SWAZILAND

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- **Economic growth remains subdued and is estimated to have slowed down in 2016 to -0.6%, mainly due to two factors, severe drought and fiscal pressures; while prospects will be sluggish in 2017 and 2018.**
- **The political scene has continued to be relatively stable since the September 2013 elections, but the country's ranking in participation and human rights remains low.**
- **Swaziland possesses a prominent industrial sector with a limited level of entrepreneurship that can be enhanced through a comprehensive industrial policy to develop local entrepreneurs and create productive employment for the citizens.**

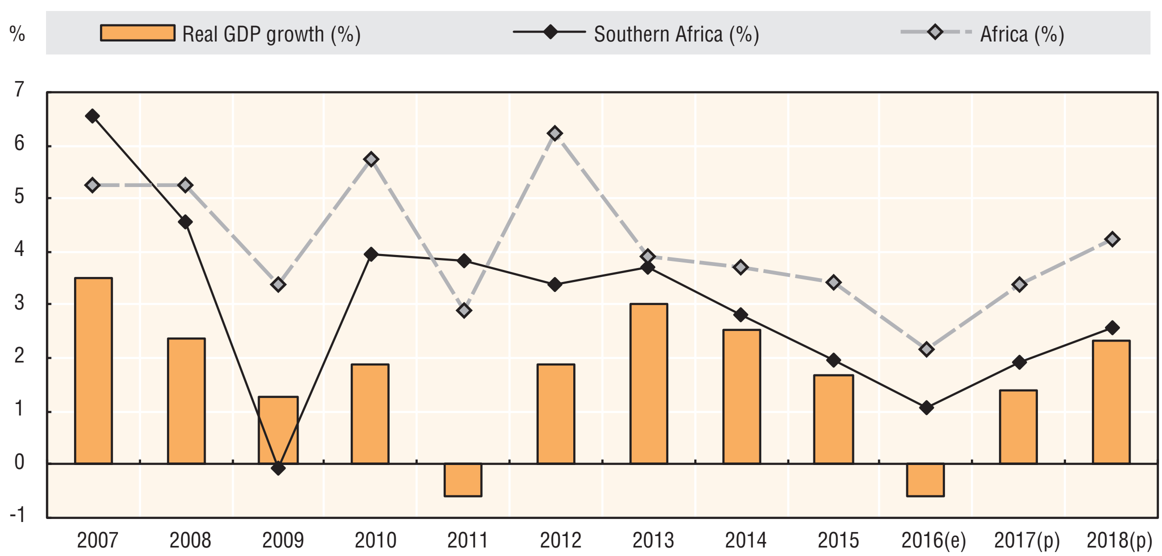
Overview

Swaziland's economy continues on a declining trajectory with growth projected to have declined to -0.6% in 2016 from 1.7% in 2015. This reflected a slump in the primary sector as agricultural production declined because of the El Niňo-induced drought. Rain-fed crops, particularly maize and cotton, along with irrigated crops, mainly sugar cane, recorded significant declines. In addition, a large decline in revenues from the Southern Africa Customs Union (SACU) put considerable pressure on the fiscal account. Against this backdrop, an expansionary fiscal stance amplified the negative impact of these shocks. Short-term prospects in 2017 and 2018 indicate a sluggish recovery, with growth remaining at 1.4% and 2.3% respectively, mainly predicated on improved agricultural performance due to improved weather conditions, as evidenced by normal to above normal rains in the 2016/17 planting season. The major downside risk emanates from the fiscal front, especially, the trajectory of SACU revenues, underscoring the need to expedite the passing and implementation of the amended Public Finance Management (PFM) bill.

Swaziland continues to face major social challenges, such as high poverty and inequality; high unemployment, especially among youth; gender disparities; and a high rate of HIV/AIDS. Despite its classification as a low middle-income country, around 63% of the population live below the poverty line. Moreover, inequality is substantial; this is reflected in the Gini coefficient of 0.51. Swaziland remains in the low human development category with a Human Development Index (HDI) value unchanging for four straight years of 0.531 from 2011 through 2015, which places it at 150 out of 188 countries. The country's Millennium Development Goal (MDG) achievement record highlights a lack of progress in both the poverty and health-related MDGs. Future human development plans need to integrate the unmet goals of MDGs into the post-2015 United Nations development agenda, which proposes 17 Sustainable Development Goals (SDGs), with clear targets and indicators.

