Swaziland

2012

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- In 2011, Swaziland experienced a severe fiscal crisis that set back economic and social development. The lagged impact of the crisis cut 2012 growth prospects to a mere 0.6%, which – if confirmed – will make Swaziland one of the slowest growing African economies. The risks to inflation are on the upside due to rising food prices.

- Southern African Customs Union revenues are expected to rise in 2012/13, easing liquidity constraints, but are projected to decline again in 2013/14. Unless structural and fiscal reforms are undertaken, 2013 will likely bring similar financial challenges as in 2011 and the long-awaited acceleration in growth will be delayed again.

- Job creation is an urgent priority in the Swazi economy with over 50% unemployment in the 15-24 age group. Supporting policies include removing barriers to competition and easing access to credit on the labour demand side while reforming tertiary education on the supply side. Establishing labour exchange offices to improve the flow of information between employers and workers could also help.

Overview

The year 2012 presents an important opportunity for the government of Swaziland to utilise judiciously the projected large increase in Southern African Customs Union (SACU) receipts. The right fiscal measures, if accompanied by decisive reforms, could put the economy on a path of strong and inclusive growth. It is also a chance for Swaziland to draw on its strengths, including its strategic location, relatively diversified production base, and skilled labour force. For Swaziland, 2011 was a challenging year. Real GDP grew by 1.1% while the 12-month inflation reading hit 7.8% in December. The country faced a severe fiscal crisis, due to a sharp fall in SACU receipts, an historically high level of expenditures (especially wages), and the government's limited access to borrowing. The crisis led to cuts in capital and social spending, undermining future growth. With government arrears of about 4% of GDP at the end of 2011, including debts to private contractors, the crisis has hurt an already struggling labour market and made things worse for small and medium enterprises (SMEs).

In 2012, growth is expected to slow further to 0.6% due to lagging effects of the crisis. SACU revenues are projected to rise by almost 150% in 2012/13 but decline again markedly in 2013/14. This pattern reiterates the need to manage high revenue volatility, mobilise domestic revenue, develop innovative financing, and spend windfall revenues prudently. Swaziland's monetary policy is constrained by its participation in the Common Monetary Area (CMA) and structural impediments such as the lack of assets that can be used as collateral. Unless long-standing fiscal and structural bottlenecks are addressed, the growth rate in 2013 and beyond could be one of the lowest in Sub-Saharan Africa.

In spite of its middle-income status, Swaziland is characterised by high levels of inequality, poverty (63% of population in 2010), food insecurity (29% of population in 2010) and unemployment (29% of the labour force in 2010). The uneven income distribution stems from low job creation and the absence of adequate social protection. These challenges, together with the highest rate of HIV in the world, need to be addressed to achieve meaningful and sustained improvements in people's lives.

Reforms on the demand side of the labour market must include changes in the curricula for tertiary education and the establishment of new training programs. The fiscal crisis underscored the need for social policies to safeguard the living standards of the most vulnerable.

Figure 1: Real GDP growth (Southern)

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic Indicators

	2010	2011	2012	2013
Real GDP growth	2	1.1	0.6	1
Real GDP per capita growth	0.5	-0.3	-0.8	-0.3
CPI inflation	4.5	7.8	6.5	5.5
Budget balance % GDP	-14.3	-9.6	1.3	-5.6
Current account % GDP	-16.1	-11.4	-3.3	-5.3

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 2: GDP by Sector (percentage of GDP)

	2006	2011
Agriculture, forestry, fishing & hunting	7.8	7.9
Agriculture, livestock, forestry and fisheries	-	-
of which agriculture	-	-
Mining and quarrying	0.4	0.3
of which oil	-	-
Manufacturing	41.4	42.3
Electricity, gas and water	0.9	0.9
Electricity, water and sewerage	-	-
Construction	4	2.7
Wholesale and retail trade, hotels and restaurants	11.4	10.5
of which hotels and restaurants	-	-
Transport, storage and communication	6.6	6
Transport and storage, information and communication	-	-
Finance, real estate and business services	7.3	5
Financial intermediation, real estate services, business and other service activities	-	-
General government services	18.4	22.8
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Other community, social & personal service activities	-	-
Other services	1.7	1.7
Gross domestic product at basic prices / factor cost	100	100
Wholesale and retail trade, hotels and restaurants	-	-

Figures for 2010 are estimates; for 2011 and later are projections.

