Economic growth in Swaziland picked up slightly in 2017, but is projected to remain subdued in the medium-term, reflecting fiscal challenges, low investment and high cost of doing business.

Swaziland is a middle-income country (MIC), but poverty, unemployment and inequality remain high, and human development outcomes are far below the norms of a MIC.

To address current infrastructure bottlenecks, alternative sources of finance from the private sector will be required to supplement traditional funding sources. To achieve this goal, further reforms will be necessary, including improvement of the investment climate.

OVERVIEW

Economic activity picked up slightly in 2017 after suffering a set-back in the previous year. Improved growth in 2017 was largely due to the recovery of agriculture, following the resumption of normal weather conditions, which benefited agro-processing activities. It was also driven by the recovery of the services sector, where aggregate demand increased.

Swaziland’s medium-term growth prospects remain subdued. Domestic growth depends crucially on a continued rebound of both agricultural output, buoyed by good weather conditions, and manufacturing output, underpinned by the recovery of exports triggered by the re-admission of Swaziland into the United States’ African Growth Opportunity Act (AGOA) market. However, downside risks to medium-term outlook remain high.

Key risks include a further tightening of fiscal space due to the accumulation of arrears, adverse weather-related shocks that would weaken growth in agriculture, and lower Southern African Customs Union (SACU) revenues due to an economic slowdown in South Africa. Swaziland’s prospects continue also to be clouded by the country’s poverty and high unemployment.

Fiscal policy remains under strain, mainly due to higher spending and a prolonged decline in the revenue base. Fiscal deficit is being financed through domestic borrowing, including central bank financing, and accumulation of domestic arrears, which threaten the banking sector’s stability and potentially crowd out the private sector.

Inflationary pressures remained low in 2017. Key factors that helped keep inflationary pressures in check included the general slowdown in food prices following adequate rainfall, and the Government’s tighter monetary stance. Monetary stance tightened to ensure price stability and protect Swaziland’s currency peg to the South Africa rand.

To address current infrastructure bottlenecks, traditional funding sources will need to be supplemented by alternative sources of finance from the private sector. To achieve this, further actions should be pursued to improve the investment climate, including: formation of legal and regulatory frameworks to govern all relevant infrastructure development; restructuring of state-owned entities to enable them to enter partnerships with potential equity investors; strengthening of the public-private engagement platform; and development of a credible pipeline of bankable projects with adequate cost recovery systems.
Swaziland

**RECENT DEVELOPMENTS AND PROSPECTS**

With a gross domestic product (GDP) per capita of about USD 3,500, the Kingdom of Swaziland is classified as a lower middle-income country (MIC). Unlike its regional peers in Southern Africa, Swaziland has experienced sluggish growth in the last two decades, averaging just over 2.0% per year. The persistence of low growth is mainly due to lack of competitiveness, fiscal challenges, low investment, and the high cost of doing business. After reaching a peak in 2013, when real GDP growth reached 6.4%, economic activity has remained subdued. GDP growth in 2017 is estimated to have improved slightly, to 2.3% (compared to 1.4% in 2016). The uptick was mainly due to recovery of the services sector on the back of increased aggregate demand.

In 2017, agriculture output was buoyed by good weather conditions, following poor harvests in 2016 as a result of a severe El Niño-induced drought. Rain-fed crop production, particularly maize and cotton, recovered strongly in 2017, raising output to just above pre-drought levels. Sugarcane production also grew by 7.0%, benefiting from a rise in dam water levels. Despite these improvements, overall agricultural output was dragged down by livestock production because herds suffered heavy depletion due to the drought.

Though subdued, growth in Swaziland’s secondary sector rebounded in 2017 from the contraction registered the previous year. Manufacturing, which dominates the secondary sector, expanding by about 1.0% in 2017, after registering negative growth in 2016. Manufacturing, adversely affected by electricity and water supply shortages during the drought, benefited from the recovery in agro-processing. This was enough to offset the poor performance of other manufacturing activities, including rubber, plastic products, and glass and glassware. The textile and apparel industry, which accounts for about 8% of manufacturing output, remained subdued in spite of Swaziland’s re-admission to the AGOA market. Its weak performance was mainly due to the closure of a major producer. Construction broadly remained in negative territory. Although private sector construction projects continued to expand, they did not offset the slowdown in public projects, an effect of the Government’s limited fiscal space in 2017.

The service sector registered reasonable growth of 2.7% in 2017, on the back of increased aggregate demand boosted by the civil service salary review. Most sub-sectors in the tertiary sector grew more than had been anticipated, including public administration and defence, wholesale and retail, and financial services. Wholesale and retail were buoyed by the completion of some building projects at a time when demand for semi-durable products, such as furniture, was increasing. Public administration and defence, including the education and health services, benefited from a continued increase in payroll numbers.