The industrial sector is Swaziland's second largest sector in terms of contribution to GDP with an estimated share of 42% in 2014 after the tertiary sector (51%) and far above agriculture (6%). Manufacturing remains the dominant sub-sector accounting for 36% of GDP, with the main activities comprising commercial agro-processing of sugar (particularly Coca-Cola concentrate), wood pulp, citrus fruit, pineapples, meat and clothing and textiles. In recognition of the linkage between industrialisation and entrepreneurship, the government has put in place various initiatives to develop and promote indigenous Swazi entrepreneurship, particularly in small and medium enterprises (SMEs). However, the 2013/14 Integrated Labour Force Survey shows that there is limited entrepreneurship with the share of self-employment in all activities at only 20% of the labour force. Data on characteristics of entrepreneurs in SMEs reveals that 56% and 44% are owned by men and women, respectively. Also, young entrepreneurs – aged between 22 and 35 – own 33% of the country's small businesses, with the services sector emerging as the leading small business sector. The government recognises that entrepreneurship can help the youth unemployment challenge. Towards this goal, it is focusing on various measures comprising inclusion of entrepreneurship training in the school curriculum, continued support of specific programmes that offer hands-on experience at the secondary and tertiary levels and revamping the Youth Enterprise Revolving Fund initiative. Swaziland needs a comprehensive industrial policy to support diversification, develop local entrepreneurs and to promote industrialisation across the country.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.7	-0.6	1.4	2.3
Real GDP per capital growth	0.2	-2.0	0.1	1.0
CPI inflation	5.0	7.8	7.0	6.4
Budget balance % GDP	-4.8	-12.3	-8.3	-11.3
Current account % GDP	9.6	9.4	8.1	5.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Swaziland's economy continues to be on a declining trajectory with growth projected to have slowed down to -0.6% in 2016 from 1.7% in 2015. This reflects mainly declines in the primary and secondary sectors of 10.7% and 2.0%, respectively. Agricultural output declined because of the El Niño-induced drought, which particularly affected rain-fed crops, such as maize and cotton, and irrigated crops, mainly sugar cane, due to significant declines in water levels in dams. Production of maize and cotton is estimated to have declined by 60% and 84%, respectively in the 2015/16 season, while sugar production fell by 18% in the first half of 2016/17 compared to the same period in 2015/16. In the mining sector, the opening of the Lufafa gold mine in 2016 was a welcome development but the overall impact is expected to be relatively modest given its small size. The sector recorded mixed performance among the main minerals during the first three quarters of 2016 compared to a similar period in 2015. Production of coal increased by 10.5% in response to better prices, while production of quarried stones declined by 31% signalling slack prospects in the construction sector. The sector is linked to the government's capital programme, which has been negatively affected by the deterioration in the fiscal position. Manufacturing was adversely affected by the economic slowdown in South Africa and interruptions in hydroelectricity and water supply due to the drought, while the agro-processing industry was adversely affected by declines in agricultural inputs. The textile and apparel sector remains subdued due to the unresolved issue of the loss of the country's African Growth and Opportunity Act (AGOA) status in January 2015. On the upside, the tertiary sector is projected to have grown by 1.7%, mainly reflecting positive but slow growth in wholesale and retail trade and tourism. Wholesale and retail trade was buoyed by increased government recurrent spending while the tourist industry benefited from the easing of visa restrictions in South Africa under which travellers with minors were required to submit unabridged birth certificates. The sector remains closely linked to that of South Africa, as it is the major transit country and package tours commonly include both countries in their offers. The better performance in these subsectors is expected to offset the negative growth in the sub-sectors linked to the primary and secondary sectors, such as transport that has been affected by declining export volumes even though new railway carriages were rolled out in 2016.

On the demand side of the economy, there was mixed performance across the components. On the external front, the trade balance recorded a lower surplus of *emalangeni* (SZL) 343 million in June 2016 compared to the surplus of SZL 501 million posted in June 2015. While exports increased by 4.7%, the impact was more than offset by a larger increase in imports of 25%. The higher exports mainly emanated from an increase in wood and wood products, while the increase in imports was mainly in food, manufactured items, animal and vegetable oils and fat, and machinery and equipment. Regarding public investment, the 2016/17 budget outlined plans for a dramatic expansion in capital outlays with an allocation of 26% of total expenditure compared to 20% in the previous year. However, during the mid-term review in November 2016, it was pointed out that implementation of the capital programme has been disrupted by the tight fiscal position. It is plausible that the envisaged new projects will be delayed while focus will be on the completion of the ongoing projects that include *Sikhuphe-Hlane* Road, *Sicunusa-Nhlangano* Road and the *Ezulwini* Sustainable Water and Sanitation Project. The public consumption side of demand points to an increase due to a rise in public wage expenditures in FY 2016/17. The civil service wage bill is estimated to increase significantly after a salary review in July 2016 proposed increases ranging from 17% to 38%, backdated to April 2016. This will lead to an increase in the wage bill in FY 2016/17 to about 47% of recurrent expenditure. Private consumption can also be expected to increase significantly due to the rise in disposable income, as personal taxes remain unchanged.

