Ministry of Finance

DIVIDEND POLICY ON PUBLIC ENTERPRISES FOR THE GOVERNMENT OF SWAZILAND

Public Enterprises Unit, 2015

Ministry of Finance

KINGDOM OF SWAZILAND

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Definition of Terms

Cash dividend is money sent to the shareholder through mail or directly deposited in his/her bank account.

Category A public enterprises are those enterprises that are either wholly owned by Government or in which Government has a majority interest or which is dependent upon government subvention for its financial support.

Category B public enterprises are those public enterprises or bodies in which Government has a minority interest or which monitors other financial institutions or which is a local Government authority.

Common Stock Dividend is determined at the sole discretion of the Board of Directors

Dividend is the distribution of value to shareholders.

Dividend Policy is the Policy used to determine how much to pay out to shareholders in dividends.

Final Dividend is the dividend paid as the final payment by a company for a particular financial year.

Property Dividend is when a company distributes property to shareholders instead of cash or stock e.g. railroad cars, gold etc, or any item with a tangible value recorded at market value on declaration date.

"Public Enterprise" means any public corporation, Board, Commission or other body, which was or is established under any written law, including Companies Act, where the Government has an interest.

Special Dividend is an exceptionally large dividend paid on a once-off basis from retained earnings or reserves. This is also a return of money invested by shareholders which is tax-free when there is sale of business or liquidation of investment.

Minister means the Minister responsible for Finance

Line Minister refers to the Minister responsible for a Public Enterprise

I. INTRODUCTION

1. The Government of Swaziland has developed a Dividend Policy which is to be used as a basis for determining dividend payout by public enterprises. The policy will determine the portion of cash earnings to be retained in the enterprise for reinvestment and funds to be paid out to the shareholders from either current or accumulated retained earnings.

2. In addition, the Policy spells out dividend pay-out by public enterprise and considers the various factors that come into play when such a pay-out is to be made.

3. The policy conveys the Government's dividend preferences and expectations in order to provide public enterprises with the framework and discipline for making dividend payments.

4. The need for a policy arises from the fact that the Government maintains a large equity investment in "Category A" public enterprises as a result of the historic direct injection of capital and through indirect investment in the form of retained earnings. Each equity investment in these public enterprises carries an opportunity cost, being the benefit the Government forgoes from an alternative use of the equity. Accordingly, the Government expects its businesses to achieve returns that are comparable to alternative investments of similar risk.

5. There are a large number of public enterprises which are controlled and directed by Board of Directors and are operated under various statutes. Many, but not all, of these public enterprises are designated as "Category A" public enterprises in terms of the Public Enterprises (Control and Monitoring) Act, 1989 (PE Act). The minority fall under "Category B" and "other" public enterprises.

6. These enterprises are entirely profit making, service oriented or are both profit making and service oriented. Most of "Category B" public enterprises are profit making while a majority of "Category A" public enterprises fulfill developmental, commercial, social, and regulatory roles. Very few in this category are entirely profit making. The Policy acknowledges the dual and multiple responsibilities that public enterprises undertake in fulfilling their mandates and has considered their implications when it comes to dividend payout.

7. There are services such as health and sports, which are new services now provided by public enterprises to the public on behalf of Government. These activities are now controlled by the PE Act. The principles set out in this Policy will equally apply to such enterprises. Accordingly, this Policy document applies to all public enterprises (Category A, B and "others").

8. ***The Dividend Policy is to be consistent with the Companies Act No.8 of 2009, which is a commercial indicator of acceptable practices of entities operating on a commercial basis. Section 95 (1) provides that a company shall not declare a dividend if (a) the company is, or would after payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would be less than the aggregate of its liabilities and stated capital of all classes.***

II. POLICY APPLICATION AND OBJECTIVES

Application

9. The purpose of this Policy is to outline Government's expectations for the payment of dividends by "Category A and B" public enterprises, to ensure that an appropriate return is made to the Government, as the shareholder.

10. These guidelines will become effective after Cabinet approval of this policy.

11. The Policy applies to all public enterprises according to the following categories:

11.1. Commercial Corporations (profit making)

These are public enterprises established under Special or General Acts of Parliament or under the Companies Act, with capital wholly or partially provided by Government. These enterprises are expected to operate on commercial lines and be viable and self-financing. They provide services/products that are commercial in nature but with a huge element of **social responsibility**. They include all Category B enterprises, with the exception of the regulatory authorities. "Category A" public enterprises in this category are as follows:

- Sincemphetelo Motor Vehicle Accidents Fund
- National Maize Corporation
- Royal Swazi National Airways
- Swaziland Railway
- Piggs Peak Hotel
- Swaziland Development and Savings Bank
- Central Transport Organization

11.2. Profit Making and Essential

These are public enterprises established under Special or General Acts of Parliament, with capital wholly or partly provided by Government. These enterprises are expected to operate on commercial lines and be viable and self-financing. The difference here, however, is the service/product offered is of an "essential nature", contributes to the socio-economic development of the Kingdom and requires a high capital investment. In essence, these public enterprises have extensive infrastructure networks which they own and the networks are necessary to operate the service.

