FINCORP opened in 1996, as a development finance institution operating mostly at retail level to support Small, Medium and Micro Enterprises (SMMEs) which employ a significant number of people. It was funded from Taiwan, E36 m., Government E20m & Tibyo Taka Ngwane E8m. Shareholding is 70% Government & 30% Tibyo Taka Ngwane per the draft shareholders agreement. Loans range from E2,000 to E20m, a very wide range, with an average of E350,000. It does not ask for collateral security but ensures it will be repaid by cash flow but charging higher rates of interest.

Management would welcome privatisation, aspiring to become a bank, receiving deposits and creating district offices and branches in rural areas instead of using a fleet of vehicles. Lack of additional shareholder funding means they have to search for funding. They have recently obtained E20m from the E1.6bn Job Summit Fund.

Provisions for doubtful debts were a very high E10m including E7.6m on the E87m of loans to the sugar industry. The strategic plan had highlighted this risk but assumed only a 2% provision would be required.

By December 2005, capital employed totalled E170.9m of which E72.3m is long term loans. Of these, interest bearing loans are E10m from the Swazi Government, E44.2m from ADB, and E10m from OPEC & E0.5m from Tibyo Taka Ngwane.

Action Planned and Proposed

Neither Government nor Tibyo Taka Ngwane is able or willing to fund expansion, so FINCORP is looking for new funding to seize opportunities to loan to small and medium sized businesses within its mandate.

FINCORP seeks early privatisation in the form of acquiring a private sector strategic partner who would invest E200m. It looks appropriate but a new investor would be looking for a higher return than is being achieved. Probably a record of better results may be appropriate; otherwise the terms that could be negotiated would be poor.

Before embarking on a search for a new shareholder, the issue of FINCORP's mandate needs to be considered. Would a new shareholder join on the basis of FINCORP's present mandate or with a view to it widening? What is the longer-term vision for FINCORP and what is the Government's vision? This suggests the need to initiate a study of its mandate, regulatory position, possibility of a banking role as a source of funds & equity funding from a new shareholder(s) whose objectives need to be compatible with FINCORP's current or enlarged mandate.

A 30% shareholding by SIDC had been approved by their Board but SIDC themselves need to replace two shareholders, delaying the process. The Pension and Provident Funds might consider shareholdings.

2.4 SWAZILAND WATER & AGRICULTURAL DEVELOPMENT ENTERPRISE (SWADE)

Governed by Mem. & Articles of Association of Swaziland Komati Project Enterprise Ltd, 1999

Assets E m	Sales E m	Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
41	NA	34	No	Separate assets & staff into 2 Companies	Yes High	Competitive services New jobs
Issues: With Government support, this professional Project Team offers an excellent opportunity for a Swazi Management Buy-Out providing services to Government and other clients. It would be far easier to hold this high skilled team together in a private company. Assets managed would remain inside Government.						

The SWADE Project Team appear to do a very professional job of co-ordinating all activities relating to the construction of the Maguga and Driekoppies Dams, monitoring and evaluating resettlement & development processes for persons affected; planning & implementing the Komati Downstream Development Programme to enable Swaziland to utilise its share of water from Maguga Dam where 2,400 hectares have been ploughed and planted, mainly with sugar cane; planning & implementing the Lower Usuthu Irrigation Project, LUSIP. It appears to be making a unique contribution in raising Swaziland's rural living standards through empowerment and provision of water and professional services.

SWADE does not trade. In the year to March 2005 it received grant income of E57.7m. Net income was E0.6m & net assets to be employed on the project of E 35.6m. In the six months to December 2005, with subventions of E14.3m, it ended the period with E41m capital employed.

Action Planned and Proposed

This professional Project Team demonstrate considerable versatility in managing complicated projects with great sensitivity, covering diverse fields. Such skilled project management represents a valuable resource to Swaziland which can be called upon to manage other major projects. The strength of the Team is entirely dependent on its professionals who could easily be lost to the private sector in South Africa.

Instead, consideration should be given to enabling them to undertake a Management Buy-Out for the business with a contract to complete the present assignments but become free to pay competitive salaries and compete for other projects including projects outside the country. Obviously there would be no transfer of assets relating to the infrastructure managed. Such motivation of this Team could represent an interesting example of Swazi empowerment and entrepreneurial success which could inspire others in a move to a new commercial culture in Swaziland. The Government is urged to consider this option with an open mind. Changes to its Memorandum and Articles of Association would of course be required.

2.5 ROYAL SWAZI NATIONAL AIRWAYS CORPORATION (RSNAC)

Assets E m	Sales E m	Staff	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
Deficit of E87m	11.4	13	Yes High	Yes, sell ticket agency business and wind up company	Yes High	Competitive services
Issues: Appoint Administrator & Liquidator to sell the ticket agency, wind up the company, preserving the name.						

Owned 50% each by Government & Tibyo taka Ngwane, this hugely loss-making airline, flew to numerous African capitals. The aircraft were sold and a Government owned company, Swazi Airlink, entered a joint venture with South Africa Airlines, with a 60% share in South African Airlink, a profitable business. What remains of RSNAC is one branch acting as a General Sales Agent for South Africa Airlines, plus refuelling aircraft.

Deloitte & Touche have not signed the 2001/2 accounts due to: a huge disparity between management & draft audited reports; inability to substantiate foreign bank accounts at 9 locations totalling E1.1m; E12.5m unsubstantiated in accounts payable suspense account; E6.1m received for unsubstantiated sale of an aircraft; a debtor for E15.99m paid to and probably irrecoverable from Dafin Asset Finance for an aircraft for which there are no details. Kobla Quashie, now auditor, has not signed audited accounts for three years. For reasons unknown to the writer, no one seems at all interested in pursuing these matters and it surely time to "wipe the slate clean".

The Ticket Agency employs 13, selling to Government & others made an E6.4m profit for year to 31.3.2005 of (compared with E2.64m in 2003/4) on commission of E9.4m, up 88%, and fuel sales of E2.0m.up 14%. The current year shows commission and fuel sales of E18m in 9 months. Travel by the Head of State with large delegations helps but will be hit by the downgrade in travelling class by Government officials. Property, plant & equipment of E4.8m include aircraft spares at cost/valuation of E8.9m written down to E3.4m; aircraft of E9.4m written down to E1.1m. The Government increased its loans in the year by E4.7m which is surprising considering there is E10.2m in its eighteen bank accounts. Share Capital of E1.5m is offset by E88.9m accumulated losses, a deficit on equity of E87.4m financed by shareholders loans of E105m interest-free, unsecured, with no repayment date.

