

# “Adequacy of international funding with special reference to financial intermediaries for socio-economic development: evidence from Swaziland”

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## Adequacy of international funding with special reference to financial intermediaries for socio-economic development: evidence from Swaziland

### Abstract

The main aim of this paper is to determine the adequacy of international funding in a less developing African country towards sustainable economic development goals. The study analyzes and evaluates the adequacy of international funding in Swaziland (a less developing African economy). Findings reveal that only 25% of the respondents agreed that Swaziland is able to work towards achieving the Millennium Development Goals by the year 2015 with international funding. The study also finds that most of the projects financed by international funding in Swaziland are mainly for road construction and upgrading urban development projects, health and education related projects are given less priority. The overall findings indicate that international funding is not adequate towards socio-economic development in the country. As such, the study recommends that government should pay more attention to spend borrowed funds on social services such as education and health which are likely to aid poverty reduction and subsequently lessen the dependence on external debt. However, this study will motivate other less developing and developing countries in other continents including Africa in order to formulate effective social and economical measures for sustainable economic development.

**Keywords:** international funding, millennium development goals, debts, Swaziland.

**JEL Classification:** E20, E52, F34, F35.

### Introduction

Developing and less developing countries borrow money from external sources to meet the Millennium Development Goals (MDGs), sustainable economic development goals, develop current infrastructure, and improve the welfare of the country's citizens through the implementation of poverty reducing and economic growth related strategies. Kasidi and Said (2013) state that developing countries borrow funds for boosting their economic growth. International funding, however, for developing countries especially in Africa is largely provided by the giant organizations such as International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), the World Bank, African Development Bank (ADB), and Development Bank of Southern Africa (DBSA).

Besides the developing and less developing countries, "some of the developed countries" also depend on international funding or external borrowing for their major projects (Adedeji, 1985, p. 53). The usefulness of international funding is determined by comparing the social benefit, or productivity, with the social cost of the transaction. Governments accept external loans in order to promote country's welfare. However, "many African states inherited huge amounts of foreign debt contracted by the colonial administrations, and have never emerged out of their indebtedness" (McMullen, 1979 cited in Adedeji, 1985, p. 53). With this respect, this study aims to determine whether a less developing African country can adequately manage its external debts in or-

der to achieve country's sustainable economic development goals.

Considering Swaziland (a less developing African country) economy and social conditions, its economic growth rate is fallen to 2.4% in 2008 from 3.5% in 2007 (Central Bank of Swaziland, 2008/2009), foreign direct investment is fallen to less than 3% of GDP in 2010 from 7.84% of GDP in 2002 (World Bank Development Indicator, 2011) and its budget deficit is 14.3% of GDP (Business Report, 2011; Vollgraaf, 2011). Country's 60% revenue derives from Southern African Customs Union (SACU) revenue, unemployment rate is approximately 41% (CBS, 2010/2011), more than 69% population live in the poverty (World Bank Development Indicator, 2011), and about 220,000 people are affected with HIV/AIDS (United Nations, 2007, p. 23). Although there is a call for government to implement corrective measures in addressing these socio-economic challenges, somehow Swaziland facing difficulties by these socio-economic challenges to meet the MDGs by 2015 and socio-economic development in general.

On the other hand, according to the CBS (2004/2005), "public external debt continues to increase as government undertakes its development projects, which include upgrading of the country's road network and maintaining its current infrastructure". In order to keep the public debt at sustainable levels, the development of a proactive financing strategy is of utmost importance. Poor debt management policies can lead to debt crisis which can adversely impact on the country's economy which can include being unable to meet its sustainable economic development goals and most importantly not being able to qualify for future loan advancements because of defaulting and being con-

sidered as bad for debt by international lenders. Thus, the study looks at whether the international funding is adequately helping Swaziland in working towards country's socio-economic development.

**Objectives of the study.** Given the increased interest in adequacy of international funding, the study aims to achieve three objectives: first to determine the adequacy of international funding in helping Swaziland (a less developing African country) to meet its sustainable economic development goals; secondly, this study aims to determine whether a less developing country (such as Swaziland) can efficiently manage its external debts; lastly, the study aims to identify the lending criteria used to select the countries to be funded by external lenders.

