SWAZILAND

2016

Peninah KARIUKI / p.kariuki@afdb.org

Fatou LEIGH / fatou.leigh@undp.org

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- **Economic growth slowed down in 2015 to 1.7%, mainly because of severe drought, with prospects in 2016 and 2017 remaining poor.**
- **The political scene has remained relatively calm since the September 2013 elections, but the ranking in participation and human rights remains low.**
- **Increased urbanisation has resulted in development tensions and challenges that the government remains committed to address so as to ensure maximum economic benefit and sustainability.**

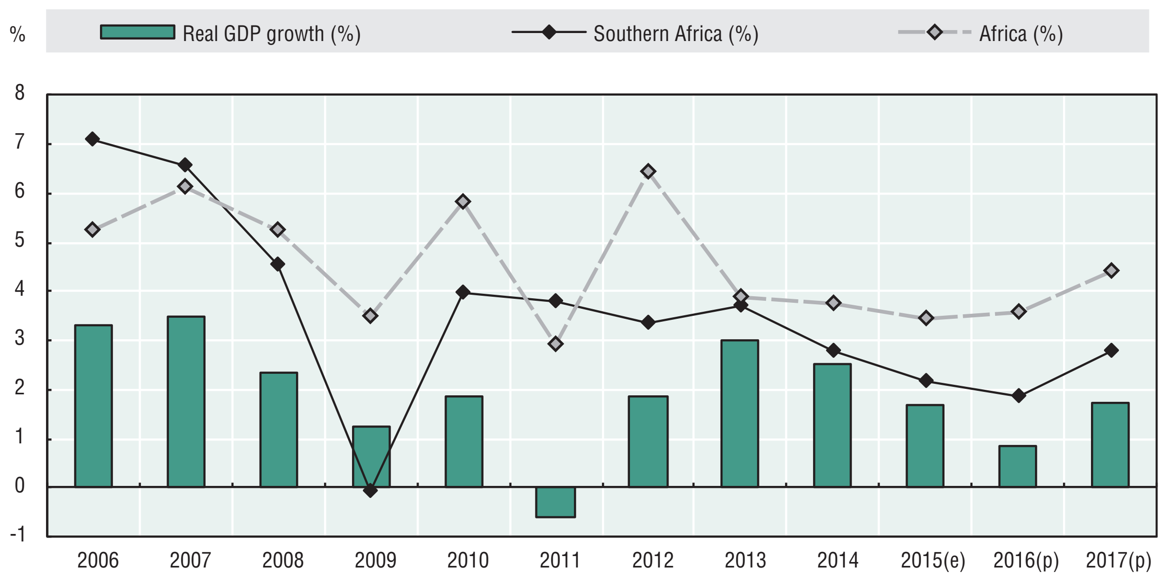
Overview

Real gross domestic product (GDP) growth slowed from 2.5% in 2014 to 1.7% in 2015. The major factors include a drought that hurt agricultural production, a weaker mining sector and subdued prospects in South Africa, the major trading partner. Growth in the tertiary sector also slowed down, but the overall impact was cushioned by an increase in investment in government capital investment programmes. Short-term prospects in 2016 and 2017 remain muted, with economic growth expectations remaining below 2% per annum. Growth prospects are predicated on improved weather conditions and enhanced policy efforts to address critical challenges in areas such as the business climate and export diversification. This is particularly important in view of the country's loss of eligibility under the African Growth and Opportunity Act (AGOA) in January 2015 and its high dependence on volatile revenues from the Southern African Customs Union (SACU).

Major social challenges include the high rate of HIV/AIDS and an uneven distribution of resources. Despite its classification as a low middle-income country, the incidence of poverty is high, with 63% of the population living below the poverty line. Other problems include a high unemployment rate of 28.1%, and a low Human Development Index (HDI) ranking of 150 out of 187 countries; Swaziland's HDI score of 0.531 is mainly due to the high maternal mortality rate, underdeveloped labour markets and mistrust in national government. There has been some progress over the past three decades in the fight against HIV/AIDS and the incidence rate has declined trend from 3.1% in 2010 to 2.23% in 2013, to 1.94% in 2015, but the HIV prevalence of 26% among 15-49 year olds is among the highest in the world. This has translated into increased health spending and high numbers of orphaned and vulnerable children requiring social protection.

Swaziland is among the smallest countries in Africa in both size and population of whom 78% live in rural areas and 22% in urban areas. It is projected that the share of the population living in towns and cities will rise to 26.5% by 2030. The main urban centres are Mbabane, the administrative capital, and Manzini, the commercial hub. The two cities and the corridor between them support approximately 75% of the country's urban population. Growth in both Manzini and Mbabane has been largely informal and about 60% of urban Swazi households live in unplanned and/or un-serviced informal settlements. The central location of the Manzini-Mbabane corridor makes it a prime area for transportation networks linking to other areas in the country, with consequent overcrowding as a result of internal migration. Other challenges arising from increased urbanisation include providing adequate access to sanitation and power, and dealing with air and water pollution, inadequate waste management and increased crime rates. Local governments are hard pressed to raise adequate financial resources to address these challenges and mainly rely on transfers from the central government. The government remains committed to prioritising urban development, through initiatives such as the Urban Development Programme, so as to harness fully the inherent potential from this key segment of the economy while ensuring its sustainability.