Action Planned and Proposed

There are apparently numerous complications to be cleared up which can be left to an Administrator and Liquidator who should be asked to sell the ticket agency for a fair price, independently valued. The company name should be preserved for the future when it may be needed.

2.6 SWAZI AIRLINK

A Government wholly owned company, Swazi Airlink, owns a 60% shareholding in South African Airlink, a joint venture with South Africa Airlines. The business operates the link between Johannesburg to Matsapha and is profitable. Air Transport Licensing Authority granted Swazi Express Airways an air service licence for the same route, but the Government appealed to the Minister of Works to overturn the decision of ATLA because it had an agreement with Swazi Airlink that it would not allow competition.

The Government is in the difficult situation of owning the airline, whilst also acting as airlines regulator, under which it is not allowing free competition. Airlines regulation must quickly be passed to the Multi Sector Regulator which, as has been repeatedly stated, must urgently be created.

Government should give serious consideration to selling its 60% shareholding in South African Airlink. They may well wish to preserve a Swaziland identity and shareholders for the company.

2.7 PIGGS PEAK HOTEL AND CASINO (PTY) LTD

Governed by its Memorandum & Articles of Association

Assets E m	Sales E m	Staff	Regulate? Priority?	Restructure? Priority?	Impact on prices & employment	Privatise? Priority?
48	29 rent	Orion Hotels staff hotel	No	Only legal, company changes	Yes High	Competitive services New jobs
Issues: The hotel & casino are leased for 15 years from December 2002. Its Board does not envisage further privatisation by sale. The justification for its sale is higher priority alternative uses for the funds. Orion would be an obvious but not the only bidder. The opportunity may arise over building a golf course.						

The hotel with a book value of E36m is leased to Orion Hotels for a quarterly rent of E525, 140. Rent from Casino Enterprises is E150,040. Interest earned was E181,166 in the quarter to December 2005 on E7m in investments on the money market and on a loan to Orion Hotels. So an annual profit of E2.4 m was realised.

Action Planned and Proposed

A strategic planning workshop should result in a plan for the business. Orion's proposed 18 hole championship golf course adjoining the hotel is supported by the Board. The hotel and casino show good results. The planned golf course is promising.

The leasing instead of the sale of this and other hotels implies that the Ministry of Tourism, Environment and Communications wishes to remain as an operator in the tourism business. Is that consistent with the Cabinet's approved policy on privatisation? In any case the Ministry needs to review the administrative structure of the company.

It is recommended that the Government should proceed with the sale of all its hotels.

3rd LANE - PARALLEL TRACK - CATEGORY B ENTERPRISES AND OTHER GOVERNMENT SHAREHOLDINGS

REVIEW WITH A VIEW TO IMMEDIATE PRIVATISATION OR SALE OF SHARES, BUSINESS OR ASSETS

SHAREHOLDINGS MANAGED BY DIRECTOR – PRIVATISATION

First National Bank
Havelock Mine Corporation
Ion Swaziland
Lulote – BMEP
MNSP Pty Ltd
Nedbank
Old Mutual
Parmalat Swaziland
Royal Swazi Sugar Company
Swaziland Industrial Development Company
Standard Bank Swaziland
Swaziland Building Society
Swaziland Fruit Canners
Swaziland Royal Insurance
Swazi MTN (through SPTC)
Shiselweni Hotels & Nhlangano Casino Hotel

Public Enterprises are designated Category "B" where Government either has a minority interest, which monitor other financial institutions or are local Government authorities.

With the limited resource made available for this Project, the Consultant was advised not to attempt to review Category B Public Enterprises. It will be the responsibility of the newly established Public Enterprise Agency, with supporting consulting resources, to review each Category B Public Enterprise and made recommendations, where appropriate, for privatisation. Some enterprises are clearly not eligible for privatisation but may operate services where outsourcing may be appropriate.

Shareholdings in the group of companies listed, appear, on face value, to be appropriate candidates for privatisation. The funds realised can be used to accelerate privatisation. In some cases, there may be good strategic reasons for the retention of the shareholding or ownership, perhaps for a limited time period only.

This is not an exhaustive list of wholly or partly owned state enterprises.

4th LANE SECOND PRIORITY FOR RESTRUCTURING WITH A VIEW TO PARTIAL OR FULL PRIVATISATION

4.1 SMALL ENTERPRISES DEVELOPMENT COMPANY LTD. (SEDCO)

Governed by Memorandum & Articles of Association

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
15	4	No	Yes, medium	Possibly Low	Job creation

Established in 1970 to support entrepreneurs to create jobs in the micro, small & medium enterprises, its Mission is: "To contribute to the creation of wealth and jobs throughout Swaziland by stimulating growth in new, existing and emerging SMEs, through enterprise promotion & the provision of an affordable package of Business Support Services." Activities include training, counselling & legal services & operation of estates which it lets out in Mbabane, Manzini, Piggs Peak, Sidwashini, Siteki, Nhlangano, Hlathikhulu and Vuvulane.

Government subvention is E3.65m; rental income E1.3m & investment income E0.65m, a decline on E1.05 m in 2003/4). Major costs are personnel. The last quarter of 2005 saw 155 participants on start-up training; 165 on capacity building; 29 on business planning; 125 given legal assistance with 29 handicraft entrepreneurs participating in an Expo.

Action Planned and Proposed

Strategic Direction With the MD's early retirement, the Chairman's annual report sought "a return to purpose to meet required performance & expectation." A year later SEDCO again lacks an MD and appears to lack dynamism. The new MD should review the practices against its declared purpose as a "one stop shop" for SMEs and consider any needed change in direction. A new Strategic Plan is awaited.

SEDCO performs a valuable role but seems "set in its ways". The two largest "fledglings" at Mbabane, a printer & school garment manufacturer, should "fly the nest". Accommodation proves difficult to find indicating a need & opportunity for more incubator units in Mbabane. Perhaps a more imaginative strategy would be to establish incubator units in some larger villages to create employment in rural areas. Broadening its "product offering" SEDCO could enable it to sell more services, becoming less dependent on Government subvention.

Privatisation Options Estate management could be outsourced although this would lessen contact and business support provided. An alternative approach is to run SEDCO as a division of a private sector Venture Capital Company on behalf of the Government under contract.

Need for Venture Capital There is scope for investment by Venture Capital companies in some of the larger enterprises which seek new premises & expansion & need advice.