In the medium term, Swaziland’s unfavourable growth trajectory is expected to persist. Real GDP growth is projected to average just over 2% in 2018 and 2019. Medium term growth will depend crucially on a continued rebound in agricultural output and increased construction activity. Agricultural activity will be underpinned by the completion of the Lower Usuthu Smallholder Irrigation Project (LUCIP), which is expected to boost sugarcane production. The outlook for mining is relatively positive due to the rebound in international commodity prices and increased coal production following the renewal of a mining licence. Growth of the manufacturing sector could benefit from increased food processing, reflecting improved sugarcane production. However, the performance of the textile industry is likely to remain weak, following closure of a key operation and because the increase in exports expected as a result of Swaziland’s re-admission to AGOA is likely to occur over time, in the medium term. Construction activity will probably be constrained by fiscal challenges in the short term but could slowly recover.

**TABLE 1. Macroeconomic indicators**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>1.4</td>
<td>2.3</td>
<td>3.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Real GDP per capita growth</td>
<td>0.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.4</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>7.8</td>
<td>6.2</td>
<td>5.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>-4.2</td>
<td>-10.4</td>
<td>-9.5</td>
<td>-7.1</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>0.7</td>
<td>-1.3</td>
<td>0.1</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
in the medium term, driven by the planned construction of infrastructure projects, such as Lothair railway link.

Downside risks to economic growth in the medium-term significantly outweigh reasons for optimism. The main risk stems from the further tightening of budget financing as a result of the accumulation of domestic arrears, which could cause public investment plans to be scaled back. The arrears could also create bank risks due to deteriorating asset quality. Other risks that require careful monitoring include the possibility that export earnings may be depressed by lower demand for minerals, the threats posed by adverse weather, and the danger that SACU revenues may fall if economic conditions in South Africa deteriorate. Swaziland’s growth prospects also continue to be harmed by the country’s poverty, high unemployment and inequality, as well as infrastructure bottlenecks.

**MACROECONOMIC POLICY**

**Fiscal policy**

Swaziland’s fiscal policy has been under considerable pressure in recent years. The fiscal deterioration has largely had the effect of increasing Government spending despite a prolonged decline in the revenue base, particularly SACU revenues. Lack of an independent monetary policy tool has led the Government to use fiscal policy as a countercyclical tool in recent years to boost economic activity and employment.

Expenditure grew even further in recent years due to increased recurrent spending, particularly on public sector wages, and a revival of capital expenditures. A fiscal crunch occurred in FY 2016/17 after a sharp decline in SACU revenues caused the deficit to widen to double figures. In FY 2017/18 the fiscal deficit narrowed slightly, mainly because SACU revenues rose.

A further improvement in the deficit is envisaged in 2018/19, reflecting the Government’s commitment to fiscal consolidation and fiscal sustainability in order to create fiscal space to support investment and socioeconomic spending. The Government is pursuing a number of strategies to enhance revenue and reduce expenditure, as well as public financial management reforms. Narrowing the fiscal deficit is, therefore, contingent on fully implementing the measures proposed for boosting revenue. These include collection of licence fees from mobile companies; raising the value-added tax (VAT) rate from 14% to 15% to align

**TABLE 2. GDP by sector (percentage of GDP)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing and hunting</td>
<td>10.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>33.5</td>
<td>33.2</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>1.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Construction</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of vehicles; household goods; restaurants and hotels</td>
<td>16.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>13.4</td>
<td>13.9</td>
</tr>
<tr>
<td>Public administration and defence, security</td>
<td>7.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Other services *</td>
<td>9.4</td>
<td>9.5</td>
</tr>
<tr>
<td>Gross domestic product at basic prices / factor cost</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Other services include: Education, health and social work and other services.
Source: Data from domestic authorities.
Swaziland

with the new rate announced by South Africa; introducing a levy on bank revenue; reviewing user fees and fuel tax; and introducing an import levy on non-SACU used vehicles. To finance the deficit, Government has borrowed from the domestic markets and resorted to central bank financing, as well as accumulating domestic arrears that threaten the banking sector’s stability and potentially crowd out the private sector.

Monetary policy

Swaziland’s membership of the Common Market Area (CMA), together with Lesotho, Namibia and South Africa, makes any attempt at monetary policy change futile. The circulation of the South African rand (ZAR) as legal tender alongside Swaziland’s currency the lilangeni (SZL) limits Swaziland’s discretion to set monetary and exchange rate policies. However, as a result of CMA membership, Swaziland benefits from the policy credibility of the South African Reserve Bank, can transfer funds without restriction, and has low and stable interest and inflation rates, all of which contribute to Swaziland’s financial stability.

