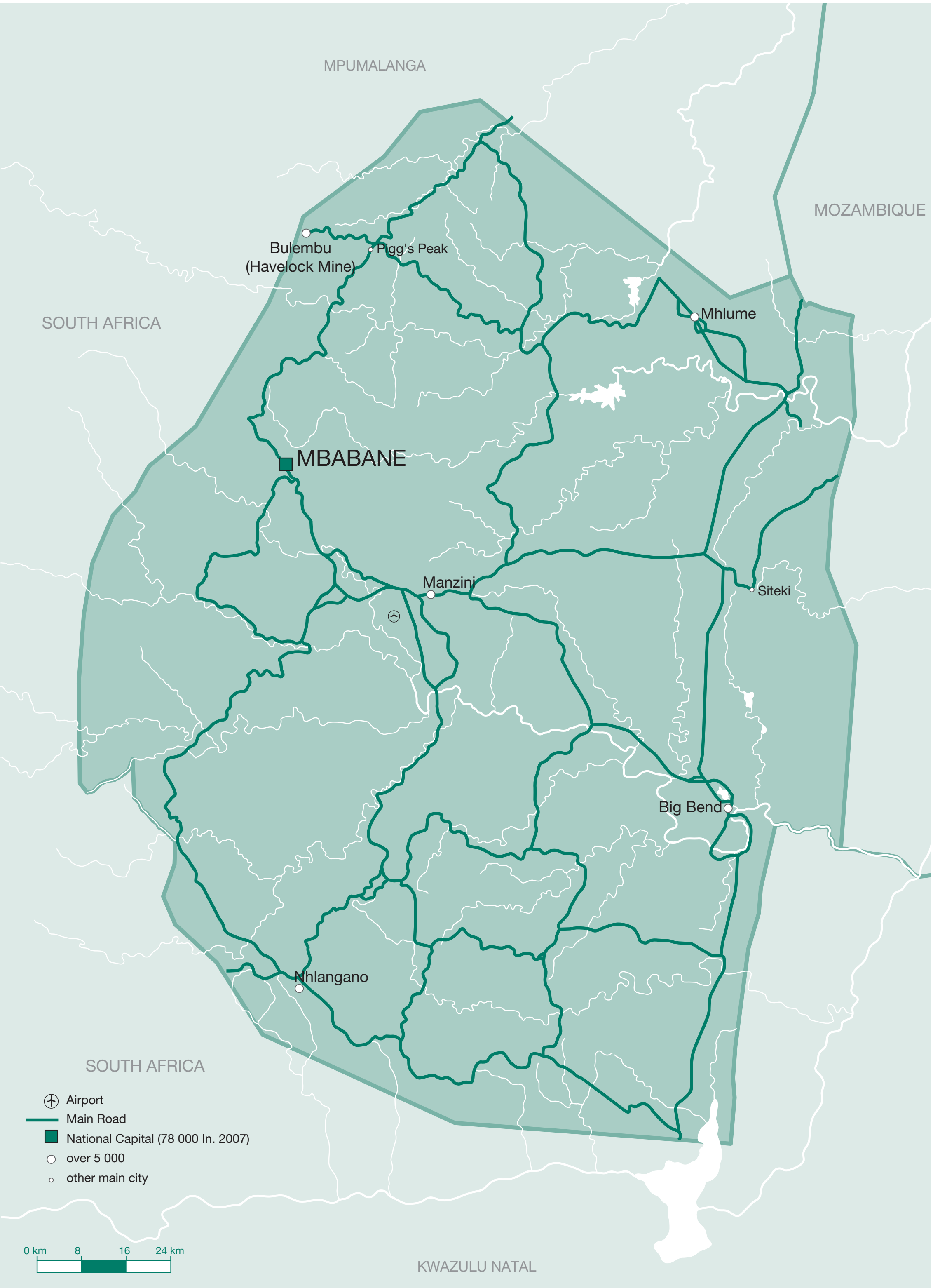
Swaziland

key figures

• Land area, thousands of km²:	17
• Population, thousands (2008):	1 168
• GDP per capita, PPP valuation, USD (2008):	4 914
• Life expectancy (2008):	45.8
• Illiteracy rate (2008):	n.a.