Figure 1. **Real GDP growth**



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

Table 1. **Macroeconomic development**

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	2.5	1.7	0.8	1.7
Real GDP per capita growth	1.0	0.3	-0.5	0.4
CPI inflation	5.7	5.6	6.0	6.7
Budget balance % GDP	0.7	-1.4	-1.8	-2.1
Current account % GDP	2.9	0.9	1.6	1.5

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

Recent developments and prospects

Swaziland's economic growth is projected to have slowed down to 1.7% in 2015 from 2.5% in 2014. This is attributed to a continued slowdown in economic activity from poor performance in the primary sector and a loss of momentum in the tertiary sector. Agriculture has suffered from severe drought and it is estimated that production of maize, the country's staple, declined by 31% in 2015, while 125 000 cattle have died. The mining sector also experienced subdued performance. Central Bank data indicates that coal production declined during the first three quarters of 2015 by 22.5% to 100 737 tonnes from 130 022 tonnes in the similar period of 2014 in response to lower international prices. Moreover, production of iron ore ceased in the third quarter of 2014 and no output has since been recorded due mainly to a slump in international iron ore prices. On the upside, there was an increase of 52.4% in the production of quarried stones from 222 169 to 338 578 cubic metres, indicating good prospects in the construction sector, due particularly to public-sector projects such as the International Convention Centre and road infrastructure construction. The textile and apparel sector has had to contend with the loss of markets following the termination of eligibility for benefits under AGOA in January 2015 after Swaziland failed to meet some of the criteria set by the United States specifically related to internationally recognised workers' rights. However, the overall impact on growth has been modest due to the relatively low share of the textile industry in GDP of about 3%. Growth in 2015 has also been negatively affected by the economic slowdown in South Africa, the country's largest trading partner. It is likely, in addition, that tourism was affected by new entry regulations imposed by South Africa in mid-2015 requiring travellers with minors to submit unabridged birth certificates. This may have discouraged the choice of Swaziland by most tourists as South Africa is the major transit country.

The demand side of the economy reveals mixed performance across the components. On the external front, the trade balance in June 2015 improved to a surplus of Emalangeni (SZL) 501.3 million from a surplus of SZL 438.6 million in June 2014. This outcome reflected a decline in imports of 3.5% to SZL 4.2 billion which counterbalanced the decline in exports of 2.3% to SZL 4.7 billion. The lower exports mainly concerned a decline in sugar and confectionary products. Textile exports also fell, reflecting Swaziland's loss of AGOA eligibility. Public investment is projected to remain strong, supported by capital expenditure for continuing, as well as new projects. The 2015/16 fiscal year budget allocation foresees capital expenditure at 20% of the total. Capital spending projects include the Nhlangano-Sicunusa Road, Mbadlane-Manzini Road, Ezulwini Sustainable Water and Sanitation Project, the Lower Usuthu Smallholder Irrigation Project Phase II and the International Convention Centre. Public consumption is expected to remain high in 2015, mainly due to wage expenditures, which account for over 38% of projected total expenditure in both 2014/15 and 2015/16. Private consumption levels are not expected to change significantly as personal taxes remained at the same level. However, there could be an increase arising from civil servants' salaries that effectively rose in 2015 due to a 6.5% cost-of-living increase awarded in September 2015 and backdated to April 2015, although it was lower than the 8.2% demanded by the public-sector associations.

Economic prospects for 2016 and 2017 are muted, reflecting the lingering impact of the severe drought and continued weak real GDP growth in South Africa, to which Swaziland is strongly linked through the Southern Africa Customs Union (SACU). With deficits in the fiscal account, current account and increasing net outflows, the balance of payments has become vulnerable at the same time as foreign-exchange reserves are depleted. While commendable achievements have been seen in education and in many health-related indicators, opportunities for livelihood generation – especially for youth and women – will need to be explored and promoted. This underscores the need for an integrated multi-pronged approach to address the key challenges confronting the country and to revive the economy.

In the short term, it is important that the government continues to exercise fiscal discipline and review the nature of its expenditure. In the medium to longer term, structural reforms and institutional strengthening geared towards inspiring credibility and confidence is paramount. Examples of such reforms include the passing of the amended Public Finance Management (PFM) Bill and its implementation, judicial reforms, affordable and sustainable energy reform and improvement of public-service delivery. These reforms are articulated in the National Development Strategy (NDS). In addition, the Ministry of Planning and Economic Development is undertaking country-wide consultations to discuss, internalise and prioritise the 2030 Sustainable Development Goals.