Inflationary pressures eased in 2017. Annual inflation closed at 6.2% (down from 7.8% in 2016), just above the Southern African Development Community (SADC) convergence target of 3% to 6%. The decline in inflation is largely due to the general fall in food prices following adequate rainfall, and the tighter monetary policy pursued by the Central Bank of Swaziland (CBS). Swaziland’s inflation tracks that of South Africa due to the very close trade links between the two countries. To protect Swaziland’s currency peg to the South Africa Rand, CBS raised its discount rate by 25 basis points to 7.25% in January 2017. The tight monetary policy caused the growth in credit to the private sector to decelerate from 14.2% in December 2016 to 8.9% in December 2017. While annual growth in credit to households grew marginally (by just 0.6%), credit to the business sector rose by 6.9%, mainly driven by mining and quarrying, tourism, transport, and communication. Weaker credit expansion also reflected the low growth environment and the adverse impact of the Government’s domestic arrears on the capacity of local businesses to maintain their operations. However, moderation of credit growth will help safeguard the stability of Swaziland’s financial system.

The exchange control regime of Swaziland is governed by the CMA Agreement. In consequence, the lilangeni has the same external value as the South African Rand to which it is pegged at par. Trends in bilateral nominal exchange rates show that, on an annual basis (the twelve months to December 2017), the lilangeni appreciated by 4.8% against the US dollar but depreciated by 6.7% against the Euro. The appreciation of the lilangeni against the US dollar was partly due to the comparative weakness of the dollar in international currency markets as market participants sought clarity on the direction and coherence of US policy.

Economic co-operation, regional integration and trade

Swaziland is an advocate of regional integration in view of its small domestic market and the need to benefit from economies of scale. The country is a member of the Southern African Development Community (SADC), whose market of about 400 million people provides opportunities to expand and diversify export markets. Swaziland also belongs to SACU, along with Botswana, Lesotho, Namibia and South Africa. SACU allows

### Table 3. Public finances (percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total revenue and grants</th>
<th>Tax revenue</th>
<th>Grants</th>
<th>Total expenditure and net lending (a)</th>
<th>Current expenditure</th>
<th>Capital expenditure</th>
<th>Primary balance</th>
<th>Overall balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>34.6</td>
<td>32.8</td>
<td>0.1</td>
<td>33.4</td>
<td>25.7</td>
<td>7.7</td>
<td>2.2</td>
<td>1.3</td>
</tr>
<tr>
<td>2013/14</td>
<td>28.3</td>
<td>27.3</td>
<td>0.4</td>
<td>27.6</td>
<td>22.4</td>
<td>5.2</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>2014/15</td>
<td>29.5</td>
<td>27.4</td>
<td>1.5</td>
<td>30.3</td>
<td>23.2</td>
<td>7.2</td>
<td>0.1</td>
<td>-0.8</td>
</tr>
<tr>
<td>2015/16</td>
<td>26.4</td>
<td>25.2</td>
<td>0.6</td>
<td>30.7</td>
<td>23.9</td>
<td>6.7</td>
<td>-3.1</td>
<td>-4.2</td>
</tr>
<tr>
<td>2016/17</td>
<td>24.7</td>
<td>23.5</td>
<td>0.8</td>
<td>35.1</td>
<td>28.3</td>
<td>6.8</td>
<td>-8.9</td>
<td>-10.4</td>
</tr>
<tr>
<td>2017/18</td>
<td>25.8</td>
<td>23.4</td>
<td>1.9</td>
<td>35.2</td>
<td>28.8</td>
<td>6.5</td>
<td>-8.0</td>
<td>-9.5</td>
</tr>
<tr>
<td>2018/19</td>
<td>25.0</td>
<td>22.7</td>
<td>1.8</td>
<td>32.1</td>
<td>26.3</td>
<td>5.8</td>
<td>-5.7</td>
<td>-7.1</td>
</tr>
</tbody>
</table>

(a) Only major items are reported.

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
Swaziland to enjoy free movement of goods, a common external tariff regime, and harmonised rules of origin with other member states. Receipts from SACU are an important source of fiscal revenue. In recognition of the benefits it could realise from a larger market, Swaziland became a signatory to the Tripartite Free Trade Area (TFTA) agreement at its launch in June 2015. The country was also among 44 African countries that signed the Continental Free Trade Area (CFTA) agreement on 22 March 2018 in Kigali, Rwanda. TFTA will create a single free trade area, bringing together the 26 member states of the East African Community, SADC, and the overlapping Common Market for Eastern and Southern Africa (COMESA), representing a combined population of 625 million people and a total GDP of USD 1.6 trillion. CFTA represents 1.2 billion people and a total GDP of USD 3.0 trillion.