**Role of financial intermediaries.** Financial intermediaries play a key role in the process of providing external loans to the countries especially poor countries since international funding is one of the essential sources of funding for governments and private sectors in low-income countries. The main purpose of international funding is to help poor countries in order to meet their sustainable economic development goals (Seiber, 1982) through the completion of major investment projects. As such, financial intermediaries continue to provide technical advice to the governments on economic growth, project implementation, and necessary legal and regulatory framework for loan disbursements. Further, bilateral donor governments, international financial institutions such as World Bank, the United Nations Development Program (UNDP), IMF, or regional development banks provide a larger share of official loans to low-income countries. In addition, private commercial banks also take a greater role in financial intermediation to developing (Seiber, 1982) and less developing countries.

In the next section of the paper, a brief literature review is provided. Research methodology is described in section two. Section three highlights Swaziland's external debt. Finally in the last three sections, findings, conclusions and recommendations are provided respectively.

## 1. Literature review

In this section, literature related to developing countries' debt relief and sustainability and external debt are discussed briefly.

**1.1. Developing countries' debt relief and sustainability.** IMF, World Bank and other international financial institutions continue to work with low-income countries to ensure to reduce external debt at sustainable levels (IMF, 2013). The World Bank stated that "the debt burdens of a large number of the poorer countries remain unsustainably high" (The New York Times, 1991). The World Bank and IMF launched Heavily Indebted Poor Countries (HIPC)

Initiative in 1996 in order to eliminate poorest and heavily indebted countries' unsustainable debt (IMF, 2013). Through the debt relief fund under the HIPC Initiative, the fund is supporting significantly to low-income member countries to achieve and maintain their debt at sustainable levels (IMF, 2013). By March 2013, 30 African states have already been qualified for debt reduction packages under the HIPC Initiative (IMF, 2013, p. 1); Swaziland has not been qualified for such packages yet. With regard to the third-world debt crisis, the Secretary of the United States Treasury, James A. Baker III spelled out the following plan in 1985:

*If the debt problem is going to be solved there must be a "Program for Sustained Growth", incorporating... First and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies, supported by the international financial institutions, to promote growth and balance of payments adjustment, and to reduce inflation (cited in Serkan and Peter, 2003, p. 16).*

However, O'Neill (1990, p. 22) pointed out that "by 1986 it had become clear that the debt problem of sub-Saharan Africa was serious, and more important, the special treatment was required, especially in the form of debt relief and new capital inflows on concessional terms". Adedeji (1985, p. 54) stated that "the African experience has shown that once a country is trapped in this situation, the tendency has been to borrow more in order to refinance maturing debt obligations". Swaziland as an African country is no exception with that.

**1.2. External debt.** The policies of public external borrowing are generally thought to be guided by the simple objectives of the developing country's economic planners, e.g. promoting domestic output growth and increasing welfare of the populace. Furthermore, various governments' objectives can include increasingly national income, improving the employment situation, and adjusting the balance of payments. However, external borrowing derives from "the acceptance by a government or a government agency of real or financial resources from an external source with the obligation of repaying such resources in unspecified amount to that source at one or several specified future dates" (Seiber, 1982). "External debt problems arise from the inability of a country to increase domestic savings, investment, and export earnings at a time when import bills, amortisation (repayments of the principal), and interest payments are increasing" (Adedeji, 1985, p. 53).

## 2. Methodology

The study analyzes and evaluates the adequacy of international funding in Swaziland (a less-developing African country). The instruments for collecting data were the questionnaires and documentary evidence

(annual reports of Central Bank of Swaziland and other relevant documents). The study used closed-ended questions; some of the questions requiring some explanations from the respondents in order to obtain more information on the relevant area and they were combination of a five Likert scales in which respondents were allowed to express their opinions, perceptions, and some of the questions being of multiple choice nature. Questionnaires were distributed to the economists and senior officials of the selected population.

