

Is shadow economy the much

BY SIBONGILE SUKATI AND SEPARC TEAM

EZULWINI – A comprehensive understanding of the drivers of the shadow economy is critical for enacting policies that nurture and transition people from it to the mainstream economy.

This is one of the recommendations that was made by Mcebo Zikalala of the Swaziland Economic Policy Analysis and Research Centre (SEPARC) when presenting a paper under the theme 'Fostering Inclusiveness and Reducing Poverty' on the last day of the Swaziland Economic Conference.

He described the shadow economy as a cash based and unregulated sector. It could also be defined as all unregistered income generating activities that contribute to Gross Domestic Product (GDP).

He explained that some of these activities could be legal but fall through cracks of government in terms of revenue collection.

His recommendation of a better understanding of the shadow economy also stems from the fact there is a mixed perception about it, hence clarity is needed on whether its contribution is significant in the overall economy.

When giving an overview of shadow economy, he explained that it was the second largest economy worldwide representing 13.7 per cent of global GDP, with 1.8 billion people worldwide employed in it.

By virtue of the fact that the country committed itself to Agenda 2030 for Sustainable Development Goals

... it has potential to add E20.5 billion to the economy



Some of the pupils from various schools who attended the event. Some of them had taken part in an essay writing competition hosted by SEPARC and First National Bank. (Courtesy Pic)

(SDG) in 2015, there are certain benchmarks that the kingdom should align itself with to ensure that these commitments are met.

One of these in relation to the shadow economy is ensuring decent work, nurturing and transitioning the shadow economy which is important to ensure SDG goal eight and 10 are met as well as allocation of resources efficiently to accelerate the development agenda (Vision 2022).

Zikalala mentioned that Swaziland macroeconomic data was necessary to identify local drivers of the shadow economy and its magnitude.

"Thus in order to manage the shadow economy, we need to measure it," he added.

Giving further details on whether the shadow economy was a plus

for the economy, Zikalala said its advantages were that it remained unregulated and allowed the Small and Medium Enterprises (SMEs) to strive while at the same it promotes income generating projects as well as employment opportunities.

However, Zikalala cautioned that prior to labelling the sector as one that could fully be praised for economic growth, there was a need to first get its full understanding in terms of identifying the local drivers of the shadow economy and its magnitude, especially if it was to be managed properly and efficiently.

"There is a need to certainly measure the shadow economy. Our economy as a whole has shown some resilience to turmoil and drought but the big question is how has the

shadow economy contributed to this and how big is it? For instance, in 2001 and 2002, we had drought and it was coupled with the bombings in the United States of America (USA) so we suffered the aftershock effects. Also, in 2007/2008, we were faced by another economic catastrophe of the global financial crisis. We were further hit by another challenge in 2011/2012 of a serious drought and decline of the Southern African Customs Union (SACU) receipts," he explained.

One of the key components that came out from his presentation was that the shadow economy acts as a buffer in such situations, especially to those who are failing to secure employment in times of bad economic situation.

Currently, there are no concrete studies quantifying the actual size of the shadow economy in Swaziland. He said as SEPARC, they did a brief overview to fill in the gaps to help policy makers in identifying the drivers of the shadow economy.

He said the objective of the overview study was an attempt to address some of these concerns which include quantifying the size of the shadow economy and look into the factors that contribute to its development.

He said it was also aimed at quantifying the size of the shadow economy in Swaziland using what was known as the MIMIC approach over a period of 16-years with the specific objectives being to assess the factors that

contribute to the development of this sector as well as to assess the relationship between the causal factors and the size of the shadow economy.

Part of the results of their findings were that factors which had direct relations to the shadow economy included direct and indirect tax, self employment as well as agricultural value addition.

Zikalala said they also found that the size of the shadow economy had been declining steadily from the year 2000 to 2016 though both the shadow economy and real economy complement each other during times of crisis.

Statistics show that the shadow economy was on the rise during the times of economic turmoil but took a knock when the economy stabilised.

He noted that unemployment was not a significant driver of the shadow economy in Swaziland and it was declining over time at a slow rate at 37.4 per cent.