South Africa is Swaziland’s main trading partner, accounting for more than two-thirds of its exports and more than three-quarters of its imports. However, there is little or no trade with other SADC or SACU countries, mainly because Swaziland’s exports are concentrated around the sugarcane industry. The United States of America and the European Union (EU) are Swaziland’s other key trading partners, under AGOA and the Economic Partnership Agreement (EPA), both of which give Swaziland preferences. Integration in the regional and global economy is a critical prerequisite for investment, growth and employment. To be successful, Swaziland needs to make strategic use of its trade agreements and transport infrastructure to leverage development sectors it has prioritized, and to attract additional investment to overcome Swaziland’s infrastructure bottlenecks and skill shortages. In 2016, The Africa Regional Integration Index ranked Swaziland 5 among SADC countries and 14 among COMESA countries.

Table 3 provides a picture of the current account. The trade balance recorded a lower surplus in 2017 compared to the previous year. Both exports and imports concurrently contracted. Trade data reveal high dependence on a few export commodities (sugar, cotton and pulp) and market concentrations, with about 70% of Swaziland’s exports destined to South Africa and 80% of imports being from the same source.

**Debt policy**

To finance the fiscal deficit, the Government borrowed significantly from domestic markets. As a result, Swaziland’s public debt rose rapidly in recent years. Total public debt reached 19.3% of GDP in December 2017 (from 16.2% in March 2016). The rise in debt mainly reflected an increase in domestic debt, which stood at 12.0% of GDP (from 9.9% in March 2016); external debt was 7.3% of GDP in December 2017 (6.3% in March 2016). External debt was primarily incurred to finance large capital projects; domestic debt was raised, largely through central bank advances, treasury bills and Government bonds, to enable the Government to meet its obligations.

Because it became increasingly difficult for the Government to raise enough domestic revenue to fund major capital projects through bond issuance, Swaziland was compelled by its fiscal constraints to increase external borrowing. While Swaziland’s debt policy does not impose limits on external debt, domestic debt is capped at 35% of GDP. In this regard, the domestic debt level is still within the ‘statutory’ debt limit and the total debt level remains far below the SADC convergence level of 60% of GDP. However, there are concerns about the speed with which debt has risen in a relatively short time, and about the accumulation of domestic arrears, which could adversely affect the stability of the banking sector. In addition, sluggish economic growth could adversely affect future debt service, and debt service could

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**Table 4. Current account (percentage of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export of goods (f.o.b)</td>
<td>-3.4</td>
<td>4.7</td>
<td>7.8</td>
<td>5.2</td>
<td>1.5</td>
<td>3.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Import of goods (f.o.b)</td>
<td>47.1</td>
<td>42.3</td>
<td>39.9</td>
<td>42.3</td>
<td>37.2</td>
<td>38.5</td>
<td>40.6</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>-10.0</td>
<td>-10.1</td>
<td>-8.9</td>
<td>-9.8</td>
<td>-9.8</td>
<td>-9.8</td>
<td>-11.6</td>
</tr>
<tr>
<td><strong>Factor income</strong></td>
<td>-3.5</td>
<td>-8.9</td>
<td>-4.9</td>
<td>-5.8</td>
<td>-6.8</td>
<td>-7.8</td>
<td>-7.7</td>
</tr>
<tr>
<td><strong>Current transfers</strong></td>
<td>5.4</td>
<td>17.4</td>
<td>15.8</td>
<td>11.0</td>
<td>13.7</td>
<td>13.8</td>
<td>13.5</td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td>-11.5</td>
<td>3.1</td>
<td>9.8</td>
<td>0.7</td>
<td>-1.3</td>
<td>0.1</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
crowd out critically needed public investments. The Government is exploring various options to bridge the financing gap. To improve debt management, it established a debt management unit in April 2015 and it is developing a debt management strategy, underpinned by analytical work on debt sustainability levels, with the support of the Macroeconomic and Financial Management Institute (MEFMI).

**ECONOMIC AND POLITICAL GOVERNANCE**

**Private sector**

Swaziland is an average performer among African countries in terms of business environment indicators. In 2018, the World Bank’s Doing Business ranked Swaziland 13 in Africa, and 112 out of 190 economies overall, a fall of one place since 2017. The World Economic Forum’s Global Competitiveness Report (GCR) ranked Swaziland 122 out of 138 countries in 2017-2018. (The country was not listed in earlier GCR reports, so no trend can be discerned.)