The population of the study was made up of the Ministry of Finance of Swaziland, Ministry of Economic Planning and Development of Swaziland, the Central Bank of Swaziland, and one private commercial bank operating in the country. The stated population was

selected because the subject is highly technical in the sense that it requires respondents who are well knowledgeable about Swaziland's external funding and the latest developments in developing countries external debts. The author then randomly selected 25 respondents from each population. Total 100 respondents were selected based on simple random sampling technique from all four selected populations.

For reliability and validity of the questionnaire, a pilot study was undertaken. Questionnaires were delivered by mail and a self-addressed envelope was included for returning the questionnaire. The response rate was 76%. Ethical principles (confidentiality, anonymity, protection of privacy) were observed. An assurance was given to the respondents that all results will be kept confidential with a promise of anonymity.

Table 1. Swaziland external debt (E' million)

Item	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Ave. % share over the past 5 years
International organizations	1,241.7	1,387.8	1,676.7	2,059.1	2,184.9	1,663.0	60.0
Foreign governments	703.7	560.3	649.8	996.6	1,035.2	811.9	27.1
Private lenders	236.3	353.6	415.7	444.5	384.8	337.6	12.9
<b>Total public external debt</b>	<b>2,181.7</b>	<b>2,301.7</b>	<b>2,742.3</b>	<b>3,500.1</b>	<b>3,604.9</b>	<b>2,812.5</b>	<b>100.0</b>
O/w: Central Government	1,815.5	1,998.8	2,533.3	3,265.2	3,443.2	2,693.7	93.1
Statutory bodies	366.2	302.9	208.9	234.9	161.7	118.7	6.9
Private non-guaranteed debt	<b>400.2</b>	<b>446.1</b>	<b>460.5</b>	<b>469.2</b>	<b>390.1</b>	<b>351.3</b>	
<b>Total external debt</b>	<b>2,581.9</b>	<b>2,747.8</b>	<b>3,202.8</b>	<b>3,969.3</b>	<b>3,995.0</b>	<b>3,163.8</b>	
Debt service:							
(1) as % of GDP	1.1	2.2	1.5	1.4	3.3	2.3	2.1
(2) as % of export goods and services	1.4	3.2	2.4	2.2	5.0	3.5	3.3
Exchange rates used in conversion: US\$/E	0.1599	0.1618	0.1377	0.1228	0.1037	0.1361	

Source: CBS (2009/2010, p. 46).

### 3. External debt in the context of Swaziland

Table 1 indicates that Swaziland's external debt has slightly decreased in 2009/2010. The decrease was due to the fact that local currency Emalangeni (E) was little bit stronger against the major international currencies such as US dollar, British pound and Euro (CBS, 2009/2010). However, country's external debt has consistently increased from 2004/2005 to 2008/2009 (see Table 1). On the other hand, Swaziland is still underdeveloped and its economy is very weak compared to other economies in Southern African region (Adelopo and Kabir, 2012; World Bank Development Indicator, 2011). The country is struggling to resolve its socio-economic problems due to poor economic performance. In the next section, this study provides information on the criteria used by international financial institutions in selecting the countries to be funded and the adequacy of funding in helping a less developing country to

meet its sustainable economic development goals through the data analysis.

### 4. Findings and discussions

As indicated earlier a total of hundred respondents were contacted from the selected four populations. Out of hundred respondents, 76 respondents (76% response rate) participated in this study of which 60 respondents are senior officers and 16 are economist. 70% of respondents had at least 10 years working experience.

**4.1. Findings from respondents.** The respondents were asked about the adequacy of international funding in Swaziland. Adequacy of international funding was measured with the sufficiency of international funding in helping Swaziland towards the country's socio-economic development and the timely availability of funds and completion of projects.