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In 2011, Swaziland posted one of the lowest growth rates in Sub-Saharan Africa (SSA). While manufacturing and government services drove growth during 2000-08, manufacturing declined and services predominated in 2009/10. The textile sub-sector was hit by the global financial crisis in 2009, with several enterprises closing and at least 3000 people became redundant in this period, according to the SACU (2011) report. It remained weak in 2011.

On the expenditure side, past growth was driven mostly by household consumption, especially during 2009/10 when exports fell due to weak demand of trading partners (e. g., South Africa). Key factors behind the sluggish growth were: (i) weak business environment that discouraged private investment; (ii) fiscal policy that did not prioritize public investment; (iii) an overvalued exchange rate that hampered exports; and (iv) the highest HIV and AIDS rate in the world that weakened productivity.

Despite the decline in manufacturing, the Swazi economy is relatively well diversified with manufacturing and services taking up larger shares of output than in most of SSA. However, the private sector is underdeveloped; foreign direct investment is low and SMEs depend either on government contracts or operate in low value-added activities such as subsistence agriculture and wholesale and retail. Progress in structural transformation has been slow. During the last ten years, the share of manufacturing in production increased only marginally (from 38.5 to 42.3% of GDP), while that of services remained unchanged at 50% of GDP. The slow transition to higher value-added industrial and service activities is a key challenge for the Swazi economy, which needs to raise the knowledge content of its production to achieve high, equitable, and sustained growth.

In 2011, a fiscal crisis led to the accumulation of sizeable arrears to private suppliers and other sectors (an estimated 4% of GDP). With these arrears and constrained credit to SMEs, the private sector could not drive the economy and compensate for the public sector difficulties. On the production side, the worsening fiscal position was a drag on sectors linked to the government such as construction, trade, tourism and public administration. For example, the government scaled down major infrastructure projects such as the Sikhuphe airport and LUSIP II (the second phase of the Lower Usuthu Smallholder Irrigation Project, a poverty alleviation initiative), while job losses in the private sector and uncertainties surrounding civil service wages restrained retail trade.

Government cash flow problems and rising fuel prices impacted transport negatively while quarried stone production declined due to the poor performance of the construction sector. Agriculture, and especially the sugar sector, was driving the economy in 2011. Sugar cane production increased due to expanded area for cultivation boosted by the LUSIP. Maize production also benefited from the strengthened irrigation capacity. Nevertheless, real GDP grew only by 1.1% and output per capita slightly declined that year.

In 2012, the external environment remains uncertain due to the instability of the financial markets, high commodity prices, and the continued sovereign debt crisis in Europe. While Swaziland will not be impacted directly, South Africa – its largest trading partner and source of FDI – is expected to grow only by 2.5%, dampening the role of the external demand in Swaziland's recovery. Even though the part of Swazi's exports based on contracts and/or going into preferential markets (e. g., sugar exports into EU, textile into the US under AGOA) will not be directly affected, other exports will. More domestic growth will be necessary to make up the difference.

On the production side, agriculture, especially the sugar sector, mining and, to some extent, services will drive growth in 2012. Increased sugar output reflects both land expansion and higher yields due to irrigation capacity generated by the LUSIP project. The performance of the forestry sub-sector, by contrast, is still likely to be weak due to scaling down of production in a number of enterprises. Mining is expected to increase on the account of new companies (Gold, Diamond, Coal & Iron Ore) starting full production in 2012 and 2013. While manufacturing will be held back by slow growth in South Africa, services should revive, at least for the year 2012, thanks to the improved fiscal position of the government.

On the demand side, Swaziland's growth prospects for 2012 have improved with the projected increase of SACU revenues by almost 150%. There will be no need for severe austerity measures like abruptly cutting wages but the windfall SACU revenues need to be used effectively to address structural challenges and improve the business environment. The revenue can help remove the long-standing obstacles to growth such as low investment and to stimulate the private sector by repaying arrears to SMEs. That said, with upcoming elections in 2013, the government will be under pressure to stay on the current path of gradual reforms and weak fiscal management. Ad-hoc election-related spending is likely to rise. If these pressures materialise, 2013 could bring similar financial challenges as 2011.

In order to put the economy on a path of rapid and inclusive growth, the Cabinet approved the Economic Recovery Strategy (ERS) in 2011, which aims to raise annual economic growth to 5% and create 30 000 jobs by 2014. The ERS has identified the following key sources of growth: FDI, domestic investment, trade, tourism, infrastructure, ICT, fiscal sector, agriculture, financial sector, and human capital. Proposed reforms include creating an enabling regulatory environment, greater competition, increased productivity, and innovation. As with other, similar initiatives its effectiveness will depend on the political will to implement it. Swaziland's track record in that respect is mixed.