According to the Doing Business report, Swaziland improved access to credit by adopting a law that guarantees borrowers the right to access personal data. The Government also made it easier to trade across borders by implementing a web-based customs data management platform, ASYCUDA World. However, dealing with construction permits became harder following the introduction of a requirement to register all new construction projects with the Construction Industry Council. Swaziland also scored low on ‘enforcement of contracts’ (169), ‘getting electricity’ (159), and ‘starting a business’ (158). The GCR rated Swaziland relatively highly with respect to ‘institutions’, ‘labour market efficiency’ and ‘financial market development’. The report found that Swaziland needed to make improvements as well in the ‘macroeconomic environment’, ‘higher education and training’, ‘supply of infrastructure’, ‘technological readiness’, and ‘market size’.

Swaziland’s private sector is relatively small and characterized by a low level of domestic entrepreneurship and a constraining business environment. In response, the Government intervenes in the economy by means of state-owned enterprises (SOEs). A large number of SOEs operate in many economic sectors, including agriculture, transport, finance, tourism and housing. SOEs compete directly with private players, resulting in conflicts of interest in several sectors. The fact that some SOEs are also regulators of their sector creates further uncertainty among investors. The Government is making efforts to enhance competitiveness and improve the business climate. Under its industrial development policy (2015-2022), the Government is developing the 501 hectare Sidvokodvo Industrial Estate to alleviate the shortage of land available to investors. It has also reviewed the small-scale loan guarantee scheme to align it with the graduate enterprise programme, which assists graduates to start businesses. To support the informal sector, the Government has started construction of a trade hub in Manzini city.

**Financial sector**

Swaziland has a fairly well developed financial system, albeit with significant limitations. Benefiting from close ties with South Africa, the country’s banking system, with assets of about 34% of GDP, is well capitalized and profitable. Swaziland also has large non-banking financial institutions, with gross assets of about 119% of GDP, dominated by pension and asset management companies. According to the CBS (Annual Report 2016-2017), the banking sector met statutory prudential requirements in terms of capital adequacy and liquidity. However, asset quality had deteriorated and there was a significant drop in return on equity, from 22% in 2016 to 4.0% in 2017. Although credit remains good, non-performing loans (NPLs) rose sharply from 5.75% to 10.25% during the same period. The poor performance of the deposit money sector is attributable to the severe drought but also to high interest rates, driven by high inflation levels, in FY 2016/17. The loans-to-assets ratio of the banking sector increased marginally from 61% in 2016 to 62% in 2017 but remained below the international benchmark of 75%. These figures suggest that credit risk management processes in banking institutions are adequate.

With respect to financial inclusion, available data indicate an inclusion level of 73% in 2014. Slightly more than half of adults had access to formal banking in 2014; 9% had access to informal financial sources. However, significant geographic and gender disparities exist. Urban access was 29% higher than rural access, while 14% more men than women had bank accounts. The Government and the CBS are making efforts to address some of the challenges the financial sector faces. To improve liquidity in the domestic financial market, the Government is amending the Retirement Fund and Insurance Acts to increase the mandatory local investment threshold for large portfolio holders, including retirement fund institutions and insurance companies. As part of its commitment to fight money laundering and financing of terrorism, the Government has established a financial intelligence unit. The CBS, supported by the IMF, is preparing several key pieces of legislation, including a new Central Bank Act and a Financial Stability Bill, and will
amend the Financial Institutions Act and the National Clearance Settlement Act.

Public sector management, institutions and reforms
Aspects of Swaziland’s governance system undermine implementation of public policies and effective service delivery. The GCR ranked Swaziland’s institutions 61 (of 137 countries). While it reported that Swaziland performed well on institutional pillars, including the ‘reliability of the police service’, ‘organised crime’, ‘irregular payments and bribes’, ‘strength of auditing’, and ‘favouritism in decisions of Government officials’, the GCR identified shortcomings in the ‘efficiency of Government spending’, ‘transparency of Government policymaking’, and ‘property rights and strength of investor protection’, among other categories.

To further improve public financial management (PFM) systems, the new PFM Act No 10 of 2017 is expected to enhance efforts to align and comply with international standards, ensure fiscal discipline, increase efficiency, and establish accountability. With support from development partners, the Government is taking steps to implement the integrated financial management information system (IFMIS). In addition, it has received technical assistance to improve the medium term expenditure framework (MTEF). Following enactment of the Public Procurement Act (2011), the Swaziland Public Procurement Regulatory Agency was established in 2014. Procurement regulations have been drafted and submitted to Cabinet for approval. To improve debt management, the Government established a debt management unit (DMU) in April 2015 and is in the process of developing a debt management strategy, to be underpinned by analytical work on debt sustainability levels which is being undertaken with the support of the MEFMI.