4.2 MOTOR VEHICLE ACCIDENT FUND (MVA)

Governed by the Motor Vehicle Accidents Act, 1991

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
155	NA	No	Yes, high	Yes, but defer	Better services

MVA compensates individuals for injury or death in motor accidents. The Fund, formerly part of Royal Insurance, had revenue in 2004/5 from fuel levies of E43m, E25m deficit & accumulated deficit of E77m, being unable to pay outstanding claims in full. The Fund needs Government subvention to pay its debts. Faced with a lack of cash to meet claims, MVA is paying claims by instalments. Is this legal? MVA is financed by fuel levies, which increased by 4% in Sept. 2005 to 22 cents per litre. Deloitte & Touche, actuaries, consider 26.09 cents per litre is needed to meet claims. Is MVA a going concern? Failure over years to pay claims promptly reflects badly on Government. Is it legal to profess to pay claims whilst being unable to do so? The Budget Speech promised the system would be amended. A draft bill dated 2001, envisages capping limits to compensation payable, needs updating. It is not retro-active and will not make MVA solvent. That requires Government funding of perhaps E85 m.

Action Planned and Proposed

A professional review of the Fund is needed to agree a modus operandi for Government.

- Appoint a CEO (vacant since October 2005) with the ability to tackle this difficult situation
- Review all levels of management
- Agree a Performance Contract & respond to MVA's Corporate Plan.
- Verify and clear arrears of E 220 m. claims outstanding some of which go back to 1985.
- Obtain a Government subvention to clear the deficit on funding.
- Check policies, procedures & adequacy of personnel to assess claims.
- Decide whether draft amending legislation is appropriate in its proposed capping of claims.
- Reconsider the appropriate fuel levy and apply for Government approval.

Road Safety Campaigns & Law Enforcement

Take radical action on stricter licensing & banning dangerous drivers to cut road accidents which are 32 deaths per 10,000 vehicles compared with 1.2 in the UK, Denmark and Norway.

Privatization

Long-term, privatize by transferring responsibility for motor vehicle accident insurance to private insurance companies as in most countries. A competitive insurance market is needed.

4.3 SWAZILAND NATIONAL HOUSING BOARD (SNHB)

Governed by National Housing Board Act, 1988; Human Settlements Authority Bill, 1991

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
96	13	No	Yes High	Possibly Low	Better services Job creation

Over its 17 years, the Board has built & now owns E68m of freehold land & residential buildings, E38m of which is on land owned by the Swaziland Government. Its rental income in 2005 was E8.3m. It made a small loss on property development of E0.3m but its Net Operating Surplus for the year was E0.8 m. The unaudited results to 31st March 2006 show a surplus of E0.8m on revenue of E13.3m.

It has 2 current Housing Development Projects. Makholokholo Township Project, Phase I, completed 329 houses 3 years ago. The remaining 171 houses will take some time to develop as informal settlers show no inclination to purchase. There should now be another project in the pipeline but there is not. In prospect there is a site of 130 houses and a green field site at Manzini for 330 houses. A further site for 100 houses is at the Town Planning stage. Major infrastructure upgrading at Msunduza Urban Development was completed in 2001 with 1,523 plots allocated & 536 stage payments received. Completion is delayed.

Performance continues to give cause for concern, remaining stagnant & running below budget without explanations. The Board's Charter is: "We promote social stability and economic empowerment. We House the Nation" is an important social & political goal. In practice, since 2003/4, with little new property development and no current strategic plan; is it realistic?

Focussing on "viable" projects for salaried staff and on this basis, it encounters no shortage of funds and can borrow at Prime -1%. The houses are built primarily for people on a monthly income of E4,000 – E6,000 out of which they can afford to pay the rental of E800 to E1,200 for a new 2 bedroom apartment, 20% of their income. The Board has few bed-sitters with rentals of E300, for those paid E1,500 per month – a Ministry cleaner or messenger. Clearly there is no hope of providing housing for the two thirds of the population on an income of only some E180 per month.

Action Planned and Proposed

The Ministry of Housing should assess the need for low cost housing and develop plans to meet that need, identifying viable approaches and options such as:

- Ask local authorities & utilities to finance 50%, E16,000, of the infrastructure, of an affordable core house or "bed sitter" of 20-25 square metres to be rented at an affordable price by the lower paid.
- Build many more houses for rent with an option to buy later.
- Planning requirement to provide some low cost housing in any housing development.
- Hold an international competition for proposals for attractive designs of low cost housing using modern technologies & environmentally friendly, which can be substantially prefabricated and easily assembled. The Scandinavians design excellent, attractive, prefabricated wooden homes which could use Swaziland's timber resources.

Managing the present housing stock does not need to be a Government function although it certainly needs to be governed by Government policies. Consideration should be given to outsourcing management of the residential housing stock. Possibly the Housing Board as a whole might more effectively achieve Government's objectives of providing low cost, affordable housing, if it were privately managed as a company in the private sector, meeting Government's prescribed policies?

4.4 SWAZILAND TELEVISION AUTHORITY (STVA)

Governed by the Swaziland Television Authority Act, 1983

Sales E m	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
4	Yes High	Yes High	Outsource some functions	Better services Job creation
Issues: Energetic modernisation and raising of quality standards is the priority, possibly in co-operation with another broadcaster, if this TV station is to compete and persuade customers it deserves to be paid its fee.				

STVA is becoming a public service broadcaster with some commercial activities. The CEO is formulating a strategic plan which sees opportunities for privatisation of non-core activities including Star, which sells, services and rents TVs. With annual subsidies of E13 m., STVA made a small surplus in 2005. 37,000 viewers were watching illegally so TV licence fees were only E1.5m, only 8,300 TVs! A detector van is needed. Swaziland Electricity Board has offered to issue TV invoices with its statements on the reasonable assumption that those who have electricity will also have a TV.

Faced with serious limitations on funding capital projects, compromising the quality of service, Government provided E16 m. for digitalisation of the studio to be compatible with the latest technology in the industry. But it is judged inadequate to solve STVA's problems. Swaziland has belatedly become part of the Digital Migration Plan to phase out analogue in 2015 & move to digital TV. It needs to cooperate with SPTC, MTN & radio on satellite broadcasting to achieve greater penetration of rural areas and undertake co-production with BBC or SABC to create and exchange programmes.

Action Planned and Proposed

Privatize commercial activities. Radio should cease to run as a Government department and join forces with STVA. The quality of TV Programmes needs to be raised significantly if STVA is to compete effectively with foreign channels. Strategy needs media professional to identify options; possibly collaboration with BBC or SABC.

The Multi-Sector Regulator should regulate TV & radio. Review the legislation.

Explore cooperative venture with SPTC, MTN & radio to develop satellite transmission instead of TV transmitters and so develop the rural market.

4.5 SWAZILAND NATIONAL TRUST COMMISSION (SNTC)

Governed by the National Trust Commission Act, 1972

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
53	3	No	Yes	Commercialise Reserves	Better services Job creation
Issues: Given 'vision' and professional management, SNTC could generate significant cultural and eco-tourism.					