Swaziland



MPUMALANGA
MOZAMBIQUE
SOUTH AFRICA
Bulembu
(Havelock Mine)
Pigg's Peak
Mhlume
MBABANE
Manzini
Siteki
Big Bend
Nhlangano
SOUTH AFRICA
KWAZULU NATAL
Airport
Main Road
National Capital (78 000 In. 2007)
over 5 000
other main city
0 km
8
16
24 km

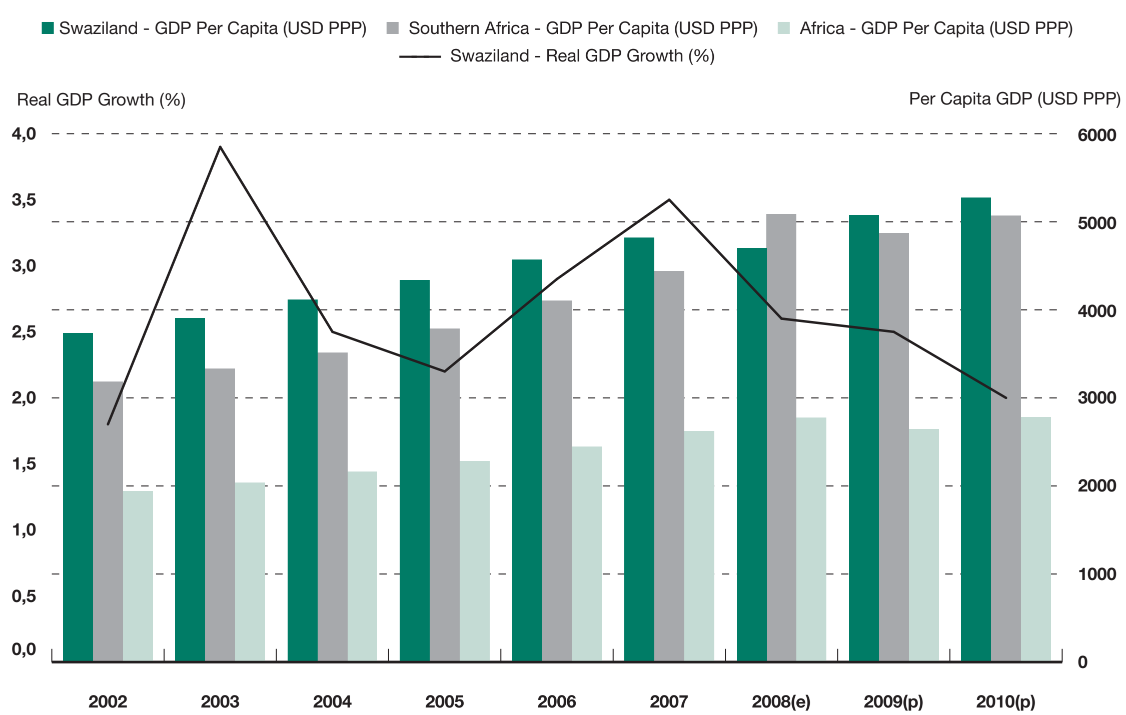
SWAZILAND'S REAL ECONOMIC GROWTH declined to an estimated 2.6 per cent in 2008, down from 3.5 per cent in 2007 (Figure 1). The slowdown was a result of weak private investment, poor implementation of the public investment programme, and lower demand for exports. The global slowdown is expected to hit Swaziland's exports and access to capital, and so reduce growth further to 2.5 per cent in 2009 and 2 per cent in 2010.