Short-term prospects in 2017 and 2018 indicate a sluggish recovery, with economic growth expectations remaining at 1.4% and 2.3%, respectively. This is premised on improved agricultural performance due to improved weather conditions and some positive trade developments. Under a new economic partnership agreement, exporters will have better access to European markets. It is hoped that this new agreement will counteract the slack in the textile sector caused by the cancellation of the AGOA. Moreover, the Common Market for Eastern and Southern Africa (COMESA) has put in place a new deal involving adjustments to export-quota weightings that could allow Swaziland to export greater quantities of sugar to Kenya. The major downside risk to the economic outlook emanates from the fiscal front, particularly the downward trajectory of SACU revenues in view of their dominance in the resource base, as they have, on average, constituted 47% of total revenues in the last three fiscal years to FY 2016/17. This underscores the need for the government to enhance domestic resource mobilisation, exercise fiscal prudence and rein in expenditure. It is imperative that the amended Public Finance Management (PFM) bill is passed and implemented.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2011	2014
Agriculture, forestry, fishing and hunting	7.4	6.1
of which fishing	...	...
Mining and quarrying	0.2	0.3
of which oil	...	...
Manufacturing	36.7	35.5
Electricity, gas and water	2.1	2.2
Construction	4.1	4.6
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	17.7	19.2
of which hotels and restaurants	2.7	2.7
Transport, storage and communication	3.8	3.3
Finance, real estate and business services	12.0	13.9
Public administration and defence	6.6	5.8
Other services	9.4	9.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The fiscal stance is affected by continued dependence on volatile SACU revenues and increased government spending. The fiscal outturn in FY 2015/16 was a budget deficit of 4.8% of GDP, above the initial estimate of 3.0%. This mainly reflected the passing of a supplementary budget of SZL 1.7 million (3.8% of GDP). Revenues were 0.2% below target mainly due to a decline in SACU receipts of 7% from the previous year, although they remained substantial accounting for 47% of total revenues. The overall effect of the lower SACU receipts was moderated by a 13.8% increase in domestic revenues, which accounted for the remaining 53% of total revenues. This emanated from the sound performance of the Swaziland Revenue Authority that resulted in better than expected collection of company tax, income tax, tax on property income, value-added tax and fuel tax. On the expenditure side, total spending was budgeted at SZL 15.9 billion, but the preliminary outturn indicates that it was 10.7% above target. Both recurrent and capital expenditures were above target by 7.1% and 15% and accounted for 77% and 23% of the budget, respectively.

The 2016/17 budget mid-year results indicate the emergence of a fiscal crunch mainly due to a significant 25% decline in SACU revenues. Estimates show a significant deterioration to a deficit of 12.3% of GDP (SZL 6.8 billion). The budget provided for an expansion in government spending, particularly regarding capital outlays, in an attempt to boost real GDP growth. However, the major budget pressure emanated from the civil service wage bill, which is estimated to have increased significantly after a salary review announced in July 2016 proposed pay rises ranging from 17% to 38% for the lowest paid cadres backdated to April 2016. The salary increase is projected to cost SZL 850 million (about 2% of GDP) against the budgeted amount of SZL 500 million, such that the wage bill in FY 2016/17 is estimated to have increased to about 47% of recurrent expenditure. In view of these circumstances, financing the deficit proved challenging. Most of the financing was covered by domestic borrowing. However, meeting such a large shortfall from the local financial system is complicated by the nascent domestic capital market and the relatively illiquid domestic banking sector. As a result, the government has accumulated payment arrears that it plans to settle, one-on-one, with suppliers.

Table 3. **Public finances (percentage of GDP at current prices)**

	2008/09	2013/14	2014/15	2015/16	2016/17(e)	2017/18(p)	2018/19(p)
Total revenue and grants	**35.6**	**29.8**	**31.0**	**27.8**	**26.0**	**28.6**	**30.0**
Tax revenue	33.7	28.6	28.9	26.4	23.7	26.4	27.7
Grants	0.2	0.4	1.6	0.7	1.4	1.5	1.6
Total expenditure and net lending (a)	**34.3**	**29.3**	**32.3**	**32.7**	**38.3**	**36.8**	**41.3**
Current expenditure	26.4	23.7	24.6	23.4	26.6	27.4	30.8
Excluding interest	25.4	22.7	23.5	22.0	25.3	25.6	28.9
Wages and salaries	13.1	10.4	9.9	13.0	13.9	13.9	13.3
Interest	0.9	1.1	1.2	1.4	1.3	1.8	1.8
Capital expenditure	7.9	5.5	7.6	9.3	11.7	9.4	10.5
Primary balance	**2.2**	**1.5**	**-0.1**	**-3.5**	**-11.0**	**-6.4**	**-9.5**
Overall balance	**1.3**	**0.5**	**-1.3**	**-4.8**	**-12.3**	**-8.3**	**-11.3**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

As a member of the Common Monetary Area (CMA), which also includes South Africa, Lesotho and Namibia, Swaziland does not conduct independent monetary and exchange rate policies. In line with the CMA arrangement, the lilangeni remains tied at par to the South African rand, which is also recognised as a legal tender in the country. The CMA arrangement has benefited Swaziland by creating closer integration with South Africa. It provides a nominal anchor to monetary policy and facilitates capital and commercial transactions with South Africa, the country's major trading partner. With regard to bilateral nominal exchange rates, the lilangeni/rand appreciated against major currencies in the 12 months to December 2016 by 11.6% against the US dollar, 15.4% against the euro and 26.2% against the United Kingdom pound. The Central Bank of Swaziland (CBS) attributes this to various international developments, including low interest rates in developing countries and an emerging preference for gold as a safe haven in the wake of "Brexit".

In line with developments in South Africa, the CBS has been tightening monetary policy since January 2016 and the discount rate has increased by a cumulative 100 basis points to 7% in May 2016. This means that Swaziland's inflation generally tracks that in South Africa, the main source of key imports, including food and electricity. Inflation eased to 4.8% in 2015, reflecting subdued international oil and food prices. This deceleration has since reversed, with inflation rising to 8.7% in December 2016, reflecting increases in water and electricity tariffs and higher food prices due to a severe regional drought. Inflation is expected to ease in 2017 as the effects of the drought subside.