Macroeconomic Policy

Fiscal Policy

In 2011, fiscal policy was restrained by severe liquidity shortages, after the SACU revenue boom between 2004/05 and 2009/10. Swaziland has one of the highest public wage bills in Africa (about 17.7% of GDP in 2010/11). As SACU revenue declined by almost 60% between 2008/09 and 2010/11, the budget deficit reached 14% of GDP. In 2011/12, the government's access to domestic borrowing dried up due to a loss of investor confidence. External funding from development partners was put on hold when the IMF program went off-track (Swaziland's Staff-Monitored Program [SMP] expired in June 2011 with most of its quantitative targets missed).

The government had agreed with the IMF on a SMP for the first half of 2011. It included short-term measures such as a wage freeze as well as medium-term measures such as strengthening public financial management and rightsizing the civil service.

The SMP envisaged an intense fiscal adjustment: about 5 percentage points of GDP reduction in deficit in one year, relying mostly on expenditure cuts, especially of wages. Given the institutional resistance to reform, the required wage cuts did not materialise. The IMF program went quickly off-track and the AfDB budget support was put on hold. A discussion on an external loan from South Africa (SZL 2.4 billion) also came to a standstill when Swaziland could not accept its political and economic conditions, aimed at establishing a multi-party system and promoting democracy.

The lack of cash necessitated ad hoc expenditure cuts, including in capital and social outlays. Domestic borrowing was curtailed by banks' reduced confidence in government policies. The fiscal deficit for 2011/12 (on a commitment basis) is estimated to amount to SZL 2.9 billion (9.4% of GDP), with financing drawing in part on international reserves.

Swaziland's liquidity situation will ease in 2012/13, with SACU revenues projected to rise by almost 150%. If increases in expenditures are limited to those announced in the 2012 budget speech, the budget will be in a slight surplus. However, the SACU revenues in 2013/14 are expected to decline markedly again, a reminder of their volatility and the need to spend prudently. Over the medium term, SACU revenues are projected to stabilise at about 15% of GDP, a level notably below its peak of 23% in 2012/13. Expenditures thus need to be managed within a medium-term framework that is yet to be developed and implemented.

Table 3: Public Finances (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Total revenue and grants	27	32.3	39.4	37.6	34.1	25	24.5	37.3	29.3
Tax revenue	24.5	30.4	37.7	36.1	32.1	23.8	23.4	36.4	28.8
Oil revenue	-	-	-	-	-	-	-	-	-
Grants	1.3	1	0.8	0.6	0.4	0.2	0.5	0.5	0.5
Total expenditure and net lending (a)	34	35.7	30.6	39.6	40.1	39.3	34.1	36	34.9
Current expenditure	26.9	27.4	23.8	30.2	31	32.1	28.1	29	28.8
Excluding interest	25.5	26.3	23	29.2	30.1	31.6	27	28.3	27.6
Wages and salaries	9.4	14.1	12.7	15.7	16.8	16	14.2	15	15
Interest	1.3	1.1	0.8	1	0.9	0.5	1.1	0.7	1.2
Primary balance	-5.7	-2.3	9.6	-1	-5.1	-13.8	-8.5	2	-4.4
Overall balance	-7	-3.4	8.8	-2	-6	-14.3	-9.6	1.3	-5.6

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Swaziland has given up its independent monetary and exchange rate policy by joining the CMA with South Africa, Lesotho and Namibia. The country's de facto monetary stance follows closely that of the South African Reserve Bank (SARB). Monetary policy has not had much of an impact on inflation, which is to some extent supply-driven by shocks to food and fuel prices. Structural bottlenecks impede transmission of lower rates of commercial banks to actual lending.

In Swaziland food price inflation exceeded the headline inflation only in December 2011 (8.6% vs. 7.7%, respectively). However, it accelerated further in February 2012 to 14.5%, bringing the overall inflation rate to high single digits. With inflation close to mid-single digits for most of 2011, however, the focus of Swazi policymakers remained on reviving growth. Subsequently, at its November 2011 Monetary Policy Committee Meeting, the CBS kept its discount rate at 5.5%. At the same time, effective July 2011, the Central Bank increased the reserve requirement to 6%. The CBS raised its liquidity requirement from 13% to 20% for commercial banks, to safeguard the integrity of the banking system.