Natural resource management and environment
Environmental sustainability is central to many of Swaziland’s key development concerns, including exploitation of its natural resources (minerals, asbestos, iron, soapstone, green chert, and gold). The Government recognizes the environmental risks associated with exploitation of resources, including destruction of landscape and ecosystems, waste accumulation, groundwater contamination, and environmental health hazards. In this regard, it has established a national environmental policy framework that covers all relevant sectors. The conservation and sustainable management of natural resources is fully integrated into development planning processes. The 2002 Environmental Management Act remains the principal regulatory law on environmental issues in Swaziland.

Swaziland is prone to droughts and floods and highly vulnerable to the impacts of climate change. For this reason, it ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1996 and signed the Paris Agreement on Climate Change on 22 April 2016. The country is also a signatory to the 2013 SADC climate change strategy, which seeks to mitigate the impacts of climate change in the region. In 2013, the Government developed a national climate change strategy and action plan, which addressed climate change issues in forestry and rangelands management. Swaziland submitted its Intended Nationally Determined Contributions (INDC) report to UNFCCC in September 2015. Swaziland’s emissions mitigation contribution is framed as an action-based approach that includes national level action, actions in the energy sector to double the share of renewable energy, the introduction for commercial use of a 10% ethanol blend of petrol by 2030, and gradual termination of use of hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride gases. The country’s national climate change policy was approved in 2015 and the Climate Change Bill is currently completing the legislative process.

Political context
Both parliamentary and traditional systems of Government run concurrently in Swaziland under the country’s ‘monarchical democracy’. The political landscape has remained relatively stable since the September 2013 parliamentary elections, which recorded a 65% voter turnout. Prime Minister Barnabas Sibusiso Dlamini was reappointed for another term by King Mswati III in November 2013. To boost the representation of women parliamentarians (only one of the 55 seats was won by a woman), the King nominated nine women to Parliament. The next elections are expected to be held in September 2018.

Swaziland has been making efforts to address concerns regarding restrictions on the freedom of peaceful assembly, association and expression. In August 2016, King Mswati III called for a public council (‘People’s Parliament’), known as sibaya, which allows citizens to voice their concerns and offer solutions to challenges the country faces, including issues of political freedom. In September 2016, the High Court ruled that the ban on political organisations undermined the constitutional right to freedom of expression and association. Notwithstanding, in 2017, the Mo Ibrahim Index of African Governance ranked Swaziland 34 out of 54 countries, with a score of 48.9 out of 100, below the 58.6 regional average for Southern Africa. Swaziland continues to register low scores in political participation and human rights.
SOCIAL CONTEXT AND HUMAN DEVELOPMENT

Building human resources
Swaziland achieved mixed results in terms of its progress towards the Millennium Development Goals (MDGs). According to the final MDG report in 2015, the country made good progress towards achieving primary education (Goal 2), gender equality (Goal 3), environmental sustainability (Goal 7), and global partnerships for development (Goal 8). Unfinished MDG business is being addressed during implementation of the Sustainable Development Goals (SDGs), which succeeded the MDGs. In association with the United Nations, the Government officially launched the SDGs on 30 June 2016. To begin the process of domesticking them, it is aligning the SDGs with national development policies and plans, including Government programmes of action, and has also held stakeholder consultations.

The challenges that hold back human development in Swaziland include widespread poverty and inequality, health problems, a mismatch of education and skills, and unemployment. The Government continues to prioritize education, recognizing that it is a fundamental precondition for human capital development. The sector received 15.3% of the national budget in 2018/19. Past investments have yielded positive results, due to the introduction of free education, the construction of more classrooms, and the employment of more teachers. However, education outcomes at all levels remain low. There is also a mismatch between the demand for and supply of skills. Other educational shortcomings that need to be addressed include low access to education, its uneven quality, acute inequalities, resource inefficiency, its poor relevance (to economic needs), and its weak strategic direction and delivery capacity. Access across all levels of education is limited. The Government has taken a number of initiatives to improve the sector. It is expected to have hired 3,615 teachers (2,005 in primary and 1,610 in secondary schools) in FY 2017/18 alone, and will develop a policy on early childhood care and education by 2019 to improve access to pre-school for all eligible children, and the Swaziland qualification framework to provide tertiary education of good quality.

Healthcare remains a top priority for the Government and received 9.3% of the total budget in FY 2018/19. Despite significant investment in the health sector, however, challenges remain. Although Swaziland’s HIV prevalence rate among 15-24 year-olds dropped from 14.3% in 2007 to 11.3% in 2014, the overall prevalence rate is still the highest in the world. The tuberculosis (TB)/HIV co-infection rate has remained around 80% and the high rate of multi-drug resistance (MDR) to TB adds to the difficulty in controlling this disease. High HIV prevalence has had an impact on maternal and infant mortality rates, which also remain elevated. Inadequate access to primary and essential healthcare services is a key driver of the low health outcomes in the country. The introduction of the anti-retroviral programme has proved beneficial, especially in preventing mother-to-child transmission. While testing and counselling for HIV, and stigmatization, remain problems, the population is generally well informed about transmission, prevention and treatment of HIV/AIDS. As a result, the incidence of new cases of HIV among adults has declined from 3.1% in 2010 to 2.38% in 2014, partly because of increased use of condoms.