Economic co-operation, regional integration and trade

The government recognises the importance of regional integration and trade in view of the country's landlocked nature; hence, Swaziland is a member of various regional economic groups including SACU, the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). Two key trade issues occurred in 2016. Firstly, Swaziland missed the opportunity to be readmitted to the AGOA after parliament failed to ratify two bills in August 2016, specified by the US government and stated in the AGOA as preconditions for re-admittance. The two bills included amendments to the Public Order Act and the Suppression of Terrorism Act. On the upside, Swaziland, together with Botswana, Lesotho, Mozambique, Namibia and South Africa, signed an economic partnership agreement with the European Union in August 2016. The agreement came into effect in October 2016; its purpose is to grant quota free and duty-free access to the bloc's market.

Swaziland is closely integrated into Southern African markets, but its trade with countries in the region, with the exception of South Africa, remains small. South Africa is the dominant trading partner and accounted for 66% and 75% of total exports and imports, respectively, in June 2016. The tariff policy continues to be governed by SACU, which controls customs and excise duties on goods imported from non-SACU countries and establishes transit rights for products transported over Southern African territory. Trade with non-SACU countries is administered through the SACU common external tariff. Customs clearance is set to improve following the move by the Swaziland Revenue Authority (SRA) to operationalise the Automated System for Customs Data (ASYCUDA) World in February 2016 at all commercial border posts and inland customs clearance offices.

The current account balance was in surplus in 2015 at 9.6% of GDP and is expected to remain at almost the same level in 2016. The trade balance is projected to remain positive but slightly lower reflecting a larger increase in imports, which will offset the growth in exports.

Table 4. **Current account (percentage of GDP at current prices)**

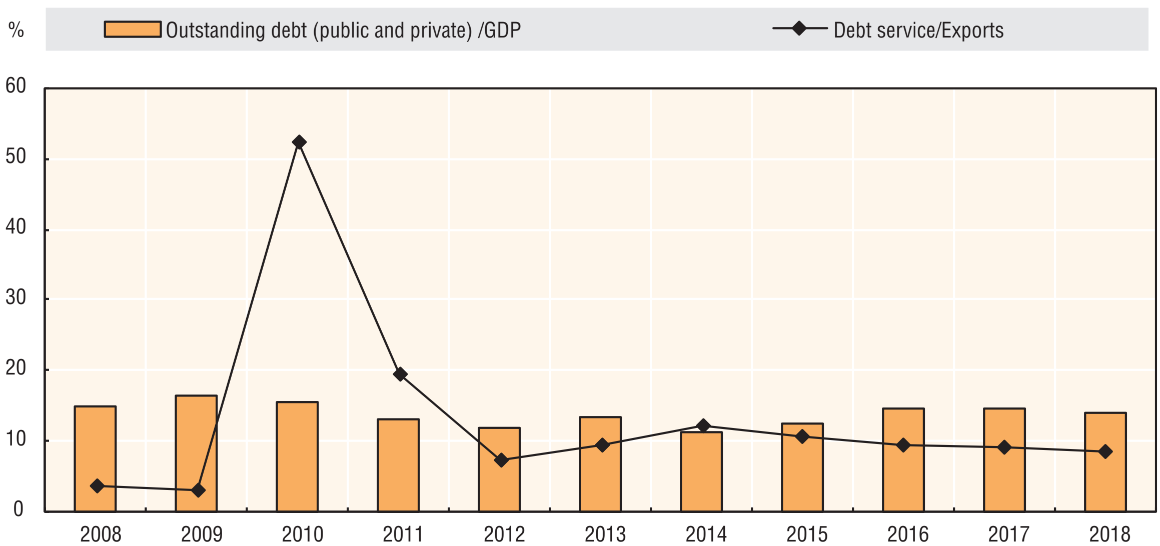
	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-1.2	4.6	5.2	8.9	8.8	6.1	2.2
Exports of goods (f.o.b.)	45.6	41.5	43.1	44.0	46.6	46.3	48.1
Imports of goods (f.o.b.)	46.9	37.0	37.9	35.2	37.8	40.2	45.9
Services	-12.1	-11.0	-10.2	-9.8	-9.7	-8.5	-7.2
Factor income	-0.2	-8.0	-9.4	-7.3	-7.1	-6.1	-5.4
Current transfers	6.4	19.7	18.1	17.8	17.3	16.6	16.3
Current account balance	**-7.1**	**5.3**	**3.6**	**9.6**	**9.4**	**8.1**	**5.8**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Swaziland continues to implement a debt policy that does not impose limits on external debt while domestic debt is capped at 25% of GDP. The Finance Act sets the actual annual limits on both domestic and external debt that are contained in the budget. Parliament is required to authorise all proposals to contract debt on a case-by-case basis, while the Ministry of Finance initiates the process. This arrangement has been successful as the country's debt to GDP ratio has remained reasonably low compared to other African countries. As at March 2016, the total debt to GDP ratio was 16.2%, which is far below the international threshold, but higher than the ratio of 12.9% it was in March 2015. The increase mainly reflected an increase in external debt with the ratio standing at 9.9% while domestic debt was 6.3% of GDP. The government has been making efforts to develop domestic capital markets to bolster domestic borrowing but issuances of government bonds were not very successful in FY 2015/16 due to poor market response. Initially, the government planned to issue SZL 250 million on a quarterly basis. However, this amount had to be scaled down after investor feedback indicated a lack of appetite for government papers. Ultimately, four auctions were held in which SZL 700 million was offered, and allotments made amounted to SZL 548 million, or 78% of the amount sought. Foreign debt, therefore, continued to be dominant and constituted about 61% of total debt. Market sentiments appear to have changed considerably in recent months. During the first three quarters of FY 2016/17, there were four initial offers and one reissuance amounting to SZL 800 million that were oversubscribed, and allotments of SZL 1 082 million were made. The Public Debt Management Unit, established in April 2015 by the Ministry of Finance, continues to guide government ministries and agencies in contracting and managing public debt.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