With inflation still in single digits (albeit rising in January and February 2012) and stagnating real output, stimulating the recovery is likely to be a key objective of monetary policy in 2012. The accommodative stance is thus projected to continue for most of the year. Its impact on private sector credit growth is likely to be muted though until structural bottlenecks to lending are removed and the confidence of the banking sector in the country's macroeconomic stance is restored. With supply–side rather than policy-driven inflation, factors such as possible rising food prices, food shortages and rand depreciation are likely to generate inflationary pressures. These should be partly offset by the overall subdued economy. Risks to inflation remain on the upside.

Official external reserves fell to levels below the recommended 3 months of imports (2.2-2.5 months) in mid-2011. If this trend were to continue, sustainability of the lilangeni-rand peg could be jeopardised. Commercial banks experienced some pressures on their external reserves as emalangeni deposits (reported at about 3% of GDP) were transferred into rand deposits or to South Africa. On a positive side, Swaziland's membership in the CMA and the fact that major banks have parent banks in South Africa provide some assurances against an abrupt de-pegging.

Economic Cooperation, Regional Integration & Trade

Swaziland is a member of the CMA, Southern African Customs Unions (SACU), Southern Africa Development Community (SADC), and Common Market for Southern and Eastern Africa (COMESA) – a 'noodle bowl' of overlapping and sometimes contradictory rules, which can be costly to business. The actual intra-regional trade between the SADC members has been low even in comparison with other African regional trade agreements (RTAs), such as East African Community (EAC).

The low volume of trade among SADC countries is due to several factors, including the lack of complementarity of production, especially in agriculture, and the rigid business environment that hampers the flow of goods and services at and behind border (Swaziland benefits from the EU, AGOA and other regional preferential trade arrangements within the region). In Swaziland, inefficient customs administrations such as burdensome documentation requirements, time-consuming customs procedures, and corruption act as non-tariff barriers by requiring alternative logistics, excessive inventories, and informal payments.

For a small open economy such as Swaziland, the importance of trade and FDI linkages to stimulate growth and development cannot be overstated. However, the limited external competitiveness of Swaziland is adding to concerns about the country's capacity to reach high and sustained growth. The real exchange rate is estimated (by the IMF) to be overvalued by about 20-30%, reflecting the fiscal imbalances, high wages, and weak business environment.

In the past years, foreign direct investment (FDI) has been on the decline. FDI inflows amounted to 2.2-2.5% of GDP in 2009/10. Key deterrents to investment in Swaziland are heavy regulations, including the absence of well-functioning "one-stop shop" for investors, monopolised telecommunication infrastructure, limited access to land, and last but not least, the lack of a Swaziland brand.

Table 4: Current Account (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Trade balance	11.2	-8.3	-3.3	-0.3	-4.1	-4.1	-1.9	-7.6	-9.3
Exports of goods (f.o.b.)	91.1	52.9	57.1	55.3	56.5	48.8	49.4	49.5	48.9
Imports of goods (f.o.b.)	79.9	61.2	60.4	55.6	60.6	52.9	51.2	57.1	58.2
Services	-8	-3.1	-8.6	-15.8	-13.6	-10.9	-10.2	-9.6	-9.3
Factor income	-2.3	0.5	1.3	-0.2	-2.6	-6.1	-2	-0.3	-0.1
Current transfers	8.4	4.5	6	8.4	6.4	4.9	2.6	14.2	13.5
Current account balance	9.2	-6.4	-4.6	-7.9	-13.8	-16.1	-11.4	-3.3	-5.3

Figures for 2010 are estimates; for 2011 and later are projections.