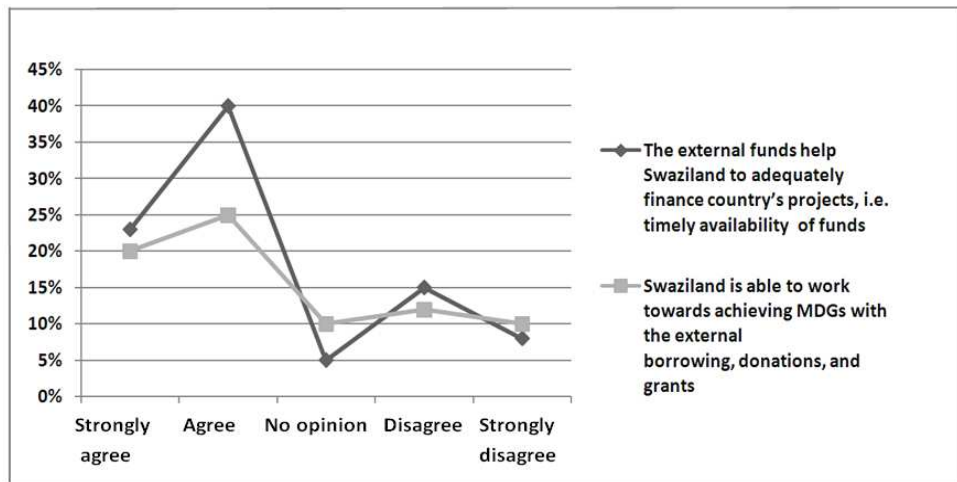


Fig. 1. Adequacy of international funding in Swaziland

- ◆ While 40% of the respondents agreed that the external funds adequately help Swaziland to finance its major projects due to timely availability of funds, 25% respondents agreed that Swaziland is able to work towards achieving the MDGs which include amongst others, offering free education, and eliminating half of the existing poverty levels by the year 2015 with the external borrowing, donations, and grants she receives.
- ◆ In terms of strongly agreed, only 20% and 23% respondents indicated that Swaziland is able to

work to achieve MDGs by external funds and external funds adequately help Swaziland in terms of socio-economic development respectively.

Next question was on how international funds should be allocated to the projects financed by international funding in Swaziland. The objective of the question was to ascertain the respondent's opinion on the allocation of international funds and the reasons for the allocation.

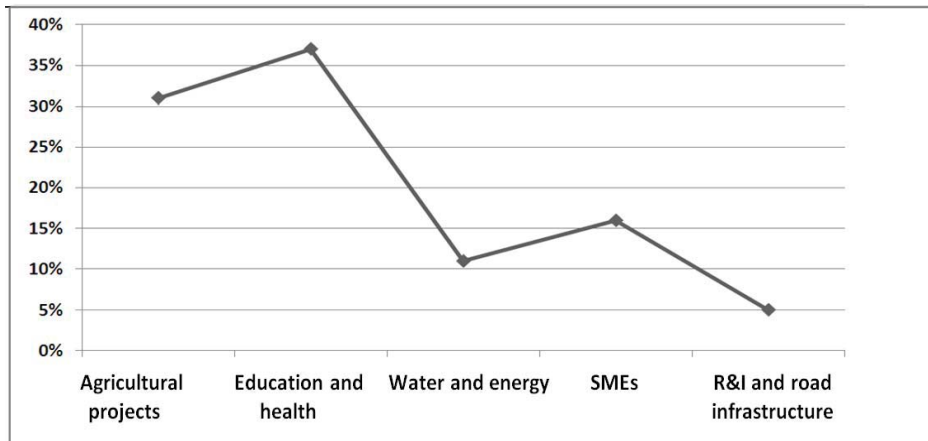


Fig. 2. Allocation of the projects financed from international funding

- ◆ 31% of the respondents felt that international funding should be allocated to projects relating to the improvement of agricultural facilities as the agriculture is one of the biggest economic sectors in the country.
- ◆ 37% of the respondents indicated that it should be allocated to education and health facilities, and most of respondents highlighted the scourge of HIV/AIDS as an issue requiring urgent attention.
- ◆ Only 16% of the respondents felt that international funding should be channeled towards

- Small and Medium Enterprise (SME) funding.
- ◆ 11% of the respondents pointed out that international funding should be channeled to other projects such as water and energy facilities.
- ◆ Only 5% said that it should go for research and development (R&I) and construction and improvement of road infrastructure.

Based on the lending conditions, next question was related to the preferences on the different international creditors such as ADB, DBSA, Government of Japan, and the Italian Commercial Bank.