Swaziland's private sector is relatively small and is characterised by a low level of domestic entrepreneurship and a constraining business environment. This necessitates the government to intervene through state-owned enterprises (SOEs) that are typically earmarked to participate in commercial activities. Government intervention is extensive as evidenced by the high number of SOEs, 29 to date, and spread across diverse economic sectors, including agriculture, transport, finance, tourism and housing. These institutions tend to compete directly with private players, resulting in conflicts of interest in several sectors. The situation is further aggravated by the fact that some SOEs are regulators in their sectors, thereby imposing further uncertainty among investors.

The World Bank report *Doing Business 2017* survey reduces Swaziland's rank in the overall ease of doing business category to 111 in 2016 from 105 in 2015. There were declines in virtually all indicators in the 2017 rankings, but getting credit and resolving insolvency registered the highest deterioration of four points each. Access to credit is inhibited by the existence of inadequately designed collateral and bankruptcy laws and a lack of accessible credit information for lenders to assess borrowers' repayment abilities. Resolving insolvency is time consuming and costly with a low average recovery rate of 38.3 cents on the dollar. The most constraining aspect, however, is enforcing contracts, in which the country ranks 175 out of the 190 countries in the survey. This reflects a protracted contract enforcement system that takes an average 956 days and costs 56.1% of the value of the claim. Other significant constraints include getting electricity and starting a business with respective ranks of 157 and 154. Connection to electricity takes 137 days in Swaziland, mainly due to the 90 days required for the utility company to undertake connection works. The low rank in starting a business suggests the existence of quite significant impediments for establishing businesses. The number of procedures needed to start a business remained at 12, as in the previous year, while the length of the time the process takes remained unchanged at 30 days. Moreover, the costs involved remain high, requiring 16.6% of income per capita and paid-in minimum capital of 0.3% of income per capita. Through the Investor Road Map, the government is undertaking regulatory reforms to address these constraints.

Financial sector

Swaziland's financial sector comprises a banking sector and non-bank financial institutions (NBFIs). There are four commercial banks, of which three are private and subsidiaries of large South African banks, and one state-owned development bank, Swaziland Development and Savings Bank. The NBFIs include pension funds, insurance companies, collective investment schemes and savings and credit co-operatives. The CBS 2015/16 Annual Report notes that the banking sector conformed to statutory prudential requirements in terms of capital adequacy and liquidity. Asset quality deteriorated slightly, with the ratio of non-performing loans to gross loans and advances declining to 6.8% in December 2015 from 6.6% in December 2014. In terms of capital adequacy, the banking sector has continued to be adequately capitalised, with capital ratios for tier 1 increasing to 22.91% from 21.07% over the same period. In a bid to enhance financial stability, the CBS, the Ministry of Finance and the Financial Services Regulatory Authority have formulated the Financial Sector Development Investment Plan. The overall vision is to have a stable, diversified, modern and competitive financial system that provides quality, affordable and accessible financial services to support economic growth. A prioritised action plan has been developed laying out the actions to be undertaken from 2016 to 2018. The most recent information on the stability of the NBFIs remains that presented in the 2014 IMF Article IV Report. The report notes that there are financial system risks in these institutions arising from weak supervisory surveillance, which constitutes a challenge as these institutions account for about two-thirds of the financial sector's assets.

Available data show that financial inclusion stood at 73% in 2014. Slightly more than half of the adults are banked while 9% have access to informal financing sources. However, significant geographic and gender disparities exist. Urban areas record 29% better access than rural areas, while banked males outpace females by 14%. According to the Financial Sector Development Investment Plan, the 4 commercial banks together with Fincorp, a non-bank government-owned development finance institution, have 40 branches, 195 automated teller machines and approximately 800 point-of-sale terminals. For the unbanked, the main barrier is affordability, including inability to maintain a minimum balance. Notably, the CBS introduced new regulations in July 2016 removing fees for cash deposit services and reducing charges on dishonoured cheques.

Public sector management, institutions and reforms

The outstanding development in public sector management in 2016 relates to the award of a hefty salary increase in July that was backdated to April 2016. The review was rationalised on the fact that the last salary increase was in 2004, although regulations state that the government is obligated to undertake a review every five years. In recognition of the pressure that the higher wage bill has exerted on the fiscal position, the FY 2016/17 mid-term review notes that future salary negotiations between government and stakeholders should take into account other important policy considerations. These include the need to link wage growth to productivity, assess how unit costs of government services compare to trends in the rest of the economy and the need to gauge the extent to which a high wage bill crowds out financing for other key services. Nonetheless, it is worth noting that the government finalised a payroll and skills audit in October 2016. It is expected that the exercise will assist government to rationalise its payroll by identifying and weeding out "ghost employees". Other measures to be undertaken including intensifying staff inspections and suspending the filling and creation of non-priority positions.