Public enterprises which are categorized as profit making and essential must have an obligation to serve all who have applied for service within an area. Some public enterprises are obliged by statute to meet certain service standards. These obligations require ongoing replacement, upgrading and expansion of capital assets from time to time. The investment or capital expenditure (CAPEX) must be met either from retained profits, current cash flows, debt financing, new injections of capital from the government or through donor assistance. These are:

- Swaziland Water Services Corporation
- Swaziland Electricity Company
- Swaziland Post and Telecommunications Corporation

11.3. Profit Making and Developmental

These are organizations established under Special or General Acts of Parliament, with no subvention received from Government. Capital grants are occasionally released by government to recapitalize these public enterprises. These enterprises are expected to operate on commercial lines and be viable and self-financing. The difference here, however, is the service offered contributes to the general social economic welfare of the Kingdom. In addition, the requirements of a fixed infrastructure are not an imperative, and provided that the requisite aims and objects of each of them are met, this can be done outside of the umbrella of government. These are:

- Swaziland Development Finance Corporation
- Swaziland National Housing Board
- Swaziland Cotton Board

11.4. Regulatory entities

These organizations' sole mandate is to regulate a particular segment of the economy. Those with a commercial requirement that often conflicts with the regulatory mandate are excluded from this category. These entities are:

- Swaziland Energy Regulatory Authority
- Central Bank of Swaziland
- Financial Services Regulatory Authority
- Swaziland Environment Authority
- Swaziland Civil Aviation Authority
- Swaziland Competitions Commission
- Swaziland Communications Commission
- Swaziland Public Procurement Regulatory Authority
- Financial Intelligence Unit
- Swaziland Standards Authority

11.5. Regulatory and Developmental

These organizations regulate a particular segment of the economy with a mandate to develop the segment in which they operate. These are:

- Swaziland Dairy Board
- National Agricultural Marketing Board
- Swaziland Tourism Authority
- Swaziland National Provident Fund
- Public Service Pension Fund

11.6. Social and Subvented organizations

These are organizations established under Special or General Acts of Parliament or through the Companies Act with recurrent and capital expenditure fully or partly provided by way of annual government grants to meet social, promotional, regulatory, educational, research and other services. They cannot provide services without Government subvention although they have a profit making umbrella. These are:

- The Small Enterprises Development Company
- Swaziland National Trust Commission
- Swaziland Television Authority
- Sebenta National Institute
- University of Swaziland
- Swaziland Christian University
- Southern Africa Nazarene University
- Royal Science and Technology Park
- National Industrial Development Corporation of Swaziland.

11.7. Non-Profit Making Entities

These are entities which provide services but are budgeted for in terms of both recurrent and capital budgets under the national budget. Revenue generated does not cover operational expenditure. These are:

- Swaziland Investment Promotion Authority
- Swaziland Revenue Authority
- Swaziland National Youth Enterprise Revolving Fund
- Swaziland Nazarene Health Institutions
- Siteki Good Shepherd Hospital
- Swaziland National Council of Arts and Culture
- Swaziland National Sports and Recreation Council
- Swaziland Red Cross
- Swaziland National Youth Council
- Swaziland Standards Authority
- CMAC
- NERCHA
- SWADE
- National Disaster Management Agency
- Lutote BMEP

12. The Policy acknowledges the differences in the nature, role and structure of public enterprises and realizes that there may be overlaps in the functions and that a one-size-fit all dividend payout rate is not appropriate.

13. In this regard, public enterprises have been grouped according to the above categories based on their nature and mandate. All "Category B" public enterprises are expected to pay dividends.

14. ***Public enterprises in 11.1, 11.2, 11.3 and 11.6 are expected to pay dividends to government. Non-profit making enterprises are not expected to pay dividends. Regulatory authorities are not expected to pay dividends in the medium term because most are still new and at infancy stage. However, when they are operating at full strength, some will have to pay dividends/special dividend at the discretion of the Board. With respect to the subvented public enterprises, the generation of a surplus at the end of the financial year is highly condoned as it implies that the public enterprise is biting more than it can chew.***

15. With regards to some public enterprises especially those public enterprises in 11.6, there is clear need to restructure and commercialize some of their services and Business Plans should be tabled to Boards for consideration of the feasibility of commercialization, taking current Statutory Provisions and Stakeholder Interests.

16. This would have to be followed by corporatization through statutory amendment and registration of a Memorandum and Articles to support shareholding and by extension profit-making and declaration of dividends.

17. Government normally has a representation in the Board of Directors who oversees her interest in the "Category B" public enterprises. Such business enterprises shall continue to pay dividends to Government as declared by their Board of Directors from time to time.

18. In making the dividend payout, each public enterprise must consider its long term financing and investments requirements, among other issues.