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

	2010	2014
Agriculture, forestry, fishing and hunting	7.4	7.0
of which fishing	…	…
Mining and quarrying	0.3	0.3
of which oil	…	…
Manufacturing	42.6	47.5
Electricity, gas and water	1.2	0.8
Construction	2.4	4.5
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	9.9	8.9
of which hotels and restaurants	1.7	1.7
Transport, storage and communication	7.0	6.2
Finance, real estate and business services	8.0	7.8
Public administration and defence	16.8	12.8
Other services	4.4	4.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

According to the 2014/15 financial year (FY) mid-year review, the budget remained broadly on track reflecting the sound performance of the Swaziland Revenue Authority (SRA) that resulted in better-than-expected revenue collection. Notably, the forecasts indicated that revenue collection (SZL 14.3 billion) may exceed the budget by around 3%. Around 56% (SZL 7.5 billion) of total revenues that were programmed to come from SACU receipts would be received as budgeted while the remaining 44% would be collected domestically, with the bulk coming through corporate tax, VAT and income taxes from individuals. On the expenditure side, total spending was budgeted at SZL 15.3 billion, and most expenditure items remain within target, with over half of the budget for government-funded capital projects already released. Around 76% of the budget was for recurrent and 24% for capital expenditures. The review forecast the outturn for FY 2014/15 budget to be a deficit of 1.7% of GDP, representing an improvement from the initially estimated deficit of 3.0%. However, the FY 2015/16 budget estimated a decline in total revenue and grants to SZL 14.3 billion (32.2% of GDP) from SZL 14.8 billion (35.8% of GDP) in 2014/15. This was mainly attributed to a decline in SACU receipts from 50% of the total in 2014/15 to 47.2% in 2015/16 and expected revisions in the revenue-sharing formula. An increase in expenditure was also projected to a total of SZL 17.3 billion (39.0% of GDP), resulting in a deficit of SZL 3.0 billion (6.8% of GDP). To address this, the budget proposed measures to enhance revenue including an amendment of the Income Tax regulations, a review of the Customs and Excise Act, and the introduction of a levy on alcohol and tobacco. Expenditure increases were projected in critical sectors including health, education and transport. However, the major pressure was from the civil-service wage hike, which was estimated to cost SZL 6 billion in FY 2015/16, representing 37.7% of the total expenditure. Now, one year later, budget forecasts are considerably different. Expenditures for FY 2015/16 are now projected to be 33.2% of GDP yielding a budget deficit of only 1.8% of GDP.

Preliminary data on the out-turn for the first quarter of FY 2015/16 indicate that a number of ministries have exceeded their expenditure ceilings while collections by the SRA were below target due to delays in the implementation of planned revenue generation measures, resulting in an overall deficit of SZL 850 million. Moreover a reduction in SACU receipts was also noted during the quarter.

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

	2006/2007	2011/2012	2012/2013	2013/2014	2014/2015(e)	2015/2016(p)	2016/2017(p)
Total revenue and grants	**33.5**	**18.6**	**27.6**	**27.0**	**34.1**	**31.4**	**32.0**
Tax revenue	32.0	17.5	26.8	26.0	32.0	30.5	31.1
Grants	0.7	0.0	0.1	0.4	1.8	0.5	0.5
Total expenditure and net lending (a)	**26.0**	**22.0**	**24.5**	**26.3**	**35.5**	**33.2**	**34.1**
Current expenditure	20.2	19.5	21.2	21.3	27.1	24.3	24.4
Excluding interest	19.6	18.8	20.5	20.6	26.1	23.0	23.1
Wages and salaries	10.8	11.0	10.3	10.9	13.2	10.8	10.0
Interest	0.7	0.7	0.8	0.7	1.1	1.3	1.3
Capital expenditure	6.0	2.5	3.2	4.9	8.4	8.9	9.7
Primary balance	**8.2**	**-2.7**	**4.0**	**1.4**	**-0.3**	**-0.5**	**-0.8**
Overall balance	**7.5**	**-3.4**	**3.2**	**0.7**	**-1.4**	**-1.8**	**-2.1**

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), Swaziland does not conduct independent monetary and exchange-rate policies. Under the CMA arrangement, the Lilangeni remains tied to the South African Rand at par. The latest assessment conducted by the International Monetary Fund (IMF) undertaken in the context of the 2015 Article IV Consultation suggested that Swaziland's real effective exchange rate (REER) was moderately overvalued. Data from the Central Bank of Swaziland (CBS) indicate that the REER appreciated by an average of 1.04% in the first three quarters of 2015, mainly due to higher domestic inflation (5%) compared to the inflation rates of the country's trading partners, particularly South Africa over the period. The Lilangeni/Rand depreciated against major currencies in the 12 months to December 2015 by 34.4% against the USD, 27.7% against the GBP, and 21.8% against the EUR. This mainly reflected subdued prospects in South Africa.

Swaziland remains guided by developments in the Common Monetary Area, particularly in South Africa, with the monetary policy rates following closely those set by the South African Reserve Bank (SARB). Although the CBS left its discount rate unchanged at 5.75% at its meeting in September, this followed two previous rises (each of 25 basis points) in May and July. The increase in July followed the decision by SARB to lift its own benchmark rate by 25 basis points to 6%. While this policy stance reaffirms the lack of an independent monetary policy, it has proved to be tenable as Swaziland has been recording single-digit rates since 2009. Generally, inflation in Swaziland tracks that in South Africa, the source of most of its imports, including a substantial share of its electricity and food. After averaging 5.7% in 2014, year-on-year inflation in Swaziland eased to 5.6% in 2015, reflecting subdued international oil and food prices. However, inflationary pressures emerged in the last quarter of 2015 due to a number of factors, including higher water and electricity tariffs and a severe regional drought. With respect to the drought, the CBS has warned that maize prices could rise by as much as 30%, on the back of a fall of around one-third in this year's maize production in South Africa, thereby triggering an increase in inflation.