SNTC operates: Mantenga Nature Reserve & Cultural Village, Malolotja Nature Reserve, Hawane Park & Mlawula Nature Reserve, runs Cultural Heritage Centres at the National Museum, the King Sobhuza II Memorial Park & National Monuments & sites country wide. It coordinates the National Environmental Education Programme. SNTC feel that Government lacks understanding of its role and the contribution it could make to Swaziland's heritage & tourism industry with qualified staff. It is deficient in: research resources in ethnography, natural history, archaeology, natural monuments & sites, business & financial management. The 2006 Budget provides E3 million for restructuring.

The National Trust in the UK makes a huge contribution & has been invited by the Consultant to offer help to SNTC, which, with the right "vision" and organisation could become an "engine for generating tourism" in Swaziland. The Natal Parks Board assessment and advice on the role & activities of SNTC in 1997 makes worthwhile reading but little seems to have changed.

SNTC needs reinvigoration. It is striving to fulfil its role more effectively & to reduce dependence on Government by engaging in income generating activities in cultural and Eco-tourism. Its business and financial management must be strengthened to achieve this. In the quarter to December 2005, it had trading revenue of only E0.65m, needing its Government grant to pay its running costs with a small deficit. It has assets of E53m.

Haley Sharpe Southern Africa, EU Private Sector Support Programme, recommended:
- Restructure SNTC, commercialising its activities
- Corporatise & "ring fence" Mantenga Nature Reserve & Cultural Village, Malolotja Nature Reserve, Hawane Park & Mlawula Nature Reserve
- Turn-around the Reserves by leasing for 3-5 years to Joint Venture partners
- Agree enabling legislation, lease agreements & operational policies
- Enter a Performance Contract with the PEU
- Consider 15-25 year Concessions for Reserves following turnaround

Action Planned and Proposed

The SNTC Team needs to be strengthened so that it can effectively undertake its role and boost Eco-tourism which probably has considerable potential. Provide SNTC with continued professional assistance to refine and execute its plans for commercialisation. Haley Sharpe is implementing its recommendations.

4.6 COMMERCIAL BOARD

Regulate? Priority?	Restructure? Priority?	Privatise? Priority?	Impact on prices & employment
No	Yes, low	No	None
Issues: Wind up this defunct organisation and realise its assets.			

This is a defunct organisation with some assets. If no further purpose is served, Board should be wound up and assets realised.

5th LANE ENTERPRISES WHERE PRIVATISATION IS INAPPROPRIATE EXCEPT FOR POSSIBLE OUTSOURCING

5.1 NATIONAL EMERGENCY RESPONSE COUNCIL HIV/AIDS (NERCHA)

Governed by the National Emergency Response Council on HIV/AIDS Act, 2003

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
2	NA	No	No	Appears to be effective in role. The economic impact of HIV/AIDS has yet to be assessed but does the Health Budget adequately address the magnitude of the threat to the nation from ill-health?

NERCHA received E74.4m grants in 2004/5. E20m was from the Government with E25m in 2006/7. It received US$ 29.6 m. from the Global Funds for HIV/AIDS, Tuberculosis and Malaria under Phase 1 and will receive US$ 25.2m under Phase 2 and US $16.4m under Round 4. NERCHA is undertaking a large number of Global Fund and Swaziland Government projects and appears to be performing its key role effectively.

Action Planned and Proposed:

The long-term potential social and economic impact on Swaziland from AIDS has yet to be assessed but will be substantial. A major focus identified by NERCHA is protection of children and ensuring that the health needs of all the people are met. Food, shelter, education and care to ensure proper upbringing are vital for a potential 120,000 orphans who will grow up in a deprived situation. The threat to a safe and peaceful society if they lacked adequate & comprehensive care might be severe.

NERCHA does not feature for action in the Privatisation Road Map. Even a modest understanding of the potential threats makes one ask whether the Government's Budget for Health adequately addresses the magnitude of the threat from ill-health.

5.2 NATIONAL AGRICULTURAL MARKETING BOARD (NAMBOARD)

Governed by National Agricultural Marketing Board Act, 1985

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
10	12	Possible collaboration with other food bodies	Yes, to perform role more effectively	Regulate agricultural produce to international quality standards. Encourage home-grown, fresh vegetables to promote exports & import substitution. “Better & cheaper” products offer commercial & health opportunities.

NAMBOARD’s Role

NAMBOARD regulates imports of scheduled agricultural produce although not all regulation is being undertaken, especially of product quality. It has a development role including research and extension services. EU technical assistance should be given to the newly established Swaziland Standards Council for the development and adoption of standards, particularly quality standards for agricultural produce. The Act is being amended to cater for NAMBOARD’s widening role. Swaziland has signed the WTO Convention liberalising trade from 2008, allowing free import of products. Many countries could be dumping produce in Swaziland, as a result of which NAMBOARD’s role would become more regulatory. Appropriate standards need to be adopted to regulate the market and to protect Swaziland’s industry. Under the Southern Africa Customs Union agreement, Swaziland can apply for protection of infant production. A laboratory is needed to test products and grade their quality using chemical residue testing.

NAMBOARD’s Principal Income

Levies on fruit and vegetable imports were E7.4m in 2004 & E4m in the second half of 2005. This income will decline with the lowering of customs duties & the success of NAMBOARD’s campaign to substitute home grown fruit and vegetables for imports. NAMBOARD has to be financed by its own farmers, long-term, receiving no subvention from Government. Inspections are carried out at border posts of a whole variety of commodities. Assistance is given with production and marketing of agricultural produce.

Assistance with marketing, purchasing of stocks, soil analysis etc. is given to farmers with finance through FINCORP. Discussions for micro finance are ongoing. In highly seasonal activity NAMBOARD moved into deficit of E0.4 million in the first half of 2005 but into a surplus of E0.9m in the second half year.

Weaknesses and Opportunities

Most farming in Swaziland is at a subsistence level & more commercial farming is needed. NAMBOARD say that Swaziland’s farming has degenerated & lacks co-ordination, information on what needs to be grown & the size of demand. It is gathering information on the demand for horticultural products. They have identified where they stand and where they want to go – a 30% per annum reduction in imports for the next three years. The Ministry of Education asks the University for “hands-on” graduates in farming who can raise farming efficiency.

Much imported produce from South Africa has been on a 300 kms journey from Johannesburg, & has deteriorated under hot polythene coverings. Refrigerated trucks are necessary. Swaziland produce could be marketed as both "cheaper and better". Swaziland's staple diet of maize, which is all starch, is supplemented by some protein in beans and poultry. Experts recommend up to five servings of fruits and vegetables each day, preferably three servings of yellow fruit and vegetables and green leafy vegetables, and two servings of other fruits and vegetables, to get the nutrients needed. NAMBOARD has a contract to supply NERCHA's kitchens. Their help should be sought in promoting improved diets through the media.