Swaziland escaped the direct effects of the global crisis due to its strict exchange controls and weak integration into world capital markets. However, as a member of the Common Monetary Area (CMA), Swaziland fixes its currency, the lilangeni (SZL), at parity to the South African rand. This led to a real depreciation of the lilangeni in 2008 when the rand fell as investors shifted away from emerging markets. In 2009/10, the exchange rate is expected to appreciate against major currencies.

In a context of declining corruption, the country is looking to the private sector to sustain growth.

The government recognises that boosting and sustaining growth requires a strong private sector. It aims to make private sector development an integral part of its economic growth agenda and is committed to increasing support for private business. Prospects for growth and diversification through greater participation of the private sector exist in the services sector, especially financial and banking

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



Source: National Statistics and IMF data; estimates (e) and projections (p) based on authors' calculations.

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services, telecommunications and tourism. However the government will need to continue its efforts at fiscal policy and structural reforms; securing greater market access in regional and multilateral trade programmes, improving labour productivity by focusing on skills development and curbing the spread of HIV and AIDS; and enhancing the regulatory framework.

Swaziland continues to face enormous social challenges. In particular the prevalence rate of HIV/AIDS is very high and if the pandemic is not addressed, growth will decline due to a human capacity problem. Moreover, the incidence of poverty stands at 69 per cent and income distribution is highly skewed with 54.6 per cent of income going to the richest 20 percent of the population and 4.3 per cent going to the poorest 20 per cent. The government's Poverty Reduction Strategy and Action Programme (PRSAP), which was approved in May 2007, seeks to reduce the poverty to 30 per cent in 2015 in line with the Millennium Development Goals. Other targets of the PRSAP include creating jobs, improving service delivery, fighting HIV/AIDS and improving access to education.

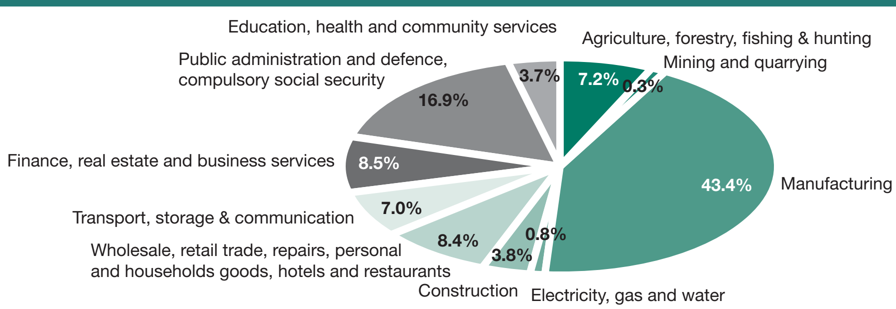
Recent Economic Developments

Swaziland is in the midst of an economic slowdown. Growth slowed from 3.5 per cent in 2007 to 2.6 per cent in 2008, well below the 5 per cent rate required to reduce poverty by half by 2015. While the direct effects of the global financial crisis were muted by the country's limited exposure to international credit markets, the slowdown poses a continued threat. The impact is likely to be felt through reductions in investment and exports that are expected to further reduce growth over the medium term to 2.5 per cent in 2009 and 2 per cent in 2010.

Though agriculture and fishing accounted for only 7.2 per cent of GDP in 2007, the sector is important in terms of employment and poverty reduction (Figure 2). Between 2007 and 2008, livestock production expanded due the removal of an export ban on beef by the European Union (EU) and increases in poultry, pig, goat and sheep production. Agricultural output is projected to grow by 7 per cent in both 2008 and 2009 due to timely rainfall, expansions of large-scale and small-scale agriculture and better market access conditions for beef. In the medium term, the country's agricultural output is expected to grow by about 2.7 per cent annually. The Comprehensive Agricultural Sector Policy (CASP) and National Programme for Food Security aim to improve agricultural production through investing in irrigation systems, expanding the area for sugar cane cultivation and maintaining high maize prices.