Policy Objectives

19. The objectives for the Dividend Policy from the government perspective are as follows:

- To create a frame work for Government to receive return on investments from public enterprises, which is stable.

- To determine the process to be followed in dividend payment declaration, analysis and final recommendation;

- To reduce possible overinvestment by a public enterprise;

- To balance financial and economic returns to achieve an optimum benefit for government and the public must also be taken into consideration, hence, requirement of boards/management of government companies to allocate resources efficiently and to be accountable for financial management;
- To secure the interests of the Government as a shareholder;

- To provide a strong incentive for boards/managers to focus on enhancing the value of public enterprises;

- To provide public enterprises with a framework and discipline for setting an appropriate capital structure for making dividends payments; and

- To outline the relevant reporting requirements for all public enterprises.

III. BACKGROUND OF THE DIVIDEND POLICY

20. The Government of Swaziland is a shareholder or has interest in an excess of seventy-two (72) public enterprises. Currently, fifty (50) of these are in “Category A” whilst twenty-two (22) are in “Category B” public enterprises.

21. “Category A” public enterprises fall under different line Ministries but are governed and directed by a Board of Directors which is accountable to the Minister Responsible.

22. The Public Enterprises Unit (PEU) was established following the enactment of the Public Enterprises (Control and Monitoring) Act, 1989 which mandates the Unit to monitor and report on performance of all Category A public enterprises, to ensure their efficient operation, to provide technical assistance whenever is necessary, among other responsibilities stipulated in the PE Act. Section 4(2)(b) of the PE Act stipulates that the PEU shall establish for each category A public enterprise tax and dividend payments management procedures and incentives as well as a detailed medium term corporate plan which is the reason for this Policy.

23. The fifty (50) “Category A” public enterprises play a critical role in the economy. They contribute to the development of the agricultural, business promotion, transport, health, education, finance, tourism and environment, information, labour, sports, and arts and culture sectors. Other public enterprises are in the utilities and some are responsible for youth affairs.

24. The Government of Swaziland remains the principal shareholder in all “Category A” public enterprises with shares ranging from 75% to 100%. In this regard, government has a controlling position and strong bargaining power in these public enterprises.

25. Thirty-two (32) of the “Category A” public enterprises source their funds from government subventions. This means that a majority of public enterprises are still heavily dependent on the shareholder (government) for subventions. Some public enterprises, because of the nature of their businesses, which is wholly service oriented with no wing of income generation, have continued to be dependent since their establishment. Others have continuously failed to breakeven due to a number of factors.

26. Other public enterprises source their funding from local and international financial institutions. A few are entirely self-sustaining and depend on internally generated revenue to finance their operations.

27. Dividend payments are foreign for most “Category A” public enterprises. Out of the 50, two or three pay dividends.

28. Government has a smaller portfolio of minority shareholdings in a number of commercial businesses. These are “Category B” public enterprises. Most of these enterprises have their own Dividend Policies and are already paying dividends to government based on the share price and the number of shares government holds in these companies. A few of the “Category B” public enterprises do not pay dividends.

29. Dividend payouts are now under consideration by Government as guarantee fees and income tax equivalents, do not represent nor constitute a return on the government’s equity investment. Dividends, on the other hand, represent a return on the Government’s equity investment and are to be paid by public enterprises from profits.

30. It is noted that "Category A" public enterprises contribute to the Public Enterprises Loan Guarantee Fund and some pay tax. In addition to these, public enterprises will now be expected to declare and pay dividends. Nevertheless, unlike dividends, guarantee fees and income tax equivalents are expenses incurred by public enterprises. The payment of these expenses does not represent nor constitute a return on the Government's equity investment - dividends are viewed in isolation of these expenses when assessing the annual performance of a public enterprise.

31. Accordingly, the Government expects its public enterprises to achieve returns that are comparable to alternative investments of similar risk, and for dividends to be at an appropriate level to reflect these returns.

Determinants of Dividends in Public Enterprises

32. Profit making and essential public enterprises are highly capital intensive with very low revenues compared with the capital base (low return on capital). Due consideration is to be given on capitalising profits for investment purposes.

33. In addition, socio-economic projects normally have a negative financial return.

34. As a result of past re-investments of profits, public enterprises may have large capital reserves and retained earnings. These reinvestments are either asset acquisitions or liability reductions and do not always represent a cash surplus.

35. Profit making and essential public enterprises may be highly geared as a result of high reliance on debt finance. High gearing is a financial risk and could result in affected public enterprises finding it difficult to fund necessary renewals or capital expansions and, in the extreme, to obtain acceptable credit terms from suppliers.

36. Developmentally oriented public enterprises focus more on expanding capital projects. Public enterprises on this line always need money for capital expansion or new projects being undertaken.

37. Subvented public enterprises do not receive funds as per their budget requests, thus, cash unutilized in the previous year helps the organization to meet some of its other obligations.