Conventional vegetables are sold in the Encabeni Fresh Produce Market in Matsapha which has reopened. NAMBOARD is in negotiation for a market in Mbabane. A niche market opportunity has been identified in the export of miniature vegetables: baby corn, gem squash, courgettes, marrow, yellow & green miniature pumpkin. Three commercial farmers now employing over 100 people exporting twice weekly to Europe via Johannesburg.

Action Planned and Proposed:

Swaziland is moving towards the establishment of a **Farmers' Association** to incorporate:

Maize Farmers' Association
Egg Producers' Association
Swaziland Poultry Growers' Association which produces broilers

The whole food chain needs to be studied to see where opportunities exist for promoting Swaziland's agriculture. NAMBOARD needs strong marketing to promote the demand for locally grown fruit and vegetables. Reliance on imported fresh farm produce should not be necessary. It results in undesired stock condemnation as goods have lost half their shelf life before reaching market.

NAMBOARD's baby vegetable strategy addresses marketing, farmer recruitment, quality issues and a detailed work plan. The Encabeni Fresh Produce Market is encouraging but needs promotion.

Privatisation is not an option but raising productivity and quality standards will create clear commercial opportunities for producing fresh farm produce in Swaziland and reducing imports. Farm Shops should be encouraged.

5.3 NATIONAL MAIZE CORPORATION (PTY) LTD (NMC)

Governed by its Memorandum and Articles of Association

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
29	49	Possible collaboration	No, except to broaden its role	NMC fills a useful role in guaranteeing a minimum price for maize to farmers. Its strategy of broadening of its product base could have commercial potential.

Swaziland produces 77,500 metric tonnes of maize from 56,265 hectares. NMC performs social functions of buying any residual maize held by farmers & guaranteeing to purchase maize from farmers at a minimum gazetted price, selling to millers. For 2 years this minimum price has been E950 per ton. In 2004/5 it purchased 18,216 tonnes at E1,000 per tonne.

NMC operates in a very volatile environment. Last summer it faced high carry-over stocks & a huge potential harvest with an accompanying decline in maize prices. Government injected E7.5m in September 2004 to provide working capital to finance the purchase of this extraordinarily large crop. Disaster Task Force & NERCHA helped by making up-front payments for maize they purchased for Swaziland's needy people.

Following losses in 2003 of E 4.9m & in 2004 of E 1m, over the year to June 2005 there was an operating surplus of E2.6 m on sales of E49 m. In the quarter to December 2005, sales to millers were seasonally high leading to a profit for the quarter of E1.1m. NMC enters forward contracts with millers seeking to stabilize the market. NMC had Net Assets of E23 m. of which E12.6 m. had been financed by grants and E8 m. from retained income. In the quarter to December 2005 it purchased 17,147 tonnes of maize from farmers, selling 14,315 tonnes.

Action Planned and Proposed:

The Strategic Plan 2004/7 saw two alternative options available to NMC: either to intensify efforts on sustained profitability or to be a non-commercial national food security agency. This was written in the context of the threat of liberalising the importation of maize instead of NMC being the single channel but this has not yet occurred. NMC seeks to commercialise by exploring possibilities of broadening its product base and expanding its role as a commercial concern. It is undertaking a feasibility study on trading in other grains, including sugar bean. Only when such a commercial business is developed could it be a candidate for privatisation.

It questions paying tax, paying the Public Enterprise Loan Guarantee Fund E1/2m p.a. and a levy of 4% to NAMBOARD on imports when insufficient supplies are available from Swazi farmers. Freedom for farmers to deliver direct to millers makes sense rather than transferring all to NMC silos.

There is still a need to review the mandate of NMC and the maize import policy: the free supply of maize through the World Food Programme has been cited as working against the business of NMC.

5.4 SWAZILAND COTTON BOARD (SCB)

Governed by the Cotton (Amendment) Bill, 1992

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
9	0	No	Seriously consider its survival strategy	Survival strategy for industry, initially to irrigate 1,000 hectares for cotton & maize production, deserves sympathetic consideration. The livelihood at stake of 100,000 people rates as a higher priority than some other state spending.

Need for a Survival Strategy

Dwindling cotton prices, lack of finance & persistent drought placed the cotton industry, in mid 2005, under serious threat and survival seemed doubtful. Seed cotton, at E2.09 per kg, had fallen 33%, a serious blow for farmers. Maize, their other main crop, was also under threat from drought. A complete shut-down in the coming season was feared unless Government came up with a rescue plan. The Strategy for Cotton Production, coupled with maize production seems an urgent priority for cotton-growing rural areas.

A pilot cotton irrigation project is proposed at Ndzevane. Phase 1 covers 1,000 hectares at a capital cost of E34.5m, E30,000 per hectare, plus E6m working capital. It promises to generate 3,000 tonnes of cotton to add to the 3,000 tonnes output last year from dry land farmers, with maize production in winter producing 10,000 tonnes of maize to feed 16,000 families & create 2,000 jobs. If these promises are valid it presents a telling argument. A further 2,000 hectares could be developed under LUSIP.

Government has promised just E1m to help restructuring but this is inadequate to save the industry. Negative operating incomes over one and a half years have depleted Cotton Board net assets to E8.3 m.

Holdanborg Enterprises purchased for E4.8m, 60% of the shares in Sikhulile Cotton (Pty) Ltd, which owns the sole cotton gin in Swaziland. The Cotton Board own 40%. The gin is currently not being used, ginning taking place at Makhathini in South Africa. Holdanborg threatened, if they were not bought out, to liquidate Sikhulile Cotton, stripping and selling the cotton gin for spares. Consideration should be given to buying their shares at a realistic price. What might be offered for their 60% shareholding is 60% of the scrap value of the gin net of all creditors and liquidation expenses.

Action Planned and Proposed:

A Strategic Plan compiled by all stakeholders from local cotton growers to spinners in the textile industry plans:

Phase I increases cotton production from the current 3,000 tonnes in year 1 to 9,000 tonnes in year 2 & 15,000 tonnes in year 3 by expanding irrigated land under cotton to 3,000 hectares, forming core estates to sustain the raw material side of the industry.

Phase II targets long term sustainability of the industry emphasising technology research, farmer application in shareholding throughout the pipeline and value adding at the secondary and tertiary agri-industry stages.