Economic co-operation, regional integration and trade

Regional integration and trade play a major role in Swaziland's economy due to its landlocked nature and the country is a member of various regional economic groups including SACU, Southern African Development Community (SADC), and the Common Market for Eastern and Southern Africa (COMESA). Swaziland lost preferential access to the US market under AGOA in January, 2015. The US decision followed protracted discussions with the government over concerns about conformity with AGOA eligibility criteria pertaining to workers' rights. The US concluded that Swaziland had not demonstrated progress on the protection of internationally recognised workers' rights, particularly those protecting freedom of association and the right to organise. The US concerns included Swaziland's use of security forces and arbitrary arrests to stifle peaceful demonstrations, as well as the lack of legal recognition for labour and employer federations. The decision by the US seems to have triggered concerns by the European Union (EU) where Swaziland enjoys preferential access under an interim Economic Partnership Agreement (EPA) that came into effect in August 2014. In May 2015, members of the European Parliament voiced concern over the human rights situation in the country and urged the EU to reconsider its preferential trade agreement with the country.

According to the 2015/16 *Global Competitiveness Report*, Swaziland slipped five places in the ranking on the Global Competitiveness Index to 128th out of 140, mainly because of low ranking on the trade-tariffs criterion (80th) and the burden of customs procedures (101st), while the rank on the prevalence of non-trade barriers is quite high (22nd). The outcome on trade tariffs reflects the fact the country has signed regional and multilateral trading arrangements that shape its tariff structure. 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. Intra-SADC trade is based on the SADC Protocol on Trade, while extra-regional trade is based on both the World Trade Organization's negotiated tariff liberalisation process as well as bilateral and/or inter-regional trade arrangements. Trade with non-SACU countries is administered through the SACU common external tariff. However, the government supports a carefully planned tariff liberalisation process, involving restructuring and simplification with a view to moving away from the use of the tariff as a source of revenue to a tool for industrialisation. Estimates by the World Bank indicate that the weighted mean applied tariffs for all products declined from 7.0% in 2012 to 0.6% in 2013. Swaziland has erected some barriers to trade including import-permit requirements for a variety of food products, seasonal trade bans on selected agricultural goods and a state monopoly on beef exports. Swaziland has embarked on reducing the burden of customs procedures following an agreement with South Africa in May 2015 aimed at avoiding double declaration of imports, as is the case with Lesotho.

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

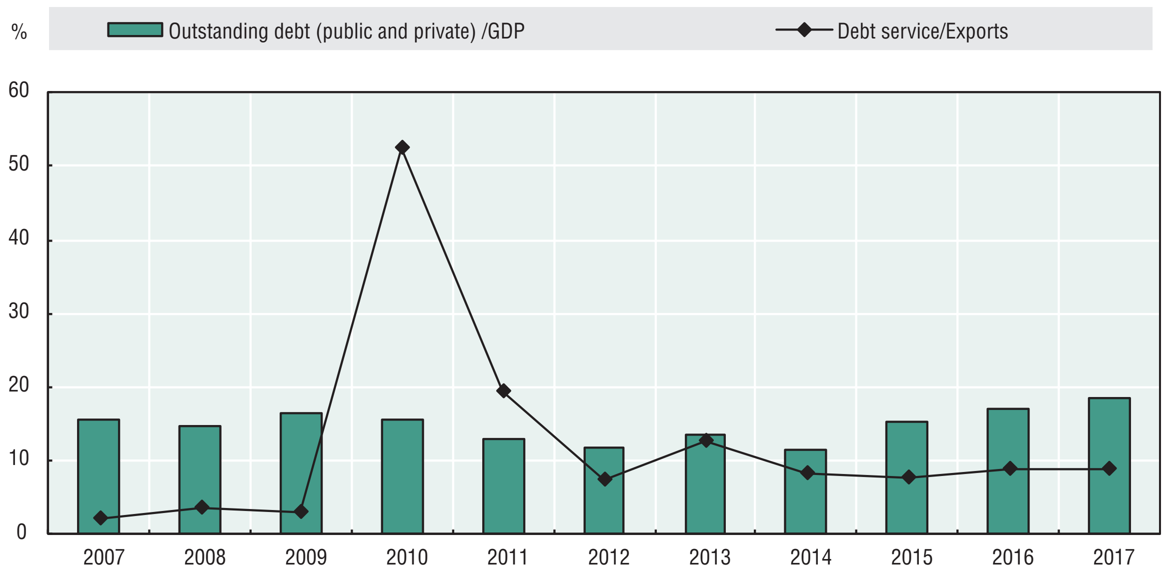
	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-9.1	1.6	4.4	4.8	3.5	5.5	7.2
Exports of goods (f.o.b.)	47.9	39.2	41.5	43.1	40.0	39.6	40.7
Imports of goods (f.o.b.)	57.0	37.6	37.1	38.3	36.5	34.1	33.5
Services	-0.4	-11.9	-11.0	-10.2	-10.8	-12.0	-13.6
Factor income	1.9	-6.4	-8.0	-9.8	-9.8	-9.7	-9.4
Current transfers	5.7	19.8	19.7	18.1	18.1	17.8	17.4
Current account balance	**-1.9**	**3.1**	**5.1**	**2.9**	**0.9**	**1.6**	**1.5**