38. Unlike publicly listed companies, ownership rights in most "Category A" public enterprises are not readily tradeable, since they rarely participate in share markets. This means that they are not subject to share market and capital market scrutiny and, thus, do not have the incentives provided by the share price movements and credit ratings to reflect the preference of the providers of equity and debt capital. Therefore, Government will require its public enterprises to take into account a strong preference for dividends over capital gain, which cannot be easily used to finance budgeted expenditure, and for a more stable stream of total dividends from its portfolio of business enterprises. Dividends will be viewed in isolation of guarantee fees and income tax, when assessing the annual performance of a public enterprise.

IV. POLICY GUIDELINES GOVERNING THE DIVIDEND POLICY

KEY ROLE PLAYERS IN THE PROCESS

39. The Swaziland Government has a number of distinct relationships with its companies, arising from its role as shareholder, tax collector and regulator and financial provider.

40. The key role players in the process of declaring a dividend are the parastatals, line Ministries, Treasury Department, Fiscal and Monetary Affairs Department, PEU, Sub-SCOPE and Cabinet/SCOPE. Outlined below are the roles and responsibilities of each stakeholder:

Role of the Board of Directors

41. The Board of Directors and management of public enterprises perform a stewardship role and are responsible for:

- Developing and approving the corporate or strategic plans for their enterprises;
- Negotiating target and final dividend payouts with shareholders;
- Complying with relevant requirements under the various laws;
- Ensuring the target dividend payout is met;
- Reporting movements in target dividend payouts and negotiating actual payments, upon finalization of the annual accounts by providing a recommendation to shareholders;
- Advising shareholders on an exceptions basis of significant revisions to profitability and their associated impact on dividend payouts;
- Recommending the amount of dividend payable by public enterprise, if any, for the period under which the dividend has been requested;
- Negotiate capital structure (which is closely tied to dividend) of public enterprise with relevant authorities:
    - especially on asset valuation
    - Debt vs. equity ratio
    - Unexpected and persistent change in business investment cycle (especially relevant in today's economically volatile business environment.)
    - an unexpected change in market conditions or the business' financial position, which is expected to persist into the long term; and
- Recommend restructuring of public enterprise.

Role of public Enterprises

42. Public enterprises are a key component of the whole process and are responsible for:

- Recommending dividend targets to board;
- Developing business profile;
- Developing business plans and forecasts;
- Carryout business risk analysis;

- Undertaking sensitivity analysis of key cash flow variables;
- Developing Corporate plan/ Strategic Plans; and
- Highlighting possible financial needs for unforeseen contingencies

Role of the Public Enterprises Unit (PEU)

43. The PEU is the custodian of the Policy and as such is responsible for:

- Monitoring implementation of dividend policy;
- The development of the Dividend Policy and its equitable application;
- Developing, promulgating and promoting the policy;
- Engaging stakeholders in consultative processes;
- Gathering feedback on the effectiveness of the policy;
- Updating and revising the policy, where necessary;
- Negotiating with Line Ministries and Boards; and
- Engaging other policy departments to ensure social and economic objectives do not jeopardize the financial sustainability of the public enterprises.

Role of Fiscal and Monetary Affairs Department

44. The Fiscal and Monetary Affairs Department, a department responsible for revenue, in consultation with the Public Enterprises Unit, will be responsible for:

- Analyzing public enterprise documents and recommend potential for dividend payments to line Minister; and
- Analyzing and recommending to scope appropriate capital structure.

Role of Treasury Department

45. The role of the Treasury Department will be to:
    - Receive dividend payments.

Role of Line Ministries

46. Line Ministries will:

- Approve board recommendation on dividend payment of public enterprise for the period the dividend is requested; and
- Direct that no interim or final dividend be paid by the public enterprises.

Role of Sub-SCOPE and Cabinet/SCOPE

47. Sub-SCOPE and Cabinet/SCOPE will:

- Consider the need for dividend from public enterprise for an interval of semiannual and annual;
- Determine target financial distribution and government revenue requirements; and
- Receive copy of board recommendation and determine way forward.

V. PRINCIPLES GOVERNING THE DIVIDEND POLICY

Principles

48. In view of the divergent nature of many of the enterprises, there are a number of principles that must be applied to this policy. These include the following:

- The identification and appreciation of the role of the enterprise;

- Efficiency in the provision of services by enterprise. It is generally accepted that some public enterprises are unable to pay dividends because they are inefficient in the provision of services. A more efficient service draws investments and saves financial resources. It is also generally perceived that public enterprises are a drain to government resources. Significant amounts of taxpayers moneys have been used to support and subvent public enterprises. A return on investment in the form of dividends will mean a flow of funds back to the investor;

- Fairness and transparency in applying the dividend rate;

- Comprehensive restructuring of some public enterprises/business units in order for them to be effective and efficient;

- Commercialization of profit making operations. Public Enterprises should explore the possibility of Commercialization of some of their services and Business Plans should be tabled to Boards for consideration of the feasibility of Commercialization, taking current Statutory Provisions and Stakeholder Interests. The payment of dividends by service oriented public enterprises should be preceded by commercialization;

- A thorough analysis of the economic, social and financial standing of the enterprise will be undertaken in coming up with a dividend payout rate;

- Government, through the Public Enterprises Unit, will be responsible for the Dividend Policy; and

- Broad ranging consultation will be promoted and encouraged, where necessary.

