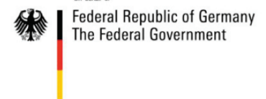
SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.



A CASE STUDY ON
SWAZILAND SUGAR ASSOCIATION (SSA)

MARCH 2012

FIRM OVERVIEW

Name	Swaziland Sugar Association (SSA)
Nationality	Swazi
Sector	Agriculture Production - Marketing
SADC countries where doing business	Mainly Swaziland, South Africa, Lesotho, Namibia and Botswana

BACKGROUND

The Swaziland Sugar Association (SSA) is a company comprised of growers and millers of sugarcane in Swaziland. The association markets and sells sugar to different entities in the SACU countries, the region and the European market. 50% of the product is marketed and sold within SACU and is channeled through packers and manufactures like Cadbury and Coca-Cola. The rest of the product is sold to the European market. Millers deliver the sugar to SSA, which pays them in advance of the sale of the sugar. Millers themselves pay growers in advance for sugarcane they deliver at the mills. Once SSA markets and facilitates sale of sugar, it repatriates proceeds, net of operating costs, back to its owners. It does not seek a profit. SSA also offers extension and technical services to farmers in the sugarcane industry.

BARRIERS ENCOUNTERED

The company as the main marketer of sugar products from Swaziland faces two main constraints: access and cost of finance, and poorly developed infrastructure. To a small extent trade issues are also

a problem.

Given that the Swaziland Sugar Association (SSA) has to pay millers in advance of the sale of sugar, it has to borrow money to finance its operations. As a company with a Swazi E3 billion business, the association recently borrowed Swazi E1.6 billion, which is a substantial amount for a small economy like that of Swaziland. Financial regulations restrict most financial institutions from lending this amount of money and lenders themselves do not want to concentrate this amount of risk with one entity. So the association has difficulties accessing financing for all its operations locally, and is forced to seek funds from outside the country. This increases costs and exposes the association to sovereign risks. Even locally, borrowing costs have increased because the government of Swaziland has been actively participating in the debt market to unprecedented levels given its fiscal crisis. Since the government offers attractive returns to lenders, it has partially crowded out companies like SSA in the debt markets.

Poorly developed transport infrastructure in some parts of the SADC region has caused difficulties for SSA. For example, the Association has not been able to access a lucrative Democratic Republic of Congo market due to lack of infrastructure to enable trade between Swaziland and the DRC. Current railway infrastructure in Mozambique and Swaziland has also forced the company to depend on monopoly entities for the transportation of sugar products. This has left little to no flexibility in controlling transport costs and is exposing the company to risks in the event that these monopolies fail to deliver.

Additionally, a lot of countries in the region have direct prohibitions or limitations with regards to the importation of sugar. These limit the amount of business that SSA can take to these countries. On a trade related issue, Mozambique has also introduced scanning charges for sugar passing through the country, which has raised costs associated with the sale of sugar. This however mainly affects the portion of the product that is marketed and sold in Europe.

IMPACT OF BARRIERS

The impact is more on the industry level than it is at the company level. The restrained availability of financing locally slows down and limits operations of SSA. The increased borrowing costs cuts into company returns from sale of sugar. This means that less money is repatriated to millers and growers.

Poorly developed infrastructure and trade issues limit the expansion of SSA's business.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

On the financing challenge, SSA has not been able to address the issue but has participated in discussions that push for a relaxation on lending limits. It has also engaged local banks in the process. This has been done in an attempt to minimize external borrowing. On the infrastructure front, there is nothing that the company can do directly. To address trade issues, the company participates in trade negotiations in the region, but again solutions are slow to come. The best solution in this case would be for countries to allow for the free flow of sugar and sugar products in the region.

The company has raised the Mozambican trade issue with the SADC Technical Committee on Sugar, an entity that interacts directly with trade and foreign affairs ministers in the region. The response has been diplomatic yet nothing progressive has come out of it.

The firm's reaction with regards to the Mozambican issue has been well received. Not much can be

said with regards to the financing issue.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. The financing issue is inherent to operating in a small economy like Swaziland and the hope is that the current situation will improve.

2. As for the transport infrastructure challenge, the issue will become even more relevant as Europe opens up its sugar markets to more countries; as more sellers enter the market, profits will be reduced and some firms will need to reduce their exposure to that market or even exit. SSA will probably be compelled to explore the regional market with vigor.

3. An emerging issue pertains to food safety standards. Customers buying sugar are now expecting high standards of safety, and this will call on millers to update their mills, something which will cause disruptions in the industry and inevitably affect SSA's business. There are also increasing requirements being imposed in the region with regards to the fortification of sugar. This again increases the costs on the business, especially where standards differ from country to country.