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

Debt policy

The current debt policy does not impose limits on external debt while domestic debt is capped at 25% of GDP. Parliament has to authorise all proposals to contract debt on a case-by-case basis, while the Ministry of Finance initiates the process. The Finance Act sets out the actual limits on both domestic and external debt that are contained in the budget on an annual basis. The country's level of debt suggests that this arrangement has been successful as evidenced by the fact that Swaziland's debt-to-GDP ratio has remained reasonably low, compared to other African countries. As at March 2015, the respective ratios of external and domestic debt to GDP were 9.8% and 7.7%, far below the international threshold. Foreign debt constituted about 56% to total debt, reflecting efforts to develop domestic capital markets to bolster domestic borrowing. The total debt-to-GDP ratio increased from 16.9% in 2013/14 to 17.5% in 2014/15. The increase reflects lingering effects of the fiscal crisis in 2010/11, which necessitated domestic borrowing to finance priority services as well as clearing arrears. The authorities are giving the issue due attention, as evidenced by the establishment of a Public Debt Management Unit by the Ministry of Finance in April 2015 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

The private sector remains small and weak, with a low level of domestic entrepreneurship that reflects the reliance on foreign direct investment as the driver of growth. To address this constraint, the government intervenes through state-owned enterprises (SOEs) to fill the gaps in areas in which the limited private sector finds it difficult to operate. Currently, there are 29 SOEs across various economic sectors including agriculture, transport, finance tourism and housing. The downside of this approach is that these institutions tend to compete directly with private players, resulting in conflicts of interest in several sectors. This 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 2016* survey reduces Swaziland's rank in the ease of doing business category to 105 (out of 189) in 2015 from 102 in 2014. There were declines in virtually all aspects but "starting a business" showed the highest deterioration, from 146th in 2014 to 156th in 2015. This 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 23.3% of income per capita and paid-in minimum capital of 0.4% of income per capita. While the country made starting a business easier by shortening the notice and objection period for obtaining a new trade license, this aspect still remains the most protracted for entrepreneurs. Other aspects in which significant declines were registered include accessing credit, with the rank falling from 61st to 70th and dealing with construction permits where the rank fell from 73rd to 80th. The outcome on access to credit is attributed to the existence of inadequately designed collateral and bankruptcy laws. Entrepreneurs seeking construction permits have to contend with a lengthy process that takes 96 days, mainly due to the time required to get plans approved by the local authorities and to obtain a certificate of environmental compliance from the Swaziland Environment Authority.

Financial sector

Swaziland's financial sector remains shallow and undiversified, comprising four commercial banks and several non-bank financial institutions (NBFIs). Foreign banks dominate the banking sector, with three of the four banks being subsidiaries of South African banks. The NBFIs include pension funds, insurance companies, collective investment schemes, and savings and credit co-operatives. The CBS 2014/15 Annual Report notes that the banking sector remained stable, financially sound and conformed to statutory prudential requirements in 2014. The asset quality remained unchanged, with the ratio of non-performing loans to gross loans and advances at 6.6% in December 2014 and in December 2013. In addition, the banking sector has continued to be adequately capitalised, with capital ratios well above the statutory minimums of 20.7% for tier 1 capital and 24.5% for total risk capital, marginally higher than the respective ratios of 21.5% and 24.4% recorded in December 2013. In a bid to enhance financial stability, the CBS has proposed to set up a three-tier Financial Stability Committee as a follow-up to the Financial Stability Unit that was established in April 2014 to conduct macro-prudential surveillance of the financial system. Another key development relates to the formulation of a Financial Sector Development Implementation Plan by the CBS, Ministry of Finance, and the Financial Services Regulatory Authority, that aims at developing, strengthening and modernising the entire financial sector. Regarding the NBFIs, there is no recent information on their stability besides that presented in the 2014 IMF Article IV Report that indicated existence of risks arising from inadequate supervisory surveillance, which constitutes a challenge as they account for about two-third of the financial sector's assets.

The most recent data on access to finance remain those presented in the 2014 FinScope Consumer survey that estimated an improvement in financial inclusion from 63% in 2011 to 73% in 2014. This means that 54% of the adult population have bank accounts, which is a 10% increase from the 44% banked adult population in 2011. While 9% of the adult population use informal sources of financing, this has declined from the 13% noted in 2011. However, significant geographic and gender disparities exist. In the urban areas 74% of residents are banked compared to 45% of rural residents. The proportion of males that are banked is 62% compared to 48% of females. The majority of both civil servants and company employees are banked at 99.5% and 92% respectively, whereas only 55% of irregular income earners are banked. For the unbanked, the main barrier is affordability including inability to maintain a minimum balance.