VI. GOVERNMENT'S EXPECTATIONS AND THEORETICAL FRAMEWORK

49. Dividends represent a return on the owners' equity investment in a firm. From its ownership rights in companies where it holds less than a 50% shareholding, the Government is entitled to the same treatment as other similar shareholders, including for the distribution of dividends.

50. Unless there are expansion or diversification proposals in hand, there is no need to keep the earnings reinvested in the public enterprise. The government should rather get the return on its investment in terms of a cash dividend.

51. Government's preference for public enterprise profits to be distributed and paid as cash, rather than retained as equity, given this is the prime means by which the Government can realize a return on its equity investment.

52. It is therefore expected that public enterprises will adopt a dividend distribution target in excess of the standard benchmark, when appropriate, for example, when after tax profit is not required for capital adequacy or when after tax profit will not be used for investing in value adding opportunities.

53. Social and subvented public enterprises are expected to declare a rate of 5-15%.

54. Entirely profit making public enterprises should declare at least 50% of their after tax profit as dividends.

55. Profit making and developmental/essential are expected to declare a rate of 5-30% of their after tax profit as dividends depending on planned level of investment as supported by strategic plans and budgets.

56. Declaring dividends from general reserves is discouraged. Dividend payments out of the current year's earnings are encouraged.

57. All public enterprises will be expected to submit their strategic plans to the PEU. Submission of budgets should be done by all "Category A" public enterprises.

58. From time to time, the Government may amend its dividend distribution requirements for public enterprises.

VII. PUBLIC ENTERPRISES' EXPECTATIONS AND THEORETICAL FRAMEWORK

59. The capital structure of public enterprises is a critical factor in that if public enterprises are largely financed by (external) borrowers (highly geared), there would be loan repayment obligations.

60. Public enterprises in which government has shares may pay dividends from past and present earnings as long as their payment will not lead to insolvency for the parastatal.

61. For public enterprises with capital intensive programmes, a certain level of financial investments (with reasonable returns), need to be maintained to meet current and future payment obligations on capital programmes.

62. Moreover, some public enterprises may use their assets as collateral when seeking funding from financiers because they have a realizable value (can be sold). There are, however, special cases where the net realizable of assets may not be ascertained (e.g. sewer infrastructure) and, thus, such assets cannot be used as collateral. In such instances, it may be necessary to build a certain level of liquid assets in the form of investments for use as collateral as and when financing is required. This may also affect the proportion of dividend paid.

63. Retained income which is a function of profitability and dividend payment is arguably one of the largest sources of finance for most companies.

64. Public enterprises are to declare the balance of annual profits as dividend after appropriating it to (i) wipe out the accumulated losses of the past years, (ii) write off the preliminary expenses and deferred revenue expenditures by installments spread over a number of years and (iii) to build up reasonable reserves to augment internal resources to finance approved scheme of capital expenditure and/or to meet immediate financial obligations.

65. Liquidity of the public enterprise will be considered in order to pay dividends as some profitable public enterprises may experience difficulty paying dividends if their resources are tied up in other forms of assets.

66. Some public enterprises have unstable profits thus dividend payouts may fluctuate. Revenues are variable due to climatic conditions and hence a buffer is needed to accommodate asset renewal in low income years; this has become a high risk situation in the light of Governments financial cash flow problems and the general negative economic outlook of the local and world economy for the foreseeable future.

67. In order to maximize shareholder (Government) value, dividend policy decisions need to be based on the use of a firm's capital including: maintenance of capital reserves (including asset replacement reserves); liquidity requirements, and shareholder distributions (dividends).

68. The allocation of capital depends on several key factors. Dividend decision makers need to account for the macroeconomic and capital markets environments, as well as the firm's specific capital structure, financial flexibility, cash flow and growth profile.

69. The policy recognizes that not all profit is cash. Provision should be made in certain cases to agree on a measure of profit that can be used as a basis for declaring a dividend, rather than simply using operating or net profit.

VIII. SETTING THE APPROPRIATE CAPITAL STRUCTURE

70. Capital is provided to a firm from two sources – debt and equity. The mixture of debt and equity used to finance the assets of a firm is referred to as its capital structure.

71. The capital structure of enterprises is closely tied to dividend payments. Firstly, the expected level of normal dividend is a key input in setting a business' capital structure. Secondly, target and actual dividend payments are determined with reference to their impact on the business' capital structure. Therefore, an appropriate dividend should target an appropriate capital structure, including by making reference to requirements for working capital and appropriate contingency for financial flexibility. In setting the capital structure, the dividend preferences of the shareholder over the long run should be taken into account along with the costs of financing.