Parliament has approved a motion requiring the Ministry to propose a survival strategy. Cabinet recognise the proposal as desirable but have not sanctioned the expenditure. Can it be justified economically? Would it qualify as Poverty Alleviation? Britain's Chief Scientist warns of a possible 3 degree rise in temperatures from Global Warming, threatening the food supplies of a further 400 million people. Some 16,000 households, 80,000 – 100,000 people, are on handouts in the Low Veldt with cotton seen as the only available industry. Swaziland should not be over dependent on one commodity – sugar, which would, in any case, require just as much water.

If Swaziland has the water resources to feed 80,000 – 100,000 people and avoid their relocation, is it an appropriate allocation of the country's scarce resources? However, the prospective selling price of cotton is another key issue that needs to be weighed.

But if neither sugar nor cotton prices are predicted to support their continued production in Swaziland, then surely some food crops can be grown for these people to feed themselves?

What are the alternatives?

- Continued dependence of 100,000 people on handouts?
- Relocation? But to where and with what employment?
- Provision of water to ensure continuity of residence plus ability to upgrade the area and become self-sufficient?

Desperate measures are needed to save the Cotton Industry in Swaziland. Economic justification depends on what value is placed on giving meaningful employment and a livelihood to cotton farmers.

It is argued that other countries support their cotton industry – why not Swaziland?

5.5 SWAZILAND DAIRY BOARD (SDB)

Governed by the Dairy Act, 1971

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
22	10	Possible collaboration	Yes, high	The Dairy Board, the dairy farmers, Parmalat, other processors & the Ministry need to work together to increase refrigerated collection points, raise performance standards, so curtailing powdered milk imports & helping to create a viable dairy industry. There needs to be a "meeting of minds" between all stakeholders and cooperation to ensure a "Win Win" situation in their industry.

Parmalat Swaziland has run the principal Matsapha dairy processing plant since 1999 as a Joint Venture company, owned by Parmalat, 60%, Tibiyo Taka Ngwane 26% & Government 14%, on behalf of Swazi dairy farmers.

Parmalat, the Dairy Board and its dairy farmers need to meet to discuss matters of mutual concern and interest. Dairy farmers have expressed concerns with the operation of the joint venture, not seeing it as working in their best interests. The Dairy Board have the challenge to teach better production methods and raise farmers' efficiency. Parmalat undertook to provide technical advice to farmers and do so at farmers' workshops and field days. But the farmers need both technical advice & practical assistance, especially in creating collection points with milk-cooling facilities which would also assist Parmalat when collecting milk.

The 14% shareholding in Parmalat, held on behalf of the farmers, was created for the purpose of augmenting the Dairy Development Fund managed by FINCORPP, from which farmers draw assistance. The Minister for Agriculture & Cooperatives urges the Dairy Board to organize dairy farmers into viable group(s) and propose how the farmers' shares could be distributed.

Parmalat, as a processor, pasteurizer and packager of milk pays only E2.80 per litre to farmers. Other producers & retailers, who bring their own containers and do not pasteurize, pay E4.00 per litre, so farmers, understandably, feel little incentive to sell to Parmalat. However, the public is at risk consuming unpasteurised, unprocessed milk which should not enter the organised market. There needs to be a tangible incentive for farmers to want to sell to Parmalat and to ensure the milk gets pasteurized.

In consequence, only 1.6 million litres of dairy milk were supplied by dairy farmers to processors in 2005, a decline from 2.7 million litres in 2002. Dairy processors had, in 2005, a 30 million litre deficit in milk supply which had to be imported, costing E92m. When milk is scarce, dairy processors are allowed to bring in powdered milk. So, instead of buying from Swaziland's dairy farmers, dairy processors obtained permits from the Ministry of Agriculture to buy tons of milk in powdered form in Europe, converting it to milk. It is also possible to buy milk at an even cheaper price in South Africa, selling it in Swaziland.

Under the terms of the Joint Venture Agreement all shareholders have to give an account of their success in implementing their expected roles. There is a meeting of shareholders on 5th July. It is the Ministry's view that the Swaziland Dairy Board has obligations it has yet to fulfil and that attending to them would facilitate Parmalat's move forward in some of its obligations.

Swaziland Dairy Board's Regulatory Functions

Regulatory and developmental functions of the Dairy Board were separated from the commercial operations in October 1999 and relocated to Manzini. SDB then assumed the status of a Dairy Development Board whose main purpose is to provide developmental and regulatory services to the dairy industry which it does well.

The regulatory functions include the collection of import levies, registration of dairies, quality inspection of processing plants, monitoring of quality standards of dairy products and issuance of import and export permits of dairy products to cross national borders.

The dairy development work includes the provision of dairy extension services to the farming community including artificial insemination, pasture establishment and management, milk harvesting and hygiene, calf rearing, herd health, record keeping, milk processing and marketing, procurement of dairy cattle mainly outside the country, procurement of farm inputs and general farm management.

No cheese or yoghurts are produced in Swaziland but are imported from South Africa. Possibly cheese and yoghurt production could be established in Swaziland classified as "infant industries", entitled to protection and import restrictions.

SDB had E6.2m income from import duties on imported milk & incurred a deficit of E1.9m in 2004/5 but, in the last quarter of 2005 it achieved a turnaround of E536,000 due to a 16% increase in revenue, primarily import duties, combined with cost cutting. With the lowering of tariff barriers import duties will reduce dramatically.

Action Planned and Proposed

The Dairy Board seeks to raise levels of performance in development of the industry with alternative sources of revenue as a source of finance.

The meeting convened by the Parmalat Swaziland shareholders on July 5th will review the roles of each shareholder in the joint venture contract and the extent to which the implementation of the Joint Venture can be enhanced.

There is also a need for the Dairy Board to convene a meeting of all stakeholders, farmers, processors, traders and distributors to address issues including the quality and volume of supplies, cooling facilities, pricing, pasteurisation, powdered milk etc. seeking to find solutions to their mutual advantage.

5.6 SEBENTA NATIONAL INSTITUTE
Governed by Sebenta National Institute Constitution, 1961

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
5	1	No	Restate its role	Contributes significantly to supporting orphaned & vulnerable children & training adults but needs and seeks greater support from its Ministry and NGOs. It has 118 facilitators.

Sebenta National Institute is a non-profit making organisation which provides non-formal, basic education, functional literacy and life skills development programmes. It depends on an E2.8 m. Government grant; generating other income from book sales, catering etc. but this is quite inadequate to meet the need and sustain the institute's growing activities. In the quarter to December 2005 there were 40 permanent staff, 202 facilitators and 2,713 learners.

There is 78% literacy in Swaziland; so some 250,000 have missed out on Primary education and are past the age for formal schooling. Most people have forgotten about the 250,000 people who missed out on education. There are still too many children not going to school, who have dropped out of the formal education system to which they will never return. So Sebenta's role has been expanded to meet their needs.