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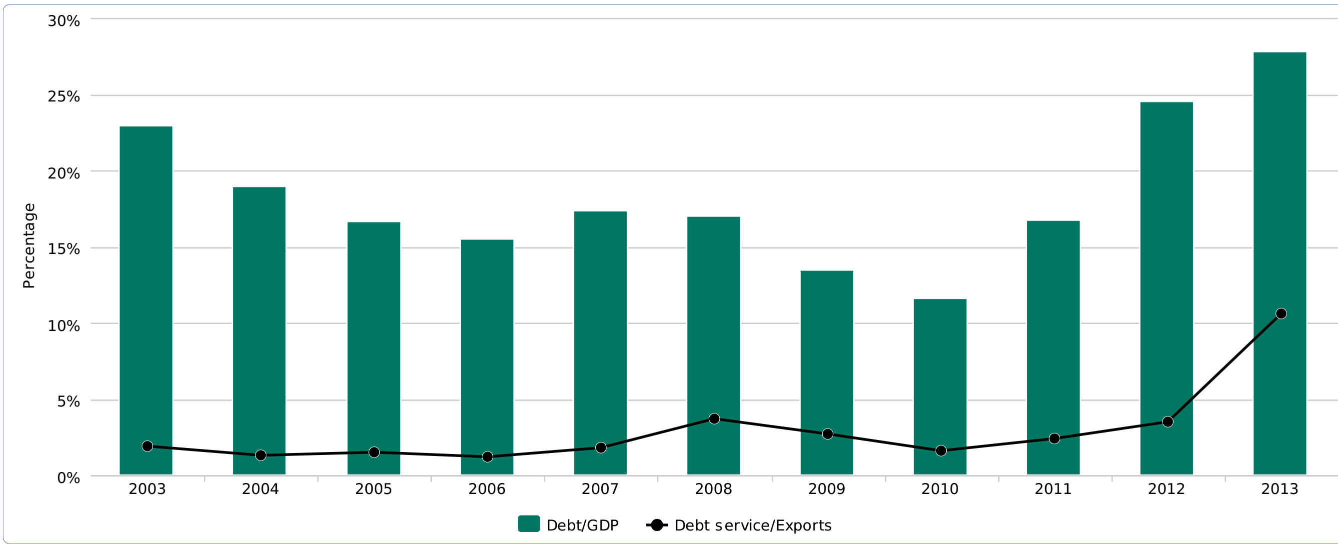
Debt Policy

While public debt was low in 2011 (about 20% of GDP, including arrears of about 4%), the ratio rose by one third between 2009 and 2011. Meanwhile, two events have curtailed access to external borrowing: the IMF's SMP going off-track and the government's refusal to accept the loan proposed by South Africa because of the conditions attached to it. Domestic borrowing dried up in the second half of 2011 – commercial banks did not participate in auctions of government bonds or Treasury Bill auctions, except on behalf of a client. Government demand for loans has raised interest rates and crowded out the private sector. These developments amount to a significant fiscal risk. If the government had to pay back all the outstanding Treasury Bills in the space of three months, further abrupt cuts in expenditures would be needed.

According to the debt sustainability analysis carried out by the IMF during the 2011 Article IV consultation, the ratio of public debt to GDP could exceed 80% by 2016, creating a substantial risk of debt distress. However, given that borrowing of the government dried up in 2011, this scenario is unlikely – not because of the government's prudent debt policies, but because of its curtailed credit. By contrast, emphasizing the need for prudent debt policy, the analysis of the Swazi authorities indicates that if appropriate reforms were undertaken – public financial management (PFM), improving the business environment, eliminating arrears – the debt-to-GDP ratio would fall below 40%. Once achieved, fiscal sustainability will need to be safeguarded through the prudent use of borrowed funds for high-return investment and the promotion of sustainable growth.

One of the lessons of 2011 is that the development of the domestic debt market is a priority for debt policy, to allow smoother deficit financing without crowding out the private sector.

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



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Economic & Political Governance

Private Sector

The private sector in Swaziland remains underdeveloped – FDI inflows are limited, the number of SMEs is low and many of the existing ones depend on contracts from the government. The private sector thus was not able to mitigate shocks that hit the public sector during the fiscal crisis. Constraining regulations, the lack of access to credit, skill shortages and mismatch, and weak ICT infrastructure hamper both FDI and the emergence of more productive and high-tech domestic entrepreneurship

Swaziland's competitiveness ranking on the Global Competitiveness Report (GCR) has declined – from 126 out of 139 countries in 2010/11 to 134 out of 142 countries in 2011/12. The reduced competitiveness over the past decade has constrained productivity growth. Low investment rates continue to be an Achilles heel of the Swazi economy. They amounted to only about 11% of GDP in 2010 vs. 20% for the average of SSA.

The GCR recommended that policymakers stimulate deeper regional integration by developing areas of product complementarity and higher value-added production; and that they promote a knowledge-based economy over the medium term. Progress can be achieved by: (i) overcoming Swaziland's low technological readiness and building capacity for technology transfer through FDI; (ii) addressing the problem of limited innovation, which stems in part from the absence of an effective government-industry-university triangle.

Developing the ICT sector would raise productivity through efficient communication and facilitate new skills and technological change across the entire economy. Less than 8% of the population in 2011 had access to the Internet. On the positive side, subscription to mobile phones has increased markedly – to about 60% of the population.

The government has supported the development of the ICT sector and drafted two Acts: First, the Swaziland Communications Commission Bill aims at setting up a Communications Commission to issue operating licenses and remove a monopoly in the telecommunications sector, which has been the main obstacle to bringing down cost of the Internet services. Second, the Electronic Communication Bill stimulates competition by reducing the regulatory powers of the Swaziland Postal and Telecommunication Company.