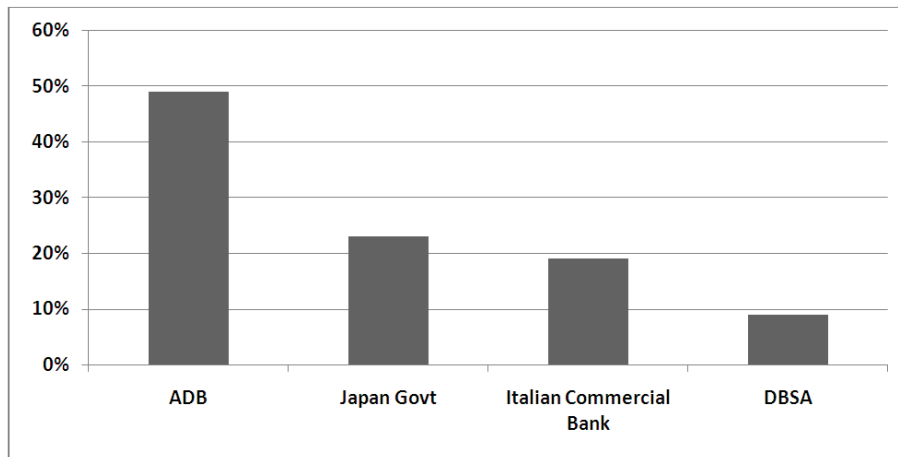


Fig. 3. Preference on international creditors

- ◆ 49% of the respondents preferred the ADB Group due to flexible lending conditions. And most of the respondents were sighting the fact that the ADB mainly focused on financing development projects in African countries which include building earth dams, road infrastructure amongst others that is why it is most preferred. It is worthy of note that the ADB is the largest multilateral creditor to Swaziland government.
  - ◆ 42% of the respondents preferred bilateral creditors (Government to Government external debt) which comprises of the government of Japan (23%) and the Italian Commercial Bank (19%). Most of the respondents were sighting low interest rates on the loans from bilateral creditors and also the fact that bilateral creditors usually offer technical expertise on the projects to be financed.
  - ◆ Only 9% respondents preferred DBSA.
- In the follow up question, respondents were asked to give their opinion on how developing and less developing countries can efficiently manage their debt. The objective of the question was to determine the debt management strategies for efficient debt management.

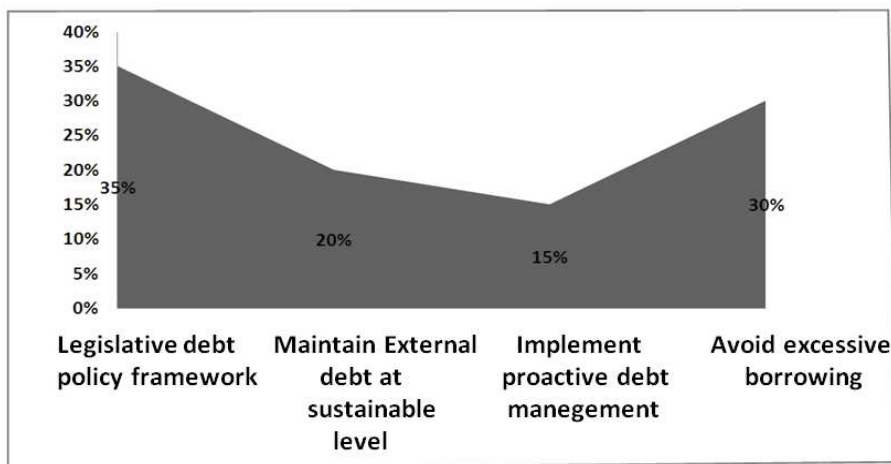


Fig. 4. Debt management

- ◆ 35% of the respondents felt that the government can efficiently manage debt by having a legislative debt policy to guide government borrowing.
  - ◆ 20% of the respondents felt that maintaining external debt at sustainable levels which include keeping debt at the acceptable IMF debt ratios (i.e. debt stock to GDP and debt stock to exports) can help the government to effectively and efficiently manage its debt.
  - ◆ 15% of the respondents felt that implementing proactive debt management strategies which include timely repayment of debt to avoid rollover interest on overdue payments can help the government to efficiently manage her debt.
  - ◆ 30% respondents indicated that government should avoid excessive borrowing.
- Next question aimed at finding out the views of the respondents on the criteria used by external lenders to lend money to countries. The objective of the question was to determine the suitable criteria for international lending for developing and less developing countries.