Action Planned and Proposed

Four Sebenta Schools are complete and four more Schools and Vocational Skill Centres being built will aim to give all orphaned and vulnerable children access to basic literacy, life skills and Non-formal Upper Primary Education.

NERCHA values Sebenta's contribution to OVCs and has contributed significantly, enabling 12 schools to be built including vocational training in building, sewing, carpentry & welding. Plumbing is in the pipeline! Contact with SEDCO and other development agencies could create job opportunities for Sebenta's graduates.

It is not a candidate for privatisation. Sebenta feels the need for greater support from the Ministry of Education for the task of helping illiterate, underprivileged children and young adults to get an education. A Performance Contract has been drafted with the PEU and now needs to be finalised.

At a meeting with Sebenta, the Ministry of Education and the PEU, progress was made on addressing these issues considering the proper enlargement of its role to include OVCs, the need for a defined strategy with yardsticks of performance built into a Performance Contract, which, if met, will demonstrate the strategy is being achieved and Government is getting 'value for money'.

Also, whereas the Government has a limitation on the funds it can allot to Sebenta, its support and time is valued to help gain support from NGOs for the purposes of reducing illiteracy and providing disadvantaged people with occupational skills.

5.7 UNIVERSITY OF SWAZILAND (UNISWA)

Governed under the University of Swaziland Act, 1983

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
118	22	No	Yes, high	E109m annual investment in tertiary education needs to be focussed on the nation's needs expressed in a Human Resources Development strategy and monitored through a Performance Contract. Further outsourcing of non-core activities is planned.

The E109m Subvention is overspent by E17m; 85% of budget being spent in 9 months indicating, the University says, insufficient funds with Government support having declined in real terms. Delays in receipt of scholarships by students make them late in paying fees. **Students' Scholarships,** a matter of Government policy, are paid as loans, irrespective of means. Many are never repaid. Tertiary education largely benefits the wealthier.

Performance Contract Government & University have spent years considering students' funding; looking at ideas on income generation in the SADC region; marketing University Education to increasingly fund it on commercial terms, reducing public subsidies. The University is keen to enter a Performance Contract. Finalization would have a positive impact.

A **Government Human Resources Development Strategy** is needed to gear training courses to the nation's needs so students will find jobs but the University does have some clear indicators of demand for graduates with a surplus of humanities graduates & a serious shortage in mathematics & science. Agricultural studies should have a practical orientation to assist in villages to raise productivity. Three instead of four year courses could be considered.

Security services & cleaning are **outsourced**. To save heavy redundancy costs, maintenance services are being outsourced gradually as attrition permits. Outsourcing of refectory services with potential sales of E11m is under active consideration and negotiation. Outsourcing of the 60 vehicles and transport services could possibly be done by a Management Buy-out.

A Ministry of Education **Commission of Enquiry** into the affairs of the University is awaited. A Special Review Report is being prepared as the basis for the 2006/10 Strategic Plan.

Action Planned and Proposed

Performance Contract Ministry, University and PEU met and agreed to finalize the Performance Contract, setting out the University's strategy, agreed yardsticks of performance, qualitative and quantitative, for measuring achievement of that strategy built into a Performance Contract. If met, it will demonstrate achievement of the strategy & Government getting 'value for money' from its E118m subvention.

A Council of Tertiary Education is proposed by the University. Scholarships for students should be means tested – this a matter for Government policy.

5.8 COMMISSION FOR MEDIATION ARBITRATION & CONCILIATION (CMAC)

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
5	NA	No	No	An important contributor to good sense & appropriate behaviour in the working relationships between staff, Trade Unions & management. It commands support and will help create a realistic approach to restructuring and privatisation.

Role, Staffing & 2005 Results

CMAC is in its 4th year & has restructured to survive on E5.8m funding with capital grants from the US & Chinese Governments. 30 people are full-time in 4 regional offices & 2 offices in Mbabane. There are 12 full-time Commissioners & 30 part-time Commissioners with hopes to grow to 40 & reduce personnel turnover.

CMAC undertake both dispute prevention & resolution. The Industrial Relations Amendments Act 2005 was accompanied by a doubling in reported disputes & workload, with 2,500 disputes last year expected to grow to 3,000. 15% of cases are outside CMAC's jurisdiction. Unfair dismissals continue to dominate with 66%, followed by unpaid wages at 11%, unlawful terms and conditions of employment 7%, terminal benefits at 4% and underpayments at 5%.

CMAC helps parties resolve disputes advising how best to use the law & CMAC. Default awards made for non-attendance are by employers: 50% & employees: 5%. In 2005 there were 91 cases on salary negotiations & retrenchments; 58 were resolved avoiding a strike; 7 of 33 unresolved disputes culminated in legal strike action losing 15,000 man days; 18 were resolved at plant level, using non-binding arbitration awards as a basis for further negotiations. All cases of protest action arose from unresolved cases from the prior year. Awards totalled E10m. Workshops were run on causes of disputes at workplace with corrective initiatives.

Opportunities

CMAC grows but services provided are not as they would like. CMAC needs: to get into an organisation before it dismisses someone; to sit in to chair a dispute; the right to go in to prevent a dispute; the legal right, after a certain time, to compel people to come to the table. Labour laws are similar throughout SADC & are rigid. Reduction of the labour in Government was a prerequisite of recent 25.4% labour award but reduction will be slow to occur.

Weaknesses

A Regional Forum has been created for information sharing but there is a lack of bench marks of good practice. There is need to do a lot of marketing of CMAC, the concept being used is fairly new.

Action Planned and Proposed

Leadership Challenges

The adoption of the Constitution and the growth of SMEs will result in an increased workload for Commissioners so CMAC needs to realign its systems and processes to cope. The new Constitution will add workload. Finding a staff-retention strategy is an urgent task. The Commission received added responsibilities in the national budgeting process: recruitment & training adherence to strict & complex processes & implementation of a three year strategic plan.

Objectives

- Increased competence of Commissioners: as efficiency in judgement grows, it clears disputes & the work flows logically.
- Amend Act with reports direct to CMAC.
- Achieve legal time frames: within 4 days appoint Commissioner; within 21 days take decision; in 30 days write decision.
- Market Commission by involvement with companies & seminars.

Targets

- Processing Rate: This has increased, currently processing 92% against a target of 94%
- Concluded Cases: Resolving 57% against a target of 60%
- Pending Cases: It was 10% at the year end against a target of less than 20%.
- Target backlog is less than 2% of cases.
- Arbitration: Less than 18% of unresolved claims

CEMAC is revising its targets, reducing staff turnover being an important one.