Financial Sector

With private sector credit stock amounting to 23% of GDP in 2010, the depth of Swaziland's financial markets is limited, not only relative to middle income countries but even relative to low-income countries worldwide. Despite accommodative monetary policy, private sector credit growth has remained subdued in 2011, averaging about 13% from September 2010 to August 2011. The low depth of the financial sector reflects financial exclusion – i.e., most of the Swazi population is without access to formal credit, as the 2011 FinScope survey confirmed. The weak transmission of signals from the Central Bank's policy rate and from lending rates to actual loans extended by commercial banks reflects structural impediments such as the lack of collateral, the inability of borrowers to write bankable proposals, and/or lack of credit history. Reforms of the business environment, including land ownership, and utilising ICT to work around these constraints (e.g., biometric technology to raise repayment loans, psychometric testing to learn about a borrower's willingness to repay) may help connect policies and lending outcomes.

While the banking sector remains sound in 2011, with a low – albeit gradually increasing – level of non-performing loans, some commercial banks have experienced capital flight customers transferred funds from their branches to parent banks abroad. Confidence in the Swazi banking sector was weakened by the fiscal crisis both directly – through banks' exposure to the government securities – and indirectly, through their exposure to the private sector contractors who in turn have not received payments from the government. The liquidity pressures faced by the banks have been compounded by the Central Bank's increase in the reserve requirement and liquidity ratio in mid-2011.

The Swaziland Financial Services Regulatory Authority (FSRA) was established through an enabling legislation in 2011. FSRA is yet to commence its operations with the responsibility of regulating the non-bank financial institutions outside the supervision of the Central Bank. FSRA has the challenge of moving fast in establishing its operations in 2012 and 2013 considering that the non-bank financial institutions, including cooperatives, are managing large deposits. Their failure could disrupt the financial system.

Public Sector Management, Institutions & Reform

Weak governance, especially in public financial management, was a key factor behind the 2011 fiscal crisis. Besides curbing corruption, a fundamental challenge is establishing and implementing a medium term expenditure framework (MTEF). Without a MTEF, annual budgets are based more on uncertain revenues than on strategic expenditure priorities; this encourages pro-cyclical fiscal policy and reduces the fiscal space to mitigate adverse shocks.

To address some of these weaknesses, a new PFM Bill is being drafted and should be approved in 2012. The bill will introduce a medium-term perspective into budget formulation, integrate finance and planning processes at key ministries, and develop expenditure controls. Support of PFM reform is also a key priority of international development partners.

The GCR 2011 highlighted corruption as the main impediment for firms' in Swaziland (it was cited by 20% of the firms). According to the Corruption Perception Survey carried out by the Swaziland Anti-Corruption Commission (ACC) in 2010, 94% of respondents (representing 4 000 households) viewed corruption as a major problem in the country.

In fact, there is no up-to-date national strategy on combating corruption. The latest version is still the strategy prepared by the UN in 2007 that supported start of the operations of the ACC in 2008. The Commission has been facing numerous challenges in its operations, including underfunding and lengthy procedures in the prosecution offices where the corruption cases are submitted.

The fiscal crisis of 2011 underscored the importance of strengthening domestic revenue mobilisation. Preparations for the introduction of a 14% value added tax (VAT) – it will replace the sales tax in 2012 – are well advanced. The introduction of VAT and its implementation will increase transparency and simplify the tax system. However, revenues in 2012/13 will not significantly increase from 2011. The increase will be more pronounced in 2013/14.

Natural Resource Management & Environment

Swaziland's has been endowed with a favourable subtropical climate and a rich natural resource base, which is nevertheless being depleted. Reversing land degradation in particular, which stems from unsustainable land use, weak management, and the lack of information systems, is a key challenge for the environment as well as for raising agricultural productivity. Large-scale irrigated agriculture, particularly sugar cane production, has led to the destruction of the natural vegetation on large tracts of land. Another important environmental issue is water security, which is hampered by fragmented management, outdated legislation, and pollution – both from local industries and trans-boundary sources. Forests in Swaziland are also endangered due to unsustainable forest product extraction. Specifically, they are being depleted through practices such as overstocking and reliance on trees for fuel (with majority of the rural population regularly relying on fuel wood) as well as alien plant invasion.

According to the Swaziland Environmental Authority, climate change has manifested itself mostly through changes in weather patterns, with more extreme conditions and erratic rainfalls. Swaziland authorities have so far not developed a national strategy and policy for climate change mitigation and adaptation, but plan to do so in 2012, drawing on the key messages of COP17 and Rio+20 meetings.

