



SWAZILAND'S INTERVENTION: INVESTMENT IN ENERGY AND INDUSTRIAL DEVELOPMENT

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BACKGROUND

The Kingdom of Swaziland is situated between South Africa and Mozambique in the Southern African region. The country is 120 km from the East to West and 160 km from the North to the South, with a total land area of 17,363 sq. km (119 per sq. miles). The population is approx. 1,2 million and is distributed approx. 75% rural and 25% urban. Swaziland is rich in mineral resources especially in the Western Highveld which contains asbestos, vast iron deposits, and pockets of gold, kaolin and tin. The Lowveld has vast coal resources ranging from pure anthracitic and semi-anthracitic coal. There are rivers, which provide up to 40.5 MW installed hydroelectric power and another 19 MW hydro power station will be commissioned mid-June 2006. The main agricultural cash crop is sugar cane with three sugar mills in the country. The sugar mills also produce substantial amounts of bagasse, which is used for industrial heat and the balance for electricity generation.

2. INVESTING IN ENERGY AND INDUSTRIAL DEVELOPMENT: CHALLENGES AND OPPORTUNITIES.

Swaziland believes strongly that investment in energy and industrial development in a sustainable manner can eradicate poverty in the country.

STATUS OF THE ENERGY SECTOR IN SWAZILAND

The consumption pattern by tariff category shows that industrial customers represent 47%, followed by domestic at 23%, Irrigation 18%, Commercial 11% and the rest 1%. There are approximately 42,000 households electrified as well as 70 large energy users with approximately 10 industrial users. No formal survey has been conducted, but it is estimated that 19% urban and 4% rural is electrified. While consumption of energy is low by international standards, the country's use of energy is higher per capita than many regional neighbor-countries.

At present, Swaziland is reliant on imported electricity (80%), petroleum products (100%) and coal from South Africa. Great reliance on wood and waste for fuel as well as candle and kerosene lighting is apparent, notably in rural areas. The diminishing power capacities in the Southern African region by 2007/2008 will dramatically increase electricity prices. This shortage of power in the region will definitely impact Swaziland and likely result in increased power costs.

The acceptance of reforms in the energy sector was not expected to be controversial as they sought to dismantle the monopoly of the utility, establish a regulatory body and preserve the state company as a more disciplined corporate entity. Still, the public raised concerns, which include both normal barriers experienced in the international community as well as some that are unique to Swaziland. The introduction of new market-oriented structures into a system that has not before supported these types of structures was of concern. There was fear amongst Parliamentarians, the public, private sector, government that electricity rates will increase. There was also fear that Swaziland's resources will become the property of foreign investors.

SOCIO-ECONOMIC IMPACTS OF REFORM

The major concerns as stated earlier were mainly on tariff increases and also security of supply and rural electrification. Government presently is committed to extend the grid to rural areas through a rural electrification programme started in the year 2000. An annual budget of E3 million (approx. \$550,000) is provided by Government including donor grants. The project was designed to target schools, clinics and other government institutions with all the lines to these targets routed through rural communities and villages. The utility is also assisting communities to form group schemes and pay 40% of the capital cost initially and the remainder paid by installments in two years time.

There has been no comprehensive study on rural access and connections that has been conducted yet but, it is estimated that these efforts have seen connection rate increase from 4% in 2000, to 25% in 2005. These were concerns on what will happen to these initiatives once reforms are in place. But Government has stated clearly that rural electrification will continue to be a priority for and led by the State. Another problem foreseen in the future is when tariff increases would be unavoidable due to the imminent shortages of power in the Southern African region by 2008. However, efforts to electrify the poor would proceed including considerations of smart subsidies, lifeline and poverty tariffs etc. in line with the MDG's and Government poverty reduction strategy. Although tariff categories to assist the poor have not yet been established, Government believes that smart subsidies should be targeted to the real recipients should they be considered in future.

4. CHALLENGES TO INVESTMENT IN THE ENERGY SECTOR

- **Mobilizing funding for investment is a major bottleneck**
- **The size of the local energy market very small**
- **Limited natural resources**
- **Diminishing power capacity in the Southern African region**
- **Swaziland imports the bulk of its commercial energy from neighbouring countries**
- **High cost of Renewable energy technologies**

5. OPPORTUNITIES

- development of the vast coal resources in the country
- Investor friendly conditions
- Market appetite high for export to neighbouring countries
- Market reforms and an enabling environment in place
- Investment in bioenergy a big opportunity as the country produces a lot of sugar production.
- Development of power generation using cleaner fuels e.g. Baggase
- Investment in energy efficiency and encouragement of clean air technologies.

6. Summary

The concern, like all developing countries is if all the necessary instruments have been put in place for a conducive environment for investing in energy and industrial Development, investment flows are still non-existent. In the power sector, Independent Power Producers were expected come in once the electricity industry is liberalized. Commercial Banks are demanding a shorter period of 4 to 8 years maximum in their investment leading to high costs of energy in the process. The question is, after doing everything, where do we go wrong after being guided in our reforms by multinationals and UN agencies including the World Bank. There is a need to unlock the bottlenecks in the energy ad industrial development investment.

Swaziland established an Investment promotion Agency (SIPA) which is doing everything possible to meet investors and address their concerns. Government, presently is focussing on capacity building for SME's and a Job Creation Fund has been created to assist and empowerment the citizens of the country.

Swaziland believes that investment in research and development in renewable energy technologies and clean energy technologies could assist in industrial development and sustainable development.

Thank You.