CEMAC has a role to play in working with the Public Enterprise Agency on privatisation planning. Trade Unions have publicly stated their opposition to privatisation so there will, no doubt, be plenty of work arising from PEA's activities for the Commission.

5.9 SWAZILAND INVESTMENT PROMOTION AUTHORITY (SIPA)

Governed by Swaziland Investment Promotion Act, 1998

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
4	NA	No	No	SIPA has an important role in promoting foreign direct investment which contributes to creating employment. Collaboration with the PEA can assist with privatisation.

SIPA's Role

SIPA describes itself as "an operational arm of the Government for developing Small and Medium Enterprises (SMEs), providing Investor Facilitation and Aftercare; promoting and marketing Foreign Direct Investment (FDI) and providing advice to Government on policies, procedures and legislation that impact on investment.

Its quarterly report describes 8 SME projects under discussion; 9 cases of investor facilitation and aftercare; 6 cases of maintenance, factory construction and aftercare visitations; a promotional trip to Taiwan which, for the past 32 years has been a source of investment projects. South African enquiries have been received in respect of mining, energy and in light engineering where the South African rate of Rand 16.50 per hour may encourage FDI. SIPA is closely associated with the Job Creation Programme.

Action Planned and Proposed

The E1.6billion pledged by financial institutions at the Job Summit presents a great challenge in making this a reality through gleaning projects that meet the requirements of the financing institutions. Most proposals lack market potential or management capacity. Potential entrepreneurs need a lot of assistance as the Consultant knows from his experience as a Venture Capital director.

SIPA's problems include rent collection from tenants, matching vacated factory premises with new tenant's needs and the strength of the Rand/Lilangeni to the US$.

SIPA has not increased its human resources in line with plan due to the lack of funds.

Privatisation is not applicable but focussed professional support, especially in areas of high unemployment and redundancies could be of great value. SIPA has an important role in the implementation of privatisation policy, especially in identification and involvement of strategic partners. Close collaboration with the PEA will be of mutual benefit.

5.10 SWAZILAND NATIONAL PROVIDENT FUND

Governed by the Swaziland National Provident Fund Order, 1974

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
741	NA	Yes In hand	Yes, high	For too many years its auditor's report has been qualified. Administration must be put in order. The Fund is substantially overstaffed but action is in hand. 70% of the Fund is invested in South Africa which looks like "too many eggs in one basket".

The Fund's defined benefit plan pays lump sum pensions on retirement or, over 50, on redundancy, according to age, service or compensation. It is generally funded through payments to insurance companies or trustee-administered funds. New members are brought into the Fund and large salary increases granted without realising the impact on the Fund or the requisite funding being provided. Reduced interest on members' savings from 7% to 4% retrospectively from 2003/4 reduced the accumulated deficit by 88%. Coupled with the excellent returns on its South African portfolio, it is almost fully funded.

The draft accounts to June 2005 show revenue of E147 m. and a profit for the year of E78m. Properties and investments of E741m were under management. At 176 employees, the Fund is overstaffed & a voluntary exit scheme is being agreed to reduce staff to a realistic level. Accounts have again been qualified by PWC who are unable to express an opinion on the accounts or verify employee's contributions and interest in cases where the employer has failed to pay. The E16m difference between contributions received and what should have been received in 2002, due to inadequacies in computer systems are still, after four years, "receiving attention". Some contributing companies report that the Fund lacks accuracy. The CEO suggests that 100% compliance by companies to contribute their dues to the Fund could be ensured by requiring companies to certify annually compliance with their obligations before their Trading Licence is renewed.

Some 30% of the fund is invested in Swaziland property & 70% in South African equities of which some 15% is off-shore. Swaziland investors favour investment in South Africa with its current high returns & absence of currency risk. However, "all one's eggs in one basket" is a policy that needs to be kept under review to ensure risks are adequately spread.

Action Planned and Proposed

This substantial fund must speedily manage its affairs better, reconciling its accounts and obtaining an unqualified audit opinion which it has failed to do for several years.

An international firm of actuaries should give its opinion on the effectiveness of the management of this substantial portfolio of funds including the degree of risk in its investment strategy. It is noted that Investec manages some 30% of the funds but its performance is significantly below the 47% return achieved by Allan Gray last year.

It is good to see realism in the arrangements to eliminate overstaffing providing training for those who choose to leave. This is not a candidate for privatisation.

5.11 SWAZILAND TOURISM AUTHORITY (STA)

Governed by the Tourism Authority Act, 2001

Assets E m	Sales E m	Regulate? Priority?	Restructure? Priority?	Issues and Recommended Action
1.3	0.1	No	Yes, strengthen capability	Achieving for Swaziland its share of the World's largest industry – tourism, requires a high standard of marketing professionalism. There is plenty of scope for development. Commercial activities can be outsourced. STA faces the end of EU funding – 2/3 of its total income.

South Africa & Mozambique were leading sources of 1.05 million visitors from January to November 2005 with a marked increase of arrivals from Europe. Outbound travel over the same period totalled 975,000. Royal Jozini Big 6 E3.5 billion investment planned with a golf course, hotel, lodges, reserve etc. in the economically depressed Lavumisa Region represents a decentralisation of development.

The EU PSSP Programme has assisted with Community Tourism projects. A National Tourism Plan for 2006-2010 to guide public and private sector investments will shortly be completed. STA's subvention has been increased in 2006 to E6.8m now that the E10m has ceased from the EU. Tourism levies are planned.

Action Planned and Proposed

Privatisation is not envisaged for STA which will hopefully promote many private sector investment ventures to finance part of its operations by sales of tourists' requirements.
The potential for development of tourism (the world's largest industry) requires the most talented new CEO on the retirement of the present CEO this year.
The Royal Jozini Big 6 E3.5 billion investment planned is exceedingly ambitious. Its success could be critical for Swaziland's tourism so it needs to be managed with great professionalism.
Offer tourists from Europe evening entertainment concerts, Son et Lumiere & open-air theatre & an abundance of travel brochures in hotels and travel bureaux, maps etc. The provision of attractive "virtual tours" on the STA's web site could be a major opportunity to attract European tourists in their own homes.

6TH LANE – ENTERPRISES NOT ELIGIBLE FOR PRIVATISATION

6.1 CATEGORY B PUBLIC ENTERPRISES not eligible for privatisation

Central Bank of Swaziland; Manzini City Council; Mbabane City Council; Public Service Pensions Fund; Raleigh Fitkin Memorial Hospital; Swaziland Industrial Development Company

The above enterprises are clearly not eligible for privatisation but may operate services where outsourcing may be appropriate.