Public-sector management, institutions and reform

The enhancement of public-sector management aimed at improving service delivery remains among the government's priorities. Notably, the draft Public Finance Management Bill was presented to parliament in August 2015. Other significant reforms include the establishment of a Cash Management Unit, the initiation of a Medium Term Expenditure Framework (MTEF) and the preparation of in-year fiscal reports. The re-introduction of the MTEF is being piloted for the 2015/16 budget and ten ministries have produced MTEF budget proposals for 2015/16 to 2017/18, while the roll-out to other ministries was ongoing from the final quarter of 2015. Under the MTEF, each line ministry or budgetary agency will be required to provide a clear statement of objectives, programmes and activities to be funded from the budget and achievement indicators over the medium term, clearly linking their proposed budget allocations to government policy objectives and service-delivery outputs. Plans are also underway to introduce medium-term budgeting in 2015/16 in a bid to increase the credibility of the budget.

Nonetheless, fiscal policy flexibility is inhibited by the high public-wage bill although its share in total expenditure declined in 2014/15 to 38% from 41% in 2013/14, reflecting a number of rationalisation measures, such as the initiation of a Payroll and Skills Audit. While this is laudable, the level is still unsustainable and effectively crowds out spending on other programmes. The FY 2015/16 budget outlined various priority measures including: i) completion of the Payroll and Skills Audit Exercise; ii) rolling out the performance management system; iii) further capacity building of civil servants; and iv) deferral of non-strategic positions. In addition, the government announced its decision to defer a salary review for civil servants.

Swaziland suffered a decline in 2015 in its governance ranking in the African continent. The 2015 Mo Ibrahim Index of African Governance ranks Swaziland 28th out of 54 countries in 2014, reflecting a decline from its rank of 24th in 2013. However, the country improved significantly on the perception of corruption. In the 2014 Transparency International Corruption Perception Index, its rank rose to 69th (out of 145 countries) from 82nd (out of 177 countries) in 2013. The government is strengthening the Anti-Corruption Commission to tackle critical activities including recovering of illicit assets from people convicted of corruption.

Natural resource management and environment

Although Swaziland enjoys a favourable sub-tropical climate and a rich natural-resource base, it is confronted by major environmental issues including limited supplies of potable water, depletion of wildlife populations due to excessive hunting, overgrazing, soil degradation and erosion. It is also prone to floods and droughts. Agricultural productivity in 2015 has been hit by a drought that has reinforced other persistent challenges including land degradation arising from unsustainable land use and the lack of environmental and meteorological information systems. Large-scale irrigated agriculture, particularly sugar cane production, has also led to the destruction of the natural vegetation on large tracts of land. Unsustainable practices including overstocking and reliance on trees for fuel by the majority of the rural population, as well as alien plant invasion, have led to the depletion of forests. Water security also emerges as an important environmental issue, due to fragmented management, outdated legislation, and pollution from local industries and trans-boundary sources.

The Swaziland Environment Authority notes that climate change has manifested itself mostly through changes in weather patterns, with more extreme conditions and erratic rainfalls. Swaziland ratified the United Nations Framework Convention on Climate Change in 1996. A National Climate Change Steering Committee, established in 2011, spearheaded the development of a National Climate Change Strategy and Action Plan in 2014 and a National Climate Change Policy in 2015. The Policy aims at supporting the development of a sustainable, climate-change resilient and inclusive low-carbon, green-growth economy. Swaziland also took another remarkable step in 2015 by submitting the Intended Nationally Determined Contribution (INDC) to the Convention. The INDC articulates key measures to climate-proof the economy such as improving the share of renewable energy and reduction of greenhouse gas emissions. Swaziland has met key indicators related to the MDG Goal 7 on environmental sustainability.

Political context

The September 2013 parliamentary elections had a voter turnout of 65%. Following the elections, King Mswati III re-appointed Prime Minister Barnabas Sibusiso Dlamini and a new cabinet in November 2013. He also nominated nine women to parliament to boost their numbers in parliament, as only one out of the 55 seats was won by a woman. Since the next elections are due in 2018, the political scene has remained relatively quiet. However, in 2015, the Mo Ibrahim Index of African Governance shows that Swaziland continues to register low scores in participation and human rights. Despite a marginal improvement, it was ranked lowest in the region and third weakest on the continent in this governance dimension. Overall, the country was ranked ninth in the region, with a score of 49.6, below the regional average score of 58.9.

Social context and human development

Building human resources

Swaziland's progress towards achieving the MDGs is mixed. Significant progress has been made in the education sector in Goal 2, "Achieving Universal Primary Education". Key challenges remain in others, particularly in the health MDGs; specifically concerning Goal 6, "Combating HIV/AIDS, malaria and other diseases". This outcome is corroborated by the 2015 *Human Development Report* (HDR) which notes that Swaziland performs very well on the education indicators but does not fare so well on indicators pertaining to health (maternal mortality and infant mortality). This explains a deterioration of the HDI from 148th in 2014 to 150th out of 187 countries with a value of 0.531.