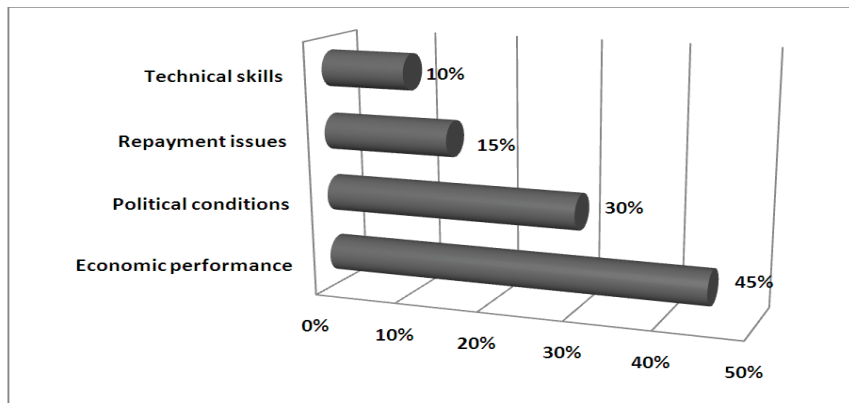


Fig. 5. Lending criteria used for developing and less developing countries (from respondents' point of view)

- ◆ 45% of the population said that most of the International Funders consider the economic performance of the developing/less developing country before they lend money. A majority of the respondents chose economic performance, because they feel that it is more acceptable basis since it determines the country's ability to repay the loan.
- ◆ About 30% said that the political situation of a developing/less developing country is also considered by the International Funders for lending money.
- ◆ 15% respondents pointed out that donors also consider the past experience related to repayment issues.
- ◆ 10% of the respondents indicated that external lenders also require technical skills to lend money.

In the next question, respondents were also asked whether structural adjustments programs like meeting targets in fighting corruption, eliminating impediments to foreign investments, and reducing budgetary expenditures are acceptable basis to determine countries to qualify for debt relief.

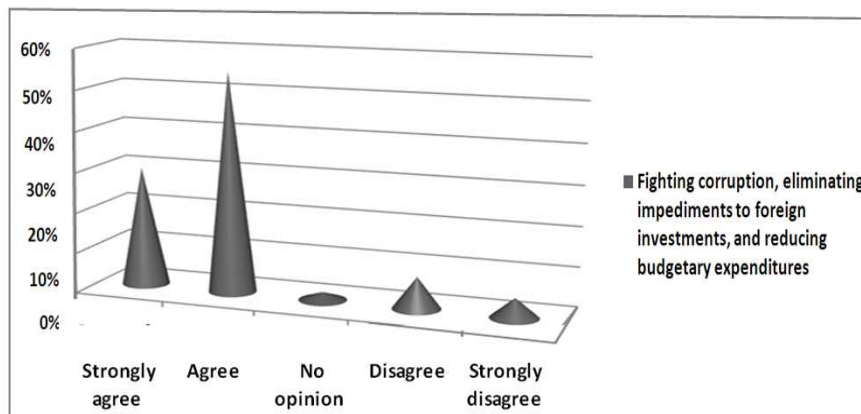


Fig. 6. Qualify for debt relief (from respondents' point of view)

- ◆ More than half of the respondents (55%) agreed to the above statement.
- ◆ This was followed by 30% of the respondents who strongly agreed.
- ◆ 8% respondents did not believe the statement.
- ◆ 5% respondents strongly disagreed to it.

**4.2. Other relevant findings.** Findings show that the projects financed by international funding in Swaziland from year 2001 to 2004 are mainly agricultural, road construction and urban development related projects (see Table 2). The study reveals that no health and education related projects were financed

It shows that government is not giving enough attention on education and health sectors which are important and critical issues in Swaziland for sustainable economic development. This finding is quite consistent with Kabir's (2013) findings where he indicated that government paid very less attention on education and health projects. A possible reason is that Swaziland might not have had enough control to utilize the resources that the country received from the donors due to the fact that donors often select the projects in accordance with their benefits. As such, Swaziland might have shaped the projects accordingly to fit the requirements of the donors.