"The shadow economy has potential to add E20.5 billion to economy though its slow decline shows inability of policy makers to enact policies to transition it and stimulate economic growth," he explained.

Part of the policy implications and recommendations include having a good understanding of the drivers of the shadow economy, focus on reducing the overall tax burden especially indirect tax, improve the incentive mechanism for National Marketing Boards, build transparent and democratic institutions with less regulatory bottle-necks, corruption and bureaucracy as well as create an enabling environment for sole-trader.

Swaziland Railway only utilising 67% of its capacity

EZULWINI – Having the right policies in place will allow Swaziland Railway to optimally make use of all its locomotives, tankers and other equipment for the betterment of the Swazi business community.

The company has noted that currently, it is only utilising 67 per cent of its capacity while the outstanding percentage remains untapped.

The Director of Operations and Marketing, Sam Mzileni explained that the parastatal was able to handle eight million tonnes per annum though they have increased their target to nine million for the current financial year. He noted that ideally, the enterprise has a capacity to handle about 12 million tonnes of commodities per annum.

"Reaching our target and exceeding it would translate to economic growth and maximum usage of our equipment. Swaziland Railway



Swaziland Railway CEO Stephenson Ngubane. (File Pic)

made a lot of investment recently in its locomotives and tankers to ensure that it delivers efficiently to its clients," he said in brief. Also making reference to this aspect was the company's Chief Executive Officer Stephenson Ngubane, who said they were ready to transport anything to anywhere in the world.

He explained that in the mining

sector specifically, they were working with Maloma Colliery though on a small scale and were hopeful that having the right policies and legislations in place, the mining sector would be fully revitalised and ultimately have positive spin offs to the larger Swazi economy.

In the coming years, Ngubane mentioned that they were optimistic that they would be handling over 20 million tonnes per annum, especially with all the growth prospects and development taking place in the railway industry in the African continent, making key reference to the Lothair/Sidvokodvo line that will be commissioned in 2019 at an investment exceeding E12 billion.

Currently, Swaziland Railway is allowing the large conglomerates, multinational corporations and other businesses to optimise on their value in terms of investment and cutting down on operational costs related to transport through the provision of

rail services in an efficient manner.

Companies such as Total, Engen, Premier Foods, DD Williamson, Afrisam, Galp Energia, Swaziland Beverages, Swaziland Electricity Company (SEC) and Rhodes Food Group, among others, have managed to lower their transport costs and survive harsh economic challenges because of 'knowing where to trim the fat' in terms of their operational costs. Ngubane noted that transport costs in Southern Africa equated to between 35-39 percent on input yet in other countries such as Brazil and North America, these were at a low 15 percent.

"In essence, this means that our industries will find it difficult to compete with products from these countries due to their affordable transportation costs. We want to drive Swazi businesses to be fully efficient and eliminate transport costs as a bearer to profitability," he added.

... company exploring passenger rail

EZULWINI – Tapping into passenger rail by Swaziland Railway (SR) as part of its drive to enhance economic growth and exhaust all available business opportunities has been perceived as a move towards the right direction.

This transpired during the company's presentation under the

theme 'Key Opportunities for Swaziland' at the Swaziland Economic Conference 2017 hosted by the Swaziland Economic Policy Analysis and Research Centre (SEPARC), Central Bank of Swaziland (CBS) and the University of Swaziland (UNISWA) – whose main objective was to unpack some of the economic opportunities and policies that could be explored by the country.

The speakers were of the view that the rail sector could be actively involved in the tourism industry through venturing into passenger rail, also as part of its product service diversity plans.

"Many countries have passenger trains, something which has

worked quite well to boost their tourism sector. It's an opportunity that Swaziland should consider. Many African people are quite adventurous and having this in place could work towards Swaziland's advantage," one speaker suggested.

Swaziland Railway Chief Executive Officer Stephenson Ngubane also noted that it would be prudent for the organisation to explore all existing opportunities, including having smaller passenger trains.