72. Debt and equity involve different costs. The cost of debt is the regular interest payments required to service the debt. The cost of equity is the minimum return demanded by the investor – a return that is related to the perceived risk of investing in that particular firm. The return on an equity investment is subject to potential volatility in the profits of a firm. As a result, the provision of equity is more risky than the provision of debt. For this reason, debt is generally cheaper than equity.

Cash-flow based risk analysis of the business

73. The first stage of determining the capital structure for enterprises involves a cash-flow based risk analysis, in order to determine the debt capacity of the business. This involves the following steps:

    I. development of a business profile;
    II. review of business plans and forecasts;
    III. undertaking business risk analysis;
    IV. constructing a model to analyze the cash-flows; and
    V. undertaking sensitivity analysis of the impact of key variables on the cash flows.

Determination of appropriate capital structure and range

74. Both an appropriate capital structure and a minimum-to-maximum capital structure range are to be determined. The range will capture the acceptable variation from the capital structure and provides for flexibility given:

    I. the 'lumpy' nature of capital expenditure of many public enterprises;
    II. the Government's preference for a relatively stable stream of total dividends from its portfolio of businesses;
    III. the need to allow for contingencies such as unforeseen additional expenditure; and
    IV. unanticipated value-adding investment opportunities.

75. The use of a range recognizes that the value of a firm is relatively unaffected if its capital structure varies within certain bounds. The width of the range will vary for each public enterprise, depending on the volatility of its cash flows and the competitiveness of the market in which the business operates.

76. The capital structure and range must also be consistent with the following criteria:
    i. provision of an acceptable stream of dividends;
    ii. maintenance of an appropriate investment grade rating, taking into account industry and firm specific factors;
    iii. ability to meet key debt service criteria, based on industry benchmarks;
    iv. capacity to finance the approved capital expenditure program through internally generated cash flows and debt, with consideration of the current phase of the investment cycle; and
    v. provision of sufficient flexibility for relevant contingencies.

Setting and reviewing capital structure

77. The capital structure and range for each public enterprise are to be negotiated between the board/management and the Ministry of Finance, with notification provided to the line Minister. A comprehensive capital structure study is required in the following situations:

    i. corporatization of a public enterprise;
    ii. the introduction of, or significant increase in, competition in output markets;
    iii. a significant asset revaluation;
    iv. an unexpected and persistent change in the business' investment cycle;
    v. an unexpected change in market conditions or the business' financial position, which is expected to persist into the long term; and
    vi. mergers or significant restructuring of Public enterprises.

78. In addition, a public enterprises' agreed capital structure and range will be informally reviewed every year as part of the negotiation of the annual dividend payment. The purpose of such a review is to confirm whether or not the public enterprises' current capital structure and range continue to be appropriate and, if not, to negotiate revised arrangements between the board/management and the Ministry of Finance.

Capital repayments

79. Capital repayments are an alternative form of financial distribution and are used to achieve an appropriate capital structure. Because of its strong preference for liquid over illiquid assets, the Government favours dividend payments over capital repayments.

IX. SETTING THE DIVIDEND POLICY

Determining the appropriate dividend policy

80. During the strategic/corporate planning process, each public enterprise will agree an appropriate dividend with line ministers. The government preference is to:
    i. Maintain a reasonably stable stream of dividends; and
    ii. For profits to be distributed as cash rather than equity;

81. A general target dividend payout will be considered based on 53, 54, and 55; however, final dividend payments will be determined by the Board of Directors, taking into account the balance between the funding needs of the enterprise and ensuring that the government's revenue requirements are met.

82. An appropriate dividend should also target the progression towards, or maintenance of, an appropriate capital structure.

83. Dividends are to be determined with reference to after-tax profit. However, it is recognized that sometimes reported profit may not be supported by cash flows. In some cases it may be appropriate for the dividend to include an underlying profit measure rather than accounting net profit after tax, or, in exceptional circumstances, to include the adoption of a suitable smoothing arrangement.

Terms for negotiation of dividend targets

84. Dividend targets are to be negotiated during strategic planning exercises (on a rolling three-year basis) between the shareholders and board/management of each public enterprise, in concurrence with the Ministry of Finance.

85. The capabilities of the public enterprises to contribute to social and economic development particularly through investment in infrastructure will be taken into consideration by Government when agreeing each public enterprises' respective dividend target.

86. Dividend targets will be negotiated with reference to post-tax profits and through case-by-case consideration of the amount of residual cash available in a business, after allowing for working capital, the funding of acceptable investments and an appropriate contingency for financial flexibility. The preferences of the shareholder must also be considered (see VI).

87. The cash-flow requirements of the business must be recognized and dividend payments must not knowingly place the business at financial risk. On the other hand, a business should not retain any cash or financial investments in excess of its requirements. Such funds should be returned to the shareholders because investment in financial assets is not part of the core operations of any public enterprise.