Table 2. Projects financed by international funding in Swaziland

No.	1	2	3	4	5	6
Date of loan	31-1-2001	31-1-2001	03-8-2001	17-10-2001	25-11-2001	09-2-2003
Creditor	Govt. of Italy	Govt. of Japan	DBSA	ADB	DBSA	BADEA
Loan (purpose)	East West rehabilitation	Northern link (Japan Bank Road for Int. Co-op)	SPTC (Telekom Project 1)	Two International Roads (Supl.)	SPTC (Telekom Project 2)	Lusip Project 1
Currency	ITL	JPY	ZAR	ZAR	ZAR	USD
Repay period	15 years	30 years	10 years	15 years	9 years	20 years
No.	7	8	9	10	11	12
Date of loan	24-2-2003	28-3-2003	28-3-2003	21-10-2003	20-10-2003	19-11-2003
Creditor	IFAD	EIB	EIB	NTF-ADB	ADB	DBSA
Loan (purpose)	Lusip project 1	Lusip phase 1	Lusip phase 2	Komati downstream	Komati downstream	Lusip
Currency	SDR	EURO	EURO	BUA	ZAR	ZAR
Repay period	15 years	15 years	15 years	20 years	15 years	17 years
No.	13	14	15	16		
Date of loan	19-11-2003	19-11-2003	25-05-2004	25-05-2004		
Creditor	DBSA	ICDF	ADB	ADB		
Loan (purpose)	Lusip	Lusip	Lusip	Mbabane Bypass		
Currency	ZAR	USD	ZAR	ZAR		

Source: Ministry of Finance of Swaziland (2005).

## Conclusions

The study mainly focuses on the issue of international funding and its adequacy within the context of Swaziland as a less developing African country. 31% of the respondents felt that international funding should be channeled to projects relating to the improvement of agricultural facilities as the economy is agro-based, it is mainly supported by agricultural projects like the sugar industry in the Lubombo region. However, financed by international funding from year 2001 to year 2004 shown in Table 2, no health project was financed which is much against the 37% of the respondents' opinion. 37% of the respondents were highly concerned with the scourge of HIV/AIDS which requires urgent and undivided attention from the government. Further, Table 2 also shows that no educational project was financed during that period. By taking into consideration all these facts, it is really a great concern for the country.

Only 25% of the respondents agreed that the external funding helps Swaziland in working towards the Millennium Development Goals (MDGs). It indicates that the international funding is not adequate enough in terms of helping Swaziland in working towards achieving MDGs. However, the MDGs, which include amongst others reducing the existing poverty level by half by the year 2015. Results show that 49% of the respondents preferred African Development Bank (ADB) due to flexible and acceptable lending conditions. The bank provides loans and other technical assistance to the countries especially regional member countries at reasonable and competitive market rates. The study found that, beside economic performance, 30% of the respondents think that the political charac-

ter of a developing/less developing country is also important and needs to be considered in determining the suitable criteria for international lending for the country. Respondents believe that every sound external lender should concern about political risk. Other factors like past experiences and technical skills are also looked upon by the lenders.

## Recommendations

As the overall findings indicate that international funding is not enough in terms of helping Swaziland in working towards sustainable economic development, particularly achieving MDGs by 2015, the study recommends that government should spend a large amount of borrowed funds on social service related projects which would likely aid poverty reduction and subsequently government's dependence on external debt will reduce. Sabir (2010, p. 396) states that "public expenditure on social services such as education and health is generally considered as a source of poverty reduction as it contributes to human capital formation". Thus, a further research is recommended to find out what Swaziland can do to complement the international funding to help the country in amongst other things to alleviate the high level of poverty and unemployment, improve the country's infrastructure, and economic performance. The study also recommends that, with project monitoring, external lenders should give loans for the projects that the respective countries choose to venture into. However, the study provides useful information on international funding towards MDGs and socio-economic development with an emphasis on Swaziland which will be applicable to other less developing and developing countries especially in Africa.

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