The government is aware of the need to undertake reforms to improve public sector management but the process has been rather slow. There have been significant delays in enacting the PFM bill as it was submitted to parliament in June 2015 but it is yet to be debated. Nonetheless, some significant reforms have been undertaken including the establishment of a Deficit Financing Committee, the adoption of a Medium Term Expenditure Framework (MTEF) and preparation of in-year fiscal reports. The re-introduction of the MTEF was piloted for the 2015/16 budget and ten ministries produced MTEF budget proposals for 2015/16 to 2017/18, while the rollout to other ministries was done in 2016/17. In addition, preparation for implementation of an Integrated Financial Management Information Systems (IFMIS), when the PFM bill is adopted by parliament, is at an advanced stage. The implementation of IFMIS will herald a milestone in the automation of the accounting system and ultimately reduce reconciliation backlogs.

Swaziland recorded a marginal decline in its governance ranking in the African continent in 2015. The 2016 Mo Ibrahim Index of African Governance ranks Swaziland 29 out of 54 countries in 2015, a percentage point lower than its rank of 28 in 2014. The most significant decline was recorded in accountability, where the index declined by 7.9 percentage points from the level in the last year. The country was not included in the 2015 and 2016 Transparency International Corruption Perception Index, making it difficult to gauge the trend from the ranking of 69 (out of 145 countries) in 2014.

Natural resource management and environment

Swaziland is endowed with various natural resources comprising minerals, asbestos, iron, soapstone, green chert, gold and tin. While potential exists to exploit these resources, it is recognised that there are attendant environmental concerns, including destruction of landscape and ecosystems, waste accumulation, ground water contamination and environmental health threats. The government is currently reviewing the National Mining Policy to ensure that the regulatory framework addresses these key issues, as well as long-term sustainability.

In recognition of the criticality of environmental protection and preservation, the government seeks to ensure a holistic approach and to put in place the appropriate environmental regulatory framework. The 2002 Environment Management Act remains the regulatory law for environmental matters in the country. The Act seeks to provide and promote the enhancement, protection and conservation of the environment and sustainable management of natural resources. The Ministry of Tourism and Environmental Affairs (MTEA) oversees environmental management and climate change issues through its Department of Meteorology and other institutions, including the Swaziland Environment Authority, the Swaziland National Trust Commission and the Swaziland Tourism Authority.

Swaziland ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1996. In 2013, the government developed a National Climate Change Strategy and Action Plan which addresses climate change issues around forestry and rangelands management, drawing on the key messages of the UN Conference on Sustainable Development (UNCSD) Rio+20 meetings. A further step was taken in 2015 with the approval of the National Climate Change Policy. The drafting of a climate change bill is currently underway. The bill aims to promote climate resilience, inclusive low-carbon green growth and enhance access to climate finance. It also proposes the establishment of a dedicated climate change department, which will facilitate the implementation of the country's targets set out in its intended nationally determined contribution (INDC) submitted to the UNFCCC.

Political context

With the next parliamentary elections due in 2018, the political scene has remained relatively quiet since the September 2013 elections. However, some notable developments have occurred recently. In August 2016, King Mswati III called for a public parliament, or *sibaya*. Constitutionally recognised as Swaziland's highest policy and advisory council, the *sibaya* is supposed to be held annually but none has been held since 2012. Initially slated for three days, it was extended to a full week to accommodate the extensive discussions. Issues that were raised included the prolonged economic downturn, severe drought and calls for the 2018 elections to be held on a multiparty basis. Laudably, the forum provided an opportunity for citizens to voice their major concerns. Against this backdrop, the 2016 Ibrahim Index of African Governance shows that Swaziland continues to register low scores in participation and human rights. It was ranked lowest in the region and among the nine weakest in the continent in this governance dimension in 2015. Overall, the country was ranked ninth in the region, with a score of 49.7, below the regional average score of 58.3.

Social context and human development

Building human resources

The 2015 final millennium development goal (MDG) report indicated that the country achieved mixed results. Good progress was made in the achievement of the MDGs relating to primary education (Goal 2), gender equality (Goal 3), environmental sustainability (Goal 7) and global partnership for development (Goal 8), but the country lagged behind in poverty (Goal 1) and health-related MDGs (Goals 4, 5 and 6 on child mortality, maternal mortality and HIV/AIDS and other communicable diseases). Slow economic growth and the continued high incidence of HIV/AIDS were among the factors that constrained progress. Going forward, the country needs to focus on the unfinished MDGs as it transitions to the sustainable development goals (SDGs). To this end, government has initiated dialogue on the post-2015 development agenda that will culminate in formulation of the country's position and development of priorities. According to the 2015 *Human Development Report*, Swaziland falls in the low human development category with a human development index (HDI) of 0.531 in 2014 placing it at 150 out of 188 countries.

Widespread poverty and inequality, health issues, education and skills mismatch and unemployment are some of the challenges constraining human development. Accordingly social sector investments are prioritised in the budget, with a 30% allocation in 2015/16, of which 8% is for education and 12% for health. The country's investment in education has yielded positive results due to various initiatives such as the introduction of free primary education, construction of more classrooms and the employment of more teachers. Primary school enrolment has increased significantly to 97.7% while the literacy rate stands at over 95.3% for both boys and girls aged 15-24 years. However, high repetition and dropout rates remain key challenges.