88. The Government will view its public enterprises from a long-term, portfolio perspective. When individual public enterprises require higher levels of cash (and shareholders agree), this may be compensated for by negotiating changes in the timing of major capital expenditure from other business enterprises or by making equity injections. Negotiation of dividends, therefore, requires a balance between the funding needs of the business to secure long-term value creation and ensuring that Government's revenue requirements are met.

89. The specific items for negotiation are:
    I. Appropriate capital structure and cash-flow needs
    II. Appropriate profit measure, if not post-tax profits
    III. Contingency for financial flexibility
    IV. Dividend target over the next three years

Interim dividend

90. The Government will seek an interim dividend payable from the estimated profits of a public enterprise for the first six months of a financial year, after provision is made for any tax equivalents payable in respect of that six-month period. This interim dividend will be 50% of the target dividend payment for that year.

91. At any time after the completion of the first six months of the financial year, the Minister may require, in writing, the Board to make a recommendation for the payment of an interim dividend on the account of the dividend that may become payable for that financial year. Within 30 days after receiving notice, the Board must make a recommendation for the payment of an interim dividend to the Minister. The line minister will be copied all formal correspondence between the Board and the Minister.

92. Within 30 days after receiving a recommendation from the Board, the Minister and line minister, jointly, must:
    i. Approve the recommendation;
    ii. Direct that no interim dividend be paid; or
    iii. Direct the board that an amount of interim dividend different from that recommended by the Board be paid.

93. The shareholding ministers cannot determine an amount exceeding that recommended by the Board.

94. An interim dividend shall be paid in the financial year it relates on, or as determined by the Minister.

Final dividend determination

95. In the case of a public enterprise, the shareholder minister, in [written] consultation with the Minister, within 60 days of receiving a recommendation for a dividend payable, must either:
    i. Approve the recommendation;
    ii. Direct that no dividend be paid; or
    iii. Direct that an amount of dividend different from that recommended by the Board be paid.

96. The amount of any dividend to be paid by a public enterprise, is the amount determined by [special resolution] of the shareholder minister, in consultation with the Minister, after they have consulted with the Board and considered the written recommendations of the Board. [The [special resolution] will generally be provided at the annual general meetings.]

X. DIVIDEND DECLARATION/PAYMENTS

97. Dividend payment to Government may not be fixed at a certain rate or amount as this will depend on the financial performance, working capital requirements and planned capital programmes. It should be noted that a dividend rate represents a payout ratio. There may be instances when dividends are not declared.

98. Dividends can be paid directly into the Government account at the Treasury Department. A dividend reinvestment plan is not available under the policy.

99. Cash dividends will be declared in Emalangeni

XI. SPECIAL DIVIDENDS

100. The Government may seek special dividends payable from accumulated profits and/or capital reserves. The special dividend is unrelated to current year profits, and is in the nature of a return of excessive reserves, capital or provisions to the Government, as owner.

101. In order for a special dividend to be paid, the Minister and the shareholding minister must direct, in writing, the Board to pay a special dividend. Before making such a direction, both ministers must consult with the public enterprise and be satisfied that the public enterprise has sufficient liquid assets to meet its contingent and financial needs after it pays the special dividend.

102. A special dividend is to be paid as determined by the Minister in consultation with SCOPE.

Key dates

Table 1. Schedule for the recommendation, declaration and payment of dividends.

[By end-June]	Dividend agreed in corporate planning process
[By end-September]	Board to provide written recommendation of dividend to line Ministers.
[By end-October]	Line Ministers to provide Board with dividend determination.
[By end-November]	Board to provide dividend recommendation in writing to Line ministers.
[By end-January]	Dividend to be determined by [special resolution].
[By end-February]	Dividend payment

XII. REPORTING REQUIREMENTS

The table below summarizes the administrative and reporting requirements for all public enterprise.

Requirement	Description	Due date
Submission of corporate plan to the Minister and line Minister.	Corporate plan includes: • Financial statements from the latest available year. • A summary of projected financial results for a minimum of three years. • An estimate of the dividend that is likely to be recommended in each of the next three financial years. • A target capital structure to be delivered over the next three financial years. • Any information considered to be appropriate for the determination by the Ministry and line ministries of a dividend distribution arrangement and the appropriate capital structure.	
Submission of annual financial statements to the Minister and shareholding minister.	Financial statements for each financial year, not more than four months after the end of the financial year, unless otherwise directed by the Principal Secretary, Ministry of Finance.	End-July/April

XIII. TRANSITIONAL ARRANGEMENTS

This policy will apply to all dividends payable after the approval of this document by Cabinet.

Corporate plans should be prepared every financial year and shared with the shareholding minister and the Minister. The corporate plans will then be used to guide the payment of dividends.