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QUESTION AND ANSWER SESSION:

Q: "With such projects as the Lothair/Sidvokodvo Railway line which will be implemented in partnership with South Africa, we have seen many Swazi business people being side-lined. Can Swazi Railway assure us that we will also benefit from the E12 billion investment project?"

A: "We will be working with our South African counterpart (Transnet) on this. We recognise and appreciate the laws and regulations governing each country when it comes to procurement and other related issues. As such, even our counterparts cannot just run in and do as they please. As Swaziland Railway, we will ensure that Swazis get a fair share of the business opportunities that will be availed. However, the challenge is that as a country, we are lacking in some aspects of expertise such as geo-technology for soil testing and other high level expertise. This will then result in us having to rope in our SA counterparts to assist."

- Stephenson Ngubane

Q: "Which is the better port to use when importing or exporting goods? Is it Maputo or Durban?"

A: "The response to this depends on what the client wants to transport. For instance, Maputo Port is closest at 230 kilometres from Matsapha yet it is 558km to Durban. If you want to get things quickly, you would probably use Maputo. However, you need to be cognisant of the customs duties that are involved because Mozambique is not part of the Southern African Customs Union (SACU). Also, the Mozambican economy is closely linked with the US Dollar, which may affect you as an importer if it fluctuates."

- Stephenson Ngubane

CONFERENCE 2017

needed economic buffer for SD?

Is Swaziland ready for crypto currencies like Bitcoin?

EZULWINI - One of the questions that were tackled in detail at the Swaziland Economic Conference 2017 is whether Swaziland was ready for the fast growing crypto currency which was quickly gaining momentum in other countries.

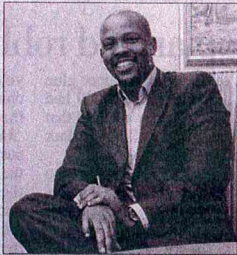
This question was raised by First National Bank Swaziland (FNB) Chief Executive Officer Dennis Mbingo, who was leading a session facilitated by his bank under the topic 'Innovation and Technology in the Financial Sector'.

He made an example of Bitcoin, a currency that was created in 2009, where transactions are made with no middle men and with no need for bank services.

There are no transaction fees and it can be used to buy merchandise anonymously, which also proved to be a cause for concern by participants of the session.

Other people purchase Bitcoins and keep them with the hope that their value will increase over the years.

While the CEO noted that the concept behind it may have its merits, he said just as regulators



FNB CEO Dennis Mbingo.
(File Pic)

worldwide perceived the crypto currency to be a headache, he was of the same view.

"I am not here to sell Bitcoin but I am using it as an example as it is most popular right now.

"There is this thing that is emerging, which financial experts and regulators are struggling with.

"It is not owned by anyone, not controlled by anyone, and is not regulated by anyone yet it is getting acceptance around the world."

The concerns that were raised by Mbingo about crypto currencies were that it is borderless and has no state control, but

uncertainties over legal protection, and the fact that it still remained a regulator headache, and susceptible to crashes like other 'currencies'.

He said, however, that like other currencies, its strengths are also its weaknesses and just like the US Dollar can rise and fall, it is also to be expected that crypto currencies can rise and fall.

Mbingo added that a major cause for concern was how Swazis who do not have enough knowledge are keen to be a part of emerging trends without really understanding them, saying it is unfortunate that even if the Central Banks would continue to say they are not regulating it, this would not stop people from participating as it is not country designated.

"This raises the question that; are we ready as a country and how are we going to protect those who do not know enough?" questioned the CEO before opening the floor for comments and suggestions.

The participants of the session, which comprised of representatives from different banks, the regulator, as well as the Swaziland Revenue Authority (SRA), also raised a number of concerns about

Bitcoins, although they noted that there is a need to get informed on the merits and demerits of crypto currencies.

Montigny Investments Executive Director Andrew Le Roux said there is a lot of fear around crypto currencies because they cannot be controlled.

He said, however, that there is a certain inevitability around crypto currencies as the world becomes more global and platforms become more widespread.

"The question is; how do we as a country survive or even benefit from it?"