Poverty reduction, social protection and labour
Although Swaziland is classed as a middle-income country, it continues to have high rates of poverty and inequality. About 63% of the Swazi population live below the poverty line and inequality is elevated (a Gini coefficient of 49.5). Poverty has a geographical and a gender dimension. Poverty rates are more severe in rural areas, where over 80% of people live below the poverty line. It is highly associated with unemployment, which also remains very high, although unemployment fell marginally from 25.75% in 2015 to 25.28% in 2016. Unemployment rates are highest among young adults aged between 15 and 24. It had been estimated that 52.6% of young people in this age range were unemployed in 2016 (54.73% in 2014). Swaziland’s population is youthful; 80% are below the age of 35. In 2018, the Government will publish the results of the most recent Swaziland Household Income and Expenditure Survey, which will provide an indication of current poverty patterns and trends. Swaziland ranked 148 out of 188 countries on the UNDP Human Development Index in 2016.

The Government is committed to protect vulnerable persons and runs a variety of social protection programmes. About 2.2% of GDP is currently set aside for social protection programmes that target the country’s destitute persons, including the aged, pensioners, orphans and vulnerable children. To make the system more sustainable, the Government is currently developing an integrated social protection system with assistance from the EU and other development partners. Recognizing the high rate of unemployment among young adults, the Government is implementing initiatives to help them, including a regional development fund and a subsidized farming inputs programme that provides tractor hire, seeds and fertilizers. Going forward, the Government intends to place emphasis on improving the entrepreneurship skills of youth and plans to integrate entrepreneurship training in the school curriculum.

Regarding labour relations, the Government provides a range of labour administration services designed to promote industrial harmony. In particular, in November 2014 Parliament passed amendments to the Industrial Relations Act allowing labour
organisations and employee federations to register. In May 2015, the Government permitted the registration of the Trade Union Congress of Swaziland.

Gender equality

Swaziland’s constitution guarantees gender equality and grants equal legal rights to men and women. Despite this, the influence of cultural factors and values associated with tradition prevent women from enjoying their legal rights. The country has made progress in education, where enrolment of girls and boys in primary and secondary school is almost at parity (at 0.97). However, women still face a number of challenges, including high rates of maternal mortality, and low rates of employment and labour participation. According to the 2017 SADC Gender Protocol Barometer, women occupy only 20% of decision-making positions in the economy, occupy 26% of cabinet posts, and hold 25% of elected political seats. Also, 45% of women work in the formal sector, compared to 73% of men, implying that women dominate the informal sector. Women’s earned income also remains much lower than that of men and women continue to economically depend on their male partners, partly because they lack equal access to or control over productive resources. Representation of women in politics also remains low. Women hold 6% of seats in Parliament (down from 22% in 2008 and 15% in 2013), well below the SADC minimum threshold of 30%, and 12% of seats in local authorities. Given that only one woman was elected in the 2013 election, most women parliamentarians were nominated by the King to increase their numbers in the house. The 2016 Human Development Report ranked Swaziland 148 out of 188 countries on its gender inequality index.

Although there is commitment to address gender inequalities in Swaziland, there is limited capacity to implement gender interventions across sectors. The Gender Coordination Office in the Office of the Prime Minister is responsible for gender mainstreaming. However, with only five staff members it is under-staffed and under-resourced. UNFPA has been assisting the Government’s efforts to address gender-based violence and adolescent sexual and reproductive health.

THEMATIC ANALYSIS: INFRASTRUCTURE FINANCING

The Government recognizes that infrastructure makes a vital contribution to effective productive and trade processes in the economy. Despite its MIC status, Swaziland still faces many infrastructure bottlenecks in transport, electricity, water, and telecommunications, all of which increase the cost of doing business. The 2017-2018 GCR ranked Swaziland 105 out of 137 countries in the quality of its infrastructure. To increase the country’s productive capacity and support growth in the long term, Swaziland needs to address its infrastructure shortcomings.