Notwithstanding the significant investment in the health sector, challenges persist regarding high HIV/AIDS prevalence and other health issues. Although the overall prevalence rate is still the highest in the world, declines were recorded in HIV prevalence rates among 15-24 year olds: from 14.3% in 2007 down to 11.3% in 2014. New incidences of HIV among adults also declined from 3.1% in 2010 to 2.38% in 2014. This is attributed to increased condom use. In addition, the introduction of the anti-retroviral programme has proved to be beneficial, especially in the prevention of mother-to-child transmission. The population is generally well sensitised about HIV/AIDS transmission channels but challenges remain in testing, counselling and stigmatisation.

Poverty reduction, social protection and labour

Poverty continues to be a major challenge in Swaziland. Pending the completion of a new Swaziland Household Income and Expenditure Survey (SHIES), expected in 2017, the most recent data on poverty are from the 2010 SHIES. The survey showed that almost two-thirds (63%) of the Swazi population were living below the poverty line with the bulk of the poor residing in rural areas (73%). The level could have worsened recently due to the El Niňo induced drought in 2015-16 that affected over 300 000 people (25% of the population) including 135 144 children who faced acute food and water shortages. On 18 February 2016, the government declared the drought a national emergency and launched the National Emergency Response, Mitigation and

Adaptation Plan. A comprehensive joint multi-sectoral drought response and mitigation plan was developed, led by the government, which cost USD 80.5 million to cover immediate- and medium-term needs. The government committed USD 3 million for food assistance and water allocations to 158 000 people between November 2015 and January 2016.

The government has embarked on the formulation of a social protection policy. To initiate the process, the National Dialogue on Social Protection was held in 2015 to identify areas for reform. Currently, about 2.2% of the GDP is set aside for social protection; this targets the elderly, orphaned and vulnerable children and veterans. To address poverty and unemployment, more resources need to be channelled to the productive sectors, including agriculture, to build resilience and promote sustainable growth.

Swaziland has a young population with youth under the age of 15 years constituting around 40%. The unemployment rates are highest among youth between the ages of 15 to 24 years old, estimated at 52% in 2014. Cognisant of this challenge, the government has put in place some initiatives, such as the establishment of the Regional Development Fund and the subsidised farming inputs programme that provides tractor hire, seeds and fertilisers. There are plans to adopt a more holistic approach that focuses on improving the entrepreneurial skills of youth, including integrating entrepreneurship development in the school curriculum.

While Swaziland has ratified the core International Labour Organization conventions, implementation continues to be problematic, in particular for those relating to protecting workers' rights. Notably, the parliament passed amendments to the Industrial Relations Act allowing for the registration of labour organisations and employee federations in November 2014, and in May 2015, the government permitted the registration of the Trade Union Congress of Swaziland.

Gender equality

The constitution provides for gender equality by according equal legal rights to men and women. In practice, however, women do not enjoy equal legal rights mainly due to cultural factors relating to traditions and values. The country's ranking in constitutional and legal rights in the 2016 SADC Gender Protocol Barometer was low; it was among the bottom five in the region.

Women's participation in the economic sector and in politics remains challenging. The 2016 SADC Gender Protocol Barometer shows that Swaziland had the lowest rate of female labour force participation at 45%, and a female unemployment rate of 31.2%. Furthermore, there are more men (73%) than women (45%) in the formal labour force and in wage employment, indicating that women dominate the informal sector. The proportion of seats held by women in parliament declined from 22% in 2008 to 15% in 2013, far below the minimum internationally recommended 30%. Most of the women parliamentarians were nominated by the King to boost their numbers as only one woman was elected in the 2013 election.

Swaziland has made significant strides in gender parity in education with the enrolment ratio of girls to boys in primary and secondary school at 0.97. Completion, however, remains problematic, with a higher dropout rate recorded for boys at the primary level, while at the secondary level, more girls drop out. This is attributed to pregnancy, family socio-economic situations and lack of financial support.

Thematic analysis: Entrepreneurship and industrialisation in Swaziland

The industrial sector occupies a central position in Swaziland's economy. It is the country's second largest sector in terms of contribution to GDP after the tertiary sector. Over the ten years to 2015, the sector's share in GDP increased from 39% in 2005 to 42% in 2014. The share of the predominant services sector increased marginally from 50% to 51%, while agriculture registered a decline from 8% to 6% over the same period. A further breakdown of the industrial sector shows that manufacturing remains the dominant sub-sector accounting for 36% of the GDP. Manufacturing activity is mainly focused on commercial agro-processing of sugar, wood pulp, canned fruit, meat, and clothing and textiles predominantly for export. Miscellaneous edibles (including soft drink concentrates and caramel colour) and sugar are the predominant manufactured exports, and accounted for 51% and 21% of total exports in 2015. Notably, Swaziland hosts the principal Coca-Cola concentrate plant for Southern and Eastern Africa.