Political Context

The Kingdom of Swaziland is the only absolute monarchy in Africa, with the King holding supreme executive, legislative and judicial powers. Abroad, Swaziland is perceived as authoritarian regime as evidenced by the latest (2011) EIU ranking of political regimes. Internally, the population has been asking for full implementation of the constitution, while conditions attached to the stalled South African loan (for SZL 2.4 billion) include improved political and economic governance, in particular greater transparency and accountability.

In 2011, the adverse economic developments have led to social unrest in major cities, organised by labour unions, teachers, and other groups demanding political reforms and seizing the opportunity created by uncertainties surrounding the fiscal crisis. The discontented groups are not just demanding improved public finance management and transparency, they are also seeking greater democracy. The appetite for political change is much lower in rural areas, which so far have not experienced unrest. The next parliamentary elections are scheduled for 2013.

Social Context & Human Development

Building Human Resources

The 2011 fiscal crisis was a setback for human resource building in two main respects: it reduced access to essential health care and education; and it weakened the labour market leading to layoffs and wage cuts. The government has fallen behind on the delivery of social services in key sectors, in particular education. The end-of-June 2011 targets on social expenditures of the IMF SMP were met only partially (at about 70% delivery rate). Some social sectors were not financed at all for the first three months of 2011/12 fiscal year; others received only partial funding as of August 2011. Social expenditure shortfalls include the government grant to NERCHA – at end-August 2011 only SZL 8 million out of a budgeted SZL 20 million was received. Other suspended and/or delayed payments were the Elderly Grant, Child Welfare Grant, orphans and vulnerable children (OVC) Education Grant and Public Assistance Grant. Government support to primary school fees and meal programs as well as university scholarships was disrupted. Collapsing service delivery systems amplify the impact of cuts in finance. With government social spending compromised, progress towards achieving the Millennium Development Goals could slow down or even reverse course.

In particular, gains made in net primary enrolments could be lost as the government's ability to fully fund education grants to OVCs has been eroded. Since 2009, the government has offered free primary education for grades 1 to 3, but unless sustainable medium term financing is found, the crisis has shown the program could be abolished or frequently interrupted.

Taking a longer term view, Swaziland has made uneven progress towards the achievement of MDGs. Good strides were made on MDG 2 (universal primary education); goal 3 (gender equality), goal 7 (environmental sustainability) and goal 8 (global partnership). The slow progress on MDG 1 (eradicating extreme poverty and hunger) is of great concern as sluggish growth has constrained job creation and domestic resource mobilisation. Health outcomes continue are also worrisome, with under-five mortality rates (MDG 4) unchanged since 2000, after a rise in 1990s. Maternal mortality rates (MDG 5) have escalated to 589 per 100 000 live births in 2007 from 229 per 100 000 in 2002. Malaria rates have been slashed but Swaziland continues to have the highest prevalence of HIV/AIDS in the world (MDG 6) – affecting 26% of people aged 15-49.

Poverty Reduction, Social Protection & Labour

With one of the lowest growth rates in Africa in the past decade, high unemployment and the lack of adequate social protection, Swaziland's progress towards achieving Millennium Development Goal number 1 – poverty reduction – has been slow. Poverty decreased from 69% in 2001 to 63% in 2010 but remains widespread with most of the population living on less than USD 1.25 a day (purchasing power parity, PPP, equivalent). Food poverty affects 29% of population, which is especially high for a middle-income country. Poverty falls disproportionally on the rural population: in 2010, 89% of poor lived in rural areas, with the average income poverty gap amounting to 51% (vs. 33% in urban areas).

Swaziland entered 2011 – the year of a severe fiscal crisis – in a weak social situation. In 2011 it ranked as 140 out of 187 countries on the Human Development Index. In addition to unemployment and poverty, Swaziland must deal with the highest HIV/AIDS rate in the world (26.1% of population aged 15-49 in 2010). Swaziland is thus at the centre of the global HIV/AIDS pandemic and addressing it is vital not only for improving the social and economic situation, but for preserving the very existence of the nation. Health expenditures need to be protected during the fiscal consolidation envisaged in 2012. Targeted and timely delivery of adequate aid, including from the Global Fund, would help in this regard.