Swaziland has equipped itself with the strategy and policy instruments it needs to do so; but an enormous investment in infrastructure is still required. In the energy sector, only 45% of the population have access to the distribution network, and access in rural areas is less than 10%. Total installed capacity is 69.6 MW, of which 60.1 MW is from hydropower and 9.5 MW from diesel. In addition, the sugar industry has an installed capacity of 105.5 MW, mostly for its own use. Swaziland is an energy-deficit country and imports about 80% of its electricity requirement from South Africa and 10% from Mozambique.

In terms of water and sanitation, approximately 26% of the population lack access to a potable water supply, while about 40% lack access to basic sanitation; this problem is more pronounced in rural areas and small towns. Water supply is estimated to be 1 247 million cubic metres per annum and water demand 1 370 million cubic metres, implying a deficit of 123 million cubic metres. Maintenance of water and sanitation schemes remains a major challenge. Close to one-third of water and sanitation schemes need rehabilitation to ensure their continued operation. Other key challenges facing the sector include: (i) water scarcity, which requires urgent demand management; (ii) the need to upgrade water and sanitation infrastructure in response to rapid urbanization; and (iii) ageing infrastructure. The Government has prioritized investment in the rehabilitation and expansion of water supply and sanitation services.

The transport system in Swaziland is based principally on road transport. Road freight services became more dominant when investment in rail ceased. The country has some 1 500 kilometres of main roads, 75% of which are paved and 65% in good or fair condition. However, the majority of district roads, which account for 2 055 kilometres, are unpaved and many are in poor condition. The rail system is essentially a transit system. About 300 kilometres of rail link Swaziland to the ports of Durban and Richards Bay in South Africa and Maputo in Mozambique. Of this length, some 131 kilometres need rehabilitation. Limited rail transport increases the cost of transportation. A key challenge for Swaziland is to balance the cost of increasing investment in transport with the cost of maintaining the transport infrastructure.

The telecommunications sector is characterized by monopolies in both the mobile and fixed telephone networks. The state-owned Swaziland Posts and Telecommunications Corporation (SPTC) continues to dominate telecommunications. Swazi Telecom, under the SPTC, has a monopoly of fixed-line services, while Swazi MTN is the only mobile operator. Swaziland lags behind its neighbours in telecommunications services.
According to Measuring the Information Society, a report by the International Telecommunications Union, in 2015 Swaziland registered 3.3 fixed telephone subscriptions and 73.3 mobile/cellular subscriptions per 100 inhabitants, compared to 7.8 and 167.3 in Botswana, 7.7 and 149.2 in South Africa, and 7.6 and 113.8 in Namibia. 22.3% of households had access to the Internet, compared with 19.6% in Botswana, 50.6% in South Africa, and 24.5% in Namibia. Tariffs remain relatively high and the introduction of new technologies has been slow. The 2016 ICT Development Index ranked Swaziland 136 out of 175 countries and 13 out of 39 African countries.

Swaziland’s infrastructure investment needs are enormous. The country has largely used traditional funding sources, such as Government budgets and loans from multilateral development banks (MDBs), to finance its infrastructure projects. There has been very little private investment. The priority the Government gives to infrastructure is evident from its budget allocations for capital spending. The Government allocated SZL 5.62 billion (about USD 0.5 billion), or 26% of the total budget, in FY 2018/19. However, as already noted, because it is fiscally constrained, the Government is finding it increasingly difficult to finance infrastructure projects.

Realizing that traditional funding sources will no longer suffice, and will have to be supplemented by alternative sources of finance from the private sector, the Government expects the private sector to play a major role in infrastructure financing and development in the coming period. This objective will be achieved, among other things, by attracting potential private investors into public-private partnerships (PPP) and inviting domestic and international institutional investors to invest directly in infrastructure projects.

Swaziland has a relatively large financial sector, which is dominated by non-bank financial institutions (NBFI), notably pension and insurance companies. In December 2016, the gross assets of NBFI amounted to about 119% of GDP. Until now, domestic institutional investors have not played a meaningful role in financing infrastructure projects. They have preferred to invest the bulk of their assets offshore, mainly in South Africa. In addition, although the Government has embraced PPPs to help finance infrastructure and related services, the country has not yet been successful in attracting private PPP investment. The Government has set out a PPP policy, which specifies how cooperation with the private sector is to take place in various sectors. It plans to establish a PPP unit to move the policy forward.

Over a period of time, the Government has put in place policies and initiatives to promote the participation of the private sector in infrastructure financing. A number of areas still require attention to achieve this objective. Further reforms should be undertaken to improve the investment climate, including legal and regulatory frameworks for all relevant infrastructure development. State enterprises should be restructured technically and financially, and if necessary privatized, if they are likely to enter into partnerships with potential equity investors or will need to go to the financial markets for long-term funding for infrastructure projects. The public-private engagement platform should be strengthened. A credible pipeline of bankable projects with adequate cost recovery systems should be developed.