Manufacturing accounted for 43.4 per cent of GDP in 2007, with the sugar sector once again the main driver. However, agricultural reforms in the EU will result in a 36 per cent reduction in prices that, in turn, is likely to adversely affect Swaziland's sugar sector. Despite plans to increase the number of hectares under sugar production, the Sugar Association's Annual Report for

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Author's estimates based on National Statistics.

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2008 projects a fall in sugar output of at least 9 per cent in the medium term. Other key manufactured products are soft drink concentrates, clothing and textiles, and pulp and wood. Soft drink concentrates is a growing sector that may overtake the sugar sector. The clothing and textiles industry survived the expiration of the Multi Fibre Agreement in 2005. At the time there were fears that cheap textiles would flood the Swazi market, choking the local industry. But some Chinese producers are taking advantage of low labour costs in Swaziland, benefiting the local industry. Swaziland's recent currency depreciation will help to boost exports, but the manufacturing sector is hampered by low competitiveness, deterioration in the market environment for the country's exports, obstacles to developing a skilled workforce, and high costs of domestic borrowing. All of these have held back investment in production facilities. Production in the manufacturing sector in 2009 will be sustained by the recent depreciation of the rand and increased efficiency and capacity. It is expected to grow by over 3 per cent in the medium term.

Construction activity in 2008-10 will be boosted by the building of a new dam, as well as road and energy projects. This will raise capital formation which is essential for sustaining growth.

Swaziland's services sector has grown in recent years and accounted for 44 per cent of GDP in 2007. Wholesale and retail trade, hotels and restaurants have faltered in the past two years, possibly due to higher inflation. The transportation, storage and communication sector has improved, however, mainly due to the recovery in the transport sector. That recovery reflects an expansion of the automotive industry to include new players like TATA, Kia and Carson Motors, the government's purchase of over 230 cars from these companies, rising wages and salaries, and the introduction of low-cost Chinese cars. Other areas such as real estate, renting and business activities, and health and education sub-sectors, remained strong in 2008. Swaziland's natural beauty and rich culture and heritage offer the opportunity to diversify through tourism. The kingdom should also take advantage of the 2010 Soccer World Cup, to be hosted by South Africa, by positioning itself as a tourist destination for soccer fans before or after the tournament.

Consumption accounted for 86.2 per cent of GDP in 2008, down from 88.4 per cent in 2007, and it is expected to decrease slightly in 2009/10 (Table 1). Capital formation will remain sluggish beyond 2008 mainly due to the limited availability of credit as well as a low spending capacity. Exports were major drivers

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**18.5**	**13.0**	**11.0**	**0.9**	**7.3**	**1.6**	**0.1**	**1.1**
Public	5.7	6.8	2.8	2.8	4.3	0.2	0.2	0.3
Private	12.8	6.1	20.1	-1.0	10.3	1.4	-0.1	0.8
Consumption	**95.5**	**88.4**	**-1.8**	**0.3**	**2.6**	**-1.6**	**0.3**	**2.2**
Public	18.7	14.9	-6.1	8.5	0.7	-1.1	1.4	0.1
Private	76.8	73.5	-0.7	-1.6	3.1	-0.5	-1.1	2.0
External demand	**-14.0**	**-1.4**				**2.6**	**2.0**	**-1.3**
Exports	76.1	79.9	2.6	-0.8	2.7	2.2	-0.7	2.2
Imports	-90.1	-81.2	-0.4	-3.2	4.3	0.4	2.7	-3.5
Real GDP growth						**2.6**	**2.5**	**2.0**

Source: Central Statistical Office data; estimates (e) and projections (p) based on authors' calculations.

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of economic growth in 2008 but downward pressure is expected in 2009/10 due to the global slowdown.

Macroeconomic Policies

Fiscal Policy

Fiscal policy in Swaziland is geared towards supporting higher growth rates, boosting employment, and providing the poor and marginalised communities with the capabilities and infrastructure to participate in the formal economy. In order to achieve that, the government is determined to carefully manage any short-term macroeconomic risks arising from instability in international financial markets or commodity prices, and control current expenditures so as to gain fiscal space to increase investment.