While fiscal revenues are projected to improve the overall macroeconomic outlook in 2012, food price inflation – 8.6% between December 2010 and December 2011 – continues to erode the purchasing power of households, especially among the poorest groups. Food security is projected to deteriorate in 2012 due to reduced food supply, caused by erratic rainfall, outdated farming methods, and diminishing agricultural services provided by the government in the wake of the fiscal crisis. Given the possible lasting negative impacts of inadequate nutrition, this widespread food insecurity demands permanent and robust solutions; food emergencies, so far, tend to be addressed on ad hoc basis.

At about 30% of the labour force, the unemployment rate is high even for Southern Africa – a region characterised by widespread inequality, poverty and unemployment. Swaziland's uneven income distribution stems from low job creation and the lack of adequate social protection schemes, especially against livelihood risks. For example, the unemployment insurance scheme is not in place and the coverage of the existing health insurance (Palea) is very limited. Several schemes against life-cycle risks are in place, such as grants to OVCs and to the elderly. More broadly, the increasing occurrence of various livelihood shocks (food and fuel prices, the financial crisis) and weak fiscal revenues forecasted for 2013 underscore the need to raise country's resilience, including through creation of decent job opportunities and developing adequate social protection mechanisms.

Gender Equality

Overall, satisfactory progress has been made on reaching gender equality (MDG 3) though gaps remain in the share of girls studying in technical fields, the share of women in decision-making, and the access of women to productive assets, especially land. In 2011, Swaziland ranked as 110 out of 187 countries on the Gender Equality Index, which reflects inequality between women and men in reproductive health, empowerment, and the labour market.

On a positive side, the cabinet ratified the African Charter on Human Rights and People's Rights of Women in Africa of 2003 as well as the SADC Protocol on Gender and Development of 2008, with a view to enhancing women rights through greater involvement in decision-making bodies and equal access to justice. The Citizen Economic Empowerment Bill drafted in 2011 aims to promote gender equality in accessing, owning and utilising economic resources.

Thematic analysis: Promoting Youth Employment

Swaziland – like most of Southern Africa – is characterised by an unacceptably high level of unemployment. In 2010, the unemployment rate remained at almost 30% of the labour force, and youth unemployment at more than 52% – far above the 13% rate for people aged 45–64 years (Swaziland Labour Force Survey, 2010). Unemployment is notably higher in rural areas (51.2%) than in urban areas (23.6%) and among women. The current fiscal/liquidity crisis has further jeopardised growth and job creation. Employment prospects are especially bleak for young people entering the labour force for the first time with negative implications for the country's human capital and prospects for equitable economic growth.

Swaziland labour markets are characterised by insufficient job creation to absorb young job seekers, with particularly stringent barriers to competition and job creation in high-tech/ICT sectors. The youth labour market is characterised by skill shortages and mismatches. While the unemployment rate for people with tertiary education is relatively low, "educated" youth unemployment has been emerging, with young job seekers having skills that differ from those demanded by employers (e.g., business, technical skills, ICT skills). Establishing labour exchange offices could improve the flow of information and help reduce mismatches between employers and job seekers. Prospective employers should be encouraged to reach out more frequently to universities and conduct "job fairs."

The government has undertaken some steps to tackle youth unemployment. In 2009, Swaziland developed the "National Youth Policy" with a view to "create and ensure an enabling environment for developing youth to their full potential…by providing training and economic empowerment…." It established the Youth Enterprise Fund at the end of 2009, aiming at reducing youth unemployment through the provision of business capital for young people (ages 18–35), or associations and companies headed by the youth. In the first phase during 2010, the fund distributed SZL 5.8 million (580 000 Euros) to about 800 young entrepreneurs. In 2011, the Fund distributed about SZL 2 million (200 000 Euros) to 200 entrepreneurs. While this initiative is commendable, it would need to be significantly scaled up to reduce youth unemployment.

A vibrant private sector that would provide high paying and productive jobs (as is already the case in the banking sector, for example) is the key to a lasting reduction in youth unemployment. Currently, with the public sector offering the best paid and most secure jobs, many recent graduates "get in line" for jobs in the public sector. Experience in the public sector is also viewed as entry into better paid private industries, such as banking.

Looking ahead, developing the ICT industry could help put Swaziland on a path of higher productivity and move the country towards a knowledge-based economy with more decent jobs for its population, including youth. To achieve this goal, the university curriculum should be revised to include more ICT-oriented courses, and teachers adequately trained to deliver them. Regarding ICT-related job opportunities for youth, an E-government strategy has been formed with the assistance of the Commonwealth, which may create some job opportunities for youth given the better than average technological skills of this group. Youth can also play an important role in delivering innovative e-services (or m-services) in initiatives such as e-wallet or e-health.

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