The government continues to prioritise the social sector in the budget as shown by an allocation of 30% in 2014/15, with 18% for education and 12% for health. The allocation to education was the highest in the budget, but it does not meet international standards such as the 2011 Jomtien Statement on Education for All, which stipulates that states must allocate at least 6% of GDP and/or at least 20% of the national budget to education. The country's investment in education has, however, yielded positive results at the primary level with 97.7% enrolment and a literacy rate of over 92% for both boys and girls aged 15-24 years. In addition to commendable investments in primary education, the government has prioritised life-long education in its National Development Strategy (NDS 2022) and in the Programme of Action 2013-2018. It is also working with private sector institutions and non-government organisations to set up the Youth Enterprise Council and similar initiatives to improve the entrepreneurial skills of young people. The secondary school curriculum is also being upgraded to integrate entrepreneurship development. The government is, thus following the right path towards human-resources enhancement as a catalyst for long-term growth and economic and social advancement.

The health sector has also enjoyed commendable success with drops in the HIV new incidence to 1.94% in 2015 from 2.23% in 2013 and 3.1% in 2010. The population is generally well sensitised about HIV/AIDS transmission channels, testing and counselling but stigma remains a problem. Good progress has been achieved in decreasing under-5 mortality from 104 to 67 per 1 000 in 2010 and 2014 respectively, though this is still short of the MDG target. However, maternal mortality remains a challenge regressing from 589 in 2012 to 593 per 100 000; reinforcing the need for a holistic approach to both health- and non-health-sector issues, as outlined in the Millennium Development Goal Acceleration Framework.

The proportion of the population using improved water sources increased from 67.3% in 2010 to 72.4% in 2014, while the proportion of people using improved sanitation facilities remains technically constant at 53%.

Poverty reduction, social protection and labour

With 63% of the population below the poverty line, the drought in 2015 worsened living conditions: a 31% reduction in maize production left 50 000 people food insecure by June 2015, according to the Food and Agriculture Organization and World Food Programme. However, the situation has since worsened and it is estimated that by December 2015, the number of people affected increased to 250 000, while over 125 000 cattle had died. The government has enacted short-term measures, such as food distribution, to mitigate adverse effects and also declared the drought as a national emergency in February 2016.

The government devotes about 2.2% of GDP to social protection especially targeting orphans and vulnerable children, veterans and the elderly. This initiative is commendable but compares only marginally within the sub-region where South Africa invests 3% of GDP and Lesotho 7% of GDP on social protection. The National Dialogue on Social Protection held in 2015 identified improvements that are needed in the areas of co-ordination, targeting and capacity strengthening in order better to harness the efforts of the government and its partners.

At the same time, more resources are needed in the productive sector, especially in agriculture whence over 70% of the population derives its livelihood. Investments in productivity will promote wealth creation and mitigate vulnerabilities associated with drought as well as reduce dependence.

Swaziland has ratified the core International Labour Organization conventions. However, implementation remains problematic, particularly relating to protecting workers' rights. Notably, institutions and processes have been established to deal with labour disputes and arbitration as stipulated by the Industrial Relations Act.

Gender equality

The Constitution grants equal legal rights to men and women. However, in practice, women can find themselves in situations where they do not enjoy equal legal rights due to the strong traditions and values that are widely accepted as part of the Swazi culture. This explains the country's rather low ranking of 8th in the 2015 SADC Gender Protocol Barometer on the government's performance on constitutional and legal rights. In addition, the country's SADC Gender and Development Index score in the economic sector declined significantly to 51% from the baseline of 78% in 2011, such that the country remained the last among the 15 SADC countries.

The proportion of seats held by women in Parliament declined from 22% in 2008 to 15% in 2013. This ratio is half of the minimum internationally recommended 30% and is only attributable to the king's nomination of women to the Parliament as only one female was elected in the 2013 election.

Swaziland has made significant strides towards gender parity in primary-school enrolment, with a ratio of 0.97. In addition, 94% of girls complete primary school, compared to 88% of boys. However, due to a high drop-out rate, attendance at secondary school is only 55% for girls and 46% for boys. Some of the principal reasons attributed to the drop-out rate include pregnancy, absconding, and sexual violence.

Thematic analysis: Sustainable cities and structural transformation

The 2007 Population and Housing Census revealed an uneven spatial distribution of the country's 1.2 million people, with 78% in rural areas and 22% in urban areas. Manzini emerges as the region of the four with the largest share of the population with 31.3%, followed by Hhohho (28%), Shiselweni (21.3%) and Lubombo (20.4%). The share of the urban population is projected to grow from 22% in 2007 to 26.5% by 2030, continuing a trend that has been observed since independence. UN Habitat attributes this increase to: i) natural population growth within the cities; ii) rural-urban migration as people move in search of better job opportunities; and iii) better infrastructure and social services in the urban areas. The country's demographics show that urbanisation has been particularly significant in Manzini and Hhohho regions as these are the hubs for the industrial and commercial sector, and the public sector, respectively.

An outstanding feature of Swaziland is that, while it is one of the smallest countries in Africa (17 364 km^2), it has 13 gazetted urban areas and is divided into 55 constituencies called *tinkundla*. Mbabane is the administrative capital city and hosts all the government ministries, as well as a majority of diplomatic representatives, while Lobamba is the legislative and traditional capital.