The budget surplus is expected to fall to 6.5 per cent of GDP in 2008 from 10.5 per cent in 2007, then rise to 9.8 per cent of GDP in 2009 and 9 per cent in 2010. Higher expected revenues are a major factor behind the medium-term rise in the budget surplus. Southern African Customs Union (SACU) payments dominate government revenue, accounting for about 66 per cent of total revenue and grants. Anticipated declines in SACU revenues will put a serious strain on the budget and the government is exploring other potential sources of revenue to offset the decline. Some of the proposed measures outlined in the budget that will boost income tax in 2009/10 include widening the personal income tax bands, increasing the threshold for personal income tax to SZL 36 000 and reforming pension funds.

The Revenue Authority Bill was finally passed in Parliament in November 2007 after a lengthy consultative process. The 2008/09 budget allocated SZL 200 million to establish the Revenue Authority. In addition, the introduction of the ASYCUDA system at border posts is expected to increase sales tax collection when the system is fully functional in the new financial year. The government will also amend the Sales Tax Act and the Customs and Excise Act in order to close loopholes in revenue collection.

Total expenditure including grants is expected to rise to 33.9 per cent of GDP in 2008 from 32.5 per cent in the previous year, with spending on education, agriculture, health, water and sanitation increasing the most. Capital expenditures increased to 8.4 per cent of GDP in 2008 from 7.7 per cent in 2007 and are expected to remain around 8.4 per cent in 2009/10. Expenditures will hover between 33.9 per cent and 30 per cent during the forecast period 2008-10. The

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08(e)	2008/09(p)	2009/10(p)
Total revenue and grants[a]	**27.5**	**32.1**	**33.2**	**43.0**	**40.5**	**42.9**	**39.9**
Tax revenue	24.6	30.7	31.3	41.2	36.7	39.5	36.6
Oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.1	0.8	1.0	0.9	0.3	0.5	0.5
Total expenditure and net lending[a]	**28.9**	**36.9**	**34.8**	**32.5**	**33.9**	**33.0**	**30.9**
Current expenditure	22.8	28.5	26.7	25.1	25.3	24.4	22.3
Excluding interest	*22.0*	*27.4*	*25.5*	*24.2*	*24.3*	*23.5*	*21.6*
Wages and salaries	11.2	13.0	14.8	13.9	13.3	11.7	10.5
Interest	0.8	1.1	1.2	0.9	1.0	0.9	0.7
Capital expenditure	6.1	8.4	8.5	7.7	8.4	8.7	8.6
Primary balance	**-0.6**	**-3.6**	**-0.4**	**11.4**	**7.6**	**10.7**	**9.8**
Overall balance	**-1.4**	**-4.7**	**-1.6**	**10.5**	**6.5**	**9.8**	**9.0**

a. Only major items are reported.
Source: IMF and local sources data; estimates (e) and projections (e) based on authors' calculations.

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low expenditure levels are mainly due to the public sector's limited capacity to spend. In terms of consumption expenditure, the civil service wage bill has been steadily rising because of salary reviews, cost of living adjustments and an increase in the establishment of commissions and advisory committees. The government has responded by implementing its Enhanced Voluntary Retirement Scheme (VERS) but so far the scheme has not proved sufficiently tempting.

Fraud and corruption have been identified as factors behind unsatisfactory service delivery and public sector waste, especially in tendering and procurement. The Government Procurement Bill of 2008 seeks to reform those procedures. A new National Tender Board will be chaired by the Principal Secretary in the Ministry of Finance and have the Accountant General as one of its members. The 2008/09 budget provides SZL 6 million for these reforms and will be complemented by the development of a framework for Public Private Partnerships (PPPs) to boost private sector participation in public service delivery.