Annex 1

LIST OF CATEGORY A PUBLIC ENTERPRISES CATEGORISED IN SECTORS AND CATEGORIES

Sector & Enterprise	Abbreviation	Ministry
Agriculture		
Swaziland Dairy Board	SDB	Agriculture
National Maize Corporation	NMC	Agriculture
Swaziland Cotton Board	SCB	Agriculture
National Agricultural Marketing Board	NAMBOARD	Agriculture
Swaziland Water and Agricultural Development Enterprise	SWADE	Agriculture
Transport		
Royal Swazi National Airways Corp.	RSNAC	Public Works & Transport
Swaziland Railway	SR	Public Works & Transport
Central Transport Organization	CTO	Public Works & Transport
Swaziland Civil Aviation Authority	SWACAA	Public Works & Transport
Finance		
Swaziland National Provident Fund	SNPF	Labour and Social Security
Swaziland Development & Savings Bank	SDSB	Finance
Swaziland Revenue Authority	SRA	Finance
Swaziland Development Finance Corporation	FINCORP	Finance
Motor Vehicle Authority	MVA	Finance
Financial Services Regulatory Authority	FRSA	Finance
Public Service Pension Fund	PSPF	Public Service
Utilities		
Swaziland Electricity Board	SEB	Natural Resources & Energy
Swaziland Post & Telecommunications Corporation	SPTC	Information Communication and Technology
Swaziland Water Services Corporation	SWSC	Natural Resources and Energy
Business Promotion		
National Industrial Development Corporation of Swaziland	NIDCS	Commerce Industry and Trade
Small Enterprises Development Company	SEDCO	Commerce Industry and Trade
Commercial Board *	CB *	Commerce Industry and Trade
Swaziland Investment Promotion Authority	SIPA	Commerce Industry and Trade
Swaziland Standards Authority	SWASA	Commerce Industry and Trade
Swaziland Youth Enterprise Revolving Fund	SYERF	Commerce Industry and Trade
Competitions Commission	CC	Commerce Industry and Trade
Swaziland Communications Commission	SCCOM	Information Communication and Technology

Swaziland Energy Regulatory Authority	SERA	Natural Resources and Energy
Swaziland Public Procurement Regulatory Authority	SPPRA	Finance
Tourism and Environment		
Pigg's Peak Hotel	PPH	Tourism & Environmental Affairs
Swaziland National Trust Commission	SNTC	Tourism & Environmental Affairs
Swaziland Environment Authority	SEA	Tourism & Environmental Affairs
Swaziland Tourism Authority	STA	Tourism & Environmental Affairs
Royal Science and Technology Park	RSTP	Information Communication and Technology
Swaziland Tourism Development Company *	STDC *	Tourism & Environmental Affairs
Information		
Swaziland Television Authority	STVA	Information Communication and Technology
Housing		
Swaziland National Housing Board	SNHB	Housing & Urban Development
Labour		
Commission for Arbitration Mediation and Conciliation	CMAC	Labour and Social Security
Education		
University of Swaziland	UNISWA	Education
SEBENTA National Institute	SEBENTA	Education
Swaziland Christian University	SCU	Education
Southern Africa Nazarene University	SANU	Education
Health		
National Emergency Committee on on HIV/AIDS	NERCHA	Prime Minister's Officer
Swaziland Nazarene Health Institutions	SNHI	Health
Siteki Good Shepherd Hospital	SGSH	Health
Sports		
Swaziland National Sports and Recreation Council	SNSRC	Sports and Youth Affairs
Arts and Culture		
Swaziland National Council of Arts and Culture	SNCAC	Sports and Youth Affairs
Youth Affairs		
Swaziland National Youth Council	SNYC	Sports and Youth Affairs
Disaster Management		
National Disaster Management Agency	NDMA	Deputy Prime Minister's Office Health
Baphalali Swaziland Red Cross	BSRC	Deputy Prime Minister's Office Health

Dormant (*)

Annex 2

LIST OF CATEGORY B PUBLIC ENTERPRISES CATEGORISED IN SECTORS AND CATEGORIES

Enterprise	Abbreviation	Ministry
Central Bank of Swaziland	CBS	Finance
Royal Swazi Sugar Company	RSSC	Agriculture
Swaziland Industrial Development Company	SIDC	Commerce
Swaziland Royal Insurance Corporation	SRIC	Finance
Standard Bank Swaziland	STB	Finance
Nedbank	NB	Finance
Manzini City Council	MCC	Housing
Mbabane City Council	MCC	Housing
Swazi Airlink	SA	Public Works and Transport
AON Swaziland	AON	
International Finance Corporation	IFC	Finance
International Bank for Construction and Development	IBCD	
African Development Bank	ADB	Finance
Macmillan Swaziland	Macmillan	Education
International Development Association	IDA	Finance
Havelock Mine	HVL	
Swaziland Fruit Canners	SWAZI – CAN	Finance
Swaziland Building Society	SBS	Finance
Lulote – BMEP	BMEP	
All Town Councils		Housing and Urban Development
Swaziland Economic Policy Analysis And Research Centre	SEPARC	Economic Planning and Development
Financial Intelligence Unit	FIU	Finance