"Let us look at our regulatory environment, our policy environment and ask ourselves if we would rather concentrate on consumption taxes or income taxes.

"I think it is more about how we respond to it than go into a cave and say 'this thing must go away' because we do not know it.

"Bitcoin may come and go but I think the concept behind it of global platforms is here to stay," he added.

Le Roux is also the president of the Federation of Swaziland Employers and Chamber of Commerce (FSE&CC).

'Swazi laws irrelevant to new technology trends'

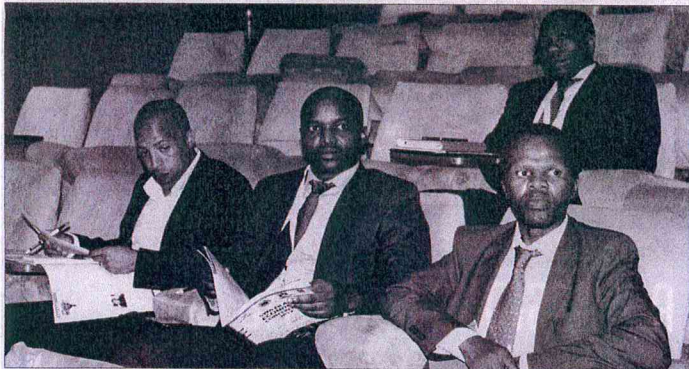
EZULWINI - Participants at the Swaziland Economic Conference 2017 have punched holes into the process of drafting and passing of laws in the country in as far as keeping up with new global trends.

While it was noted that there are changes occurring at a fast pace in innovation and technology, it was also pointed out that there is a need for the laws to ensure that such innovations are regulated and people are protected.

One of the participants made an example of internet fraud and cyber crime which continue to be on the rise worldwide, while in Swaziland there are still no laws in place to protect people from such incidences. A participant said other countries are at a point where they are adding layers on their cyber security and improving it and meanwhile Swaziland has not even started.

It was also suggested that there should be time frames attached to Bills when they are taken to parliamentarians so they are able to adopt them in time, as currently the process is too long and by the time they are adopted they are no longer relevant. Meanwhile, it was noted that experts in the various sectors of the economy could also do more to assist the legislators as they draft such laws, as the process is transparent and they are usually open to suggestions from the public.

The question that was posed was; 'Are experts in the fields doing enough to produce policies that will guide our legislators or are we also seated folding our arms waiting to see the end result?'



(From L) Sikhumbuzo Mlpha (UNISWA), Dr Thula Sizwe Dlamini (SEPARC), Jabulani Dlamini (CBS) and Sikhumbuzo Dlamini (CBS). (Courtesy Pic)

'Financial sector automation will replace traditional jobs'

EZULWINI - First National Bank Swaziland Chief Executive Officer Dennis Mbingo says the predicted time for technology to replace traditional jobs may happen sooner than anticipated.

He said financial sector automation would ultimately replace traditional jobs as the automotive systems are already proving to be more effective than traditional methods.

Mbingo said running banks these days means 'they had to run two companies under one umbrella, the traditional bank and well as the digital bank, making an example with the First National Bank where they have implemented the automated system for processing loan applications which he said had significantly decreased loss.

"When I first joined the bank loans were processed through filling a lot of documents, which was a long process but now 90 percent of the decisions are automated. Surprisingly, the loss experience with automated decision making is now far less when compared to when the loans were not automated," he said.

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2.4 x 3.0m	E 12,790.00	ND 1	2.4m
3.0 x 3.0m	E 13,800.00	ND 1	3.0m
3.0 x 3.6m	E 15,200.00	ND 1	3.6m
3.0 x 4.2m	E 17,040.00	ND 1	4.2m
3.0 x 4.8m	E 17,950.00	ND 1	4.8m
3.0 x 6.0m	E 20,800.00	ND2	6.0M
3.6 x 3.6m	E 16,620.00	ND1	3.6m
3.6 x 4.2m	E18,640.00	ND 2	4.2m
2.4 x 5.1m	E17,180.00	ND 1	5.1m
3.6 x 5.4m	E 21,500.00	ND 2	5.4m
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