However, Manzini is the oldest, largest and fastest growing city in the country, with its central location enabling it to serve as the country's economic node. The cities of Mbabane and Manzini and the corridor between them support approximately 75% of the country's urban population. Matsapha town lies in the corridor between Manzini and Mbabane, and forms the country's main industrial node. It is strategically located ten kilometres from Manzini city.

The nature of growth in Swaziland's main cities (Manzini and Mbabane), has been largely informal. It is estimated that about 60% of urban Swazi households are found in informal settlements that are unplanned and/or un-serviced, with the percentage expected to decline following the upgrading of Msunduza and Nkwalini in Mbabane, Moneni in Manzini and Mhobodleni. The central location of the Manzini-Matsapha- Mbabane corridor makes it a prime area for transportation networks linking to other areas in the country, which results in overcrowding and traffic congestion. Most informal settlements have occurred on Crown land under temporary occupancy permits within the urban boundary. The people living in these informal settlements are poor. The 2010 Swaziland Household Income and Expenditure Survey shows that 31% of the poor live in urban areas compared to 70% in the rural areas. Also 10% of households do not have access to safe water in the urban areas and access to sanitation, on average, declined from 60% to 57%. The region with the highest access to good sanitation is Lubombo at 89% of households but access declined in the economic zones such as Hhohho from 45% to 41% and in Manzini from 48% to 32%. This can be attributed to growing urban populations and increasing slum settlements where proper sanitation is not accessible. Access to electricity also remains challenging although it increased in the urban areas from 58% in 2000 to 66% in 2010. This underscores the need to address these challenges so as to realise the goal of building sustainable cities.

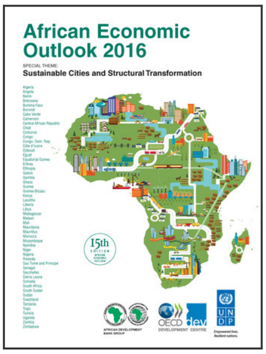
On environmental sustainability, the 2006 Country Environment Profile by the European Union notes that living conditions in human settlements are in general not improving and that environmental health risks are still very high due to air and water pollution and severe constraints in waste management. The Swaziland National Trust Commission has also noted that the location of Manzini and Mbabane within the vicinity of rivers has resulted in discharges of various liquid, solid, and gaseous residuals into the water system. In addition, the provision of infrastructure services – including water supply, sewerage, and solid-waste management – is inefficient such that landfills result in the leaching of toxins into ground water and neighbouring streams and rivers. This can be observed in the landfill in Manzini which is situated not far from the Mzimnene River. However, modern landfill facilities exist in Mbabane, Matsapha and Siteki.

According to the *2015 US Overseas Security Advisory Council* report, Mbabane and Manzini are considered prime grounds by criminals for operation due to the number of people, businesses, and affluent areas. The rate of both violent and non-violent crime reported in small towns and rural areas increased in 2014, with residential burglary and non-residential petty theft being the most commonly reported incidents.

The responsibility for urban local government in the municipalities is vested on the Ministry of Housing and Urban Development (MHUD), while rural areas fall under the Ministry of Tinkhundla Administration and Development. Local government responsibilities include town planning, water and sanitation, waste management and environmental protection. There are three tiers of government in the urban areas, namely city councils, town councils and town boards. The municipalities have higher administrative autonomy, revenue-raising and budget-setting powers, compared to town boards. Urban councils receive central government transfer payments according to a set formula. The ministerial supervision of locally raised taxes is conducted through examination of the overall budgets set by municipal councils. Urban local government is responsible for municipal administration, town planning, housing, roads, water and sanitation, refuse collection and disposal, environmental protection and public amenities.

Since the early 1990s the government has prioritised urban-sector development and policy reform in response to increasing urbanisation. The launching of the Urban Development

Programme in 1990 marked the first major step, pointing to the government's willingness and commitment to work with partners to ensure sustainable improvement in living conditions for the informal urban and peri-urban settlers. It was also recognised that the fundamental issue of securing land tenure for urban dwellers needed to be tackled against in the context of the existing entrenched values of the traditional system. In 1992, a further step was undertaken through the creation of the MHUD that was given the responsibility for monitoring housing, urban development and urban-land issues. The Ministry remains the overarching body for all local municipalities and city councils. To fulfil its mandate, the MHUD is mainly guided by the 1969 Urban Government Act – that defines the powers and functions of local authorities – and the 2006 Decentralisation Policy. It is commendable that the government remains committed to addressing the tensions and complexities arising from urban development so as to fully harness the inherent potential from this key segment of the economy while ensuring its sustainability. At the same time, the government welcomes and encourages development partners to complement its efforts, especially in upgrading internal road and sanitation infrastructure thereby improving access to services delivery as prioritised in the National Development Strategy 2022 and the Programme of Action 2013-2018.



From:

African Economic Outlook 2016

Sustainable Cities and Structural Transformation

Access the complete publication at:

https://doi.org/10.1787/aeo-2016-en

Please cite this chapter as:

African Development Bank/OECD/United Nations Development Programme (2016), “Swaziland”, in *African Economic Outlook 2016: Sustainable Cities and Structural Transformation*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2016-40-en