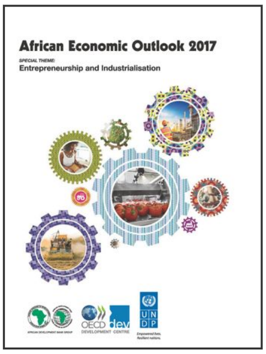
Key policy documents such as the National Development Strategy recognise industrialisation as one of the strategic areas for development. This entails promoting industries that are labour intensive, export-oriented and maximise value-added. The strategy involves promoting both local and foreign investors by providing incentive schemes, with one of the main schemes being the development of industrial estates, which are overseen by the Ministry of Commerce, Industry and Trade. These estates provide basic infrastructure, such as access to water, sewer, road, electricity and telephone services. The principal industrial estate is located at Matsapha and the other two are at Nhlangano and Ngwenya. Other incentives, particularly for investments in export-driven manufacturing and mining, include: a human resource training rebate; a reduced tax rate of 10% for the first ten years of operation for businesses that qualify under the Development Approval Order; exemption from import duties of capital goods, such as machinery and equipment imported for productive investment; repatriation of profits and dividends, including salaries for expatriate staff and capital repayments; and an exemption from import duties on imported raw materials for the manufacture of goods to be exported outside SACU. In a bid to promote small- and medium-sized enterprises, the government formulated the 2002 National SME policy. The objective of the policy is to support local ownership of SMEs and increased FDI geared towards creating employment. The extent to which this has been achieved is not clear. Anecdotal evidence suggests that various challenges have constrained realisation of the expected results including lack of awareness due to limited outreach, especially in rural areas, and cumbersome administrative requirements.

The government started to develop and promote indigenous Swazi entrepreneurship in the early post-independence era, with the focus mainly on state-owned enterprises providing development finance. Among the first initiatives was the establishment of the Small Enterprises Development Company in 1970 aimed at promoting and supporting entrepreneurial talent within the small-, micro- and medium-sized enterprises. Further efforts were undertaken in the 1990s through the launching of the Small Scale Enterprise Loan Guarantee Scheme and the establishment of the Swaziland Investment Promotion Authority (SIPA). SIPA seeks to promote and facilitate foreign direct and local investment. It facilitates local entrepreneurs to participate in investment projects and assists them with their expansion plans by linking them with foreign direct investors either in joint ventures or as suppliers. SIPA provides support to SMEs through a linkage programme to help establish business relationships between SMEs and larger enterprises. The Swaziland Industrial Development Company (SIDC), established in 1987, aims to support its customers with quality services in project financing through the provision of equity, loans and factory buildings for lease. When it was launched, it took over assets of the National Industrial Development Corporation of Swaziland (NIDCS). However, the government relaunched NIDCS in 2013 with a mandate to attract and facilitate local and foreign industrial investment. It is too early to assess its performance as it became operational in April 2016.

The 2013/14 Integrated Labour Force Survey provides information on the level of entrepreneurship. It shows that the share of self-employment in all activities is low at 20% of the labour force, pointing to limited entrepreneurship. Furthermore, 16% are engaged in micro-enterprises with no employees and only 4% operate above the subsistence level. These are premised as a survival strategy rather than a desire for self-realisation and there is little evidence of the emergence of dynamic and growth-orientated locally owned SMEs that could be viable alternative sources of income generation and employment creation. Available data on the characteristics of entrepreneurs indicate that 56% of the country's SMEs are owned by men while 44% are owned by women. The lower participation of women is attributed to the lack of an enabling environment. The entrepreneurs are young with 33% of the small-business owners aged between 22 and 35 years. The services sector comprising of activities such as road transportation, marketing, hairdressing and communications (mostly phone shops) emerges as the leading small-business sector. An assessment of the educational levels of owners of the country's SMEs shows that 77% had attained secondary education while 17% had received post-secondary education and about 6% did not have any formal education.

Entrepreneurship has recently gained traction among policy makers as an avenue to tackle the youth employment challenge. In the 2013-18 Programme of Action, the government commits to promote entrepreneurship, specifically focusing on SMEs and the youth. Envisaged initiatives comprise: i) inclusion of entrepreneurship in the school curriculum; ii) continued support of programmes, such as the Junior Achievement and ENACTUS, both of which are run by NGOs, at secondary and tertiary levels respectively; and iii) revamping the Youth Enterprise Revolving Fund initiative. There has been some progress towards realising these objectives. The Ministry of Education and Training has been conducting consultations with key stakeholders on the necessary changes needed to the curricula at all levels to include entrepreneurship. The Junior Achievement programme equips high-school level students with work readiness, financial literacy and entrepreneurship skills; over 10 000 students have benefited from the programme since its inception in 2007. The beneficiaries describe it as life changing and transformational and it has been noted that such students show higher success rates in setting up business enterprises. The ENACTUS programme, started in 2002 at the University of Swaziland, has since expanded to include an additional seven universities and colleges in Swaziland. Its aims are to build the leadership and entrepreneurial capacities of students to facilitate them to launch projects in their communities. With respect to the Youth Enterprise Fund, which was established in 2009 to provide youth with business capital, it was conceived as a revolving fund with an initial capitalisation of SZL 10 million, but its effectiveness has been compromised by low repayment rates. A study commissioned by the government in 2015 to evaluate the performance of the Fund and make recommendations for improvement recommended a complete revamp and restructuring.

Although Swaziland has undertaken various measures to promote industrialisation and entrepreneurship, the need for a comprehensive industrial policy cannot be over-emphasised. This would inform government on how best to develop local entrepreneurs and create productive employment for Swazi citizens, and to promote industrialisation across the country, thereby diversifying the economy.



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