Monetary Policy

Swaziland is a member of the CMA so its monetary development reflects the policies of the Reserve Bank of South Africa. The Reserve Bank's policy is to maintain inflation within the target of 3 to 6 per cent. However, inflationary pressures in the period 2006-08 called for higher interest rates. In 2007, Swaziland's discount rate was raised by a cumulative 400 percentage points through increases in June, August, October and December. During the first quarter of 2008, the discount rate was further increased by 50 basis points. The average mortgage rate was also increased to 14 per cent. Currently the discount and prime rates stand at 11.5 per cent and 15 per cent, respectively.

Inflation rose to 12.6 per cent in 2008. Increases in food and fuel prices were major factors behind the headline inflation. The annual rate of change in the price of food (which has a weight 37.7 per cent in the consumer basket) was 19.8 per cent in January 2008 while transport prices rose by 17.4 per cent owing to higher domestic fuel prices as well as an increase in the price of cars. Inflation is expected to ease to around 8 per cent in 2009 and 6 per cent in 2010.

The SZL is pegged one-to-one to the rand under the CMA. As the rand depreciated in 2008, Swaziland's currency weakened to an annual average of SZL 8.2581 to the US dollar (USD). The currency is expected to strengthen to SZL 9.9 per USD in 2009 and SZL 10 per USD in 2010 in the aftermath of the retreat from emerging markets and the collapse in world oil prices.

Total bank advances and loans to the private sector rose by 21.7 per cent year-on-year in December 2007. Credit extension to this sector was valued at SZL 5.7 billion in November 2008. The largest share of credit was allocated to private sector non-financial businesses which received 57 per cent of total credit, equivalent to SZL 2.9 billion. Households and non-profit institutions serving households received 42 per cent, equivalent to SZL 2.2 billion.

Narrow money (M1) increased by 22.8 per cent in 2007 to reach SZL 1.7 billion in December before growing modestly in 2008 to SZL 1.9 billion in November. M2 rose by 21.5 per cent to SZL 5.3 billion for the year ended December 2007 and continued to expand to SZL 6.4 billion by November 2008. The strong growth in the money supply reflects increases in both credit extended to the private sector and net foreign assets.

Net foreign assets advanced by 76 per cent in 2007 and reached SZL 5.7 billion at the end of the year before rising to SZL 8.9 billion in November 2008. The growth was accounted for by the inflow of SACU receipts as well as the depreciation of the local currency which, in turn, enhanced the overall balance of payments.

The central bank has maintained the bank liquidity requirement (as a share of deposits and other liabilities) at 13 per cent since August 2003. Total liquid assets increased by 15.6 per cent in 2007 to record SZL 856.8 million in December and then expanded further to SZL 909.5 million in November 2008. As a result, the domestic economy had excess liquidity with ratios ranging between 17 per cent in December 2007 and 15 per cent in November 2008. Treasury bills issued by the government and the central bank in support of the Retirement Funds Act of 2005 have injected substantial liquidity into the economy. The Act mandates that pension funds invest 30 per cent of their assets in the domestic economy with the first compliance date for 10 per cent set for November 2007 and the other 20 per cent set for November 2008 to reach 30 per cent in 2009. The effect has been to raise the demand for domestic assets and the government and central bank have responded by issuing more Treasury bills.

Going forward, the challenge for monetary authorities will be to sustain growth and investment while bringing down inflation. They will continue to take a hawkish stance on inflation. However the recent decline in oil prices will provide room to lower interest rates to boost economic growth.

External Position

Swaziland's overall balance of payments recorded a surplus of SZL 2.5 billion in 2007. This was generated by the continued expansion of the surplus in the financial account from a surge in SACU revenue. As a result, the country's net official reserves increased by 104 per cent.

The current account balance improved in 2008 to a surplus of 7.8 per cent of GDP from a deficit of -3.6 per cent of GDP in 2007 (Table 3). The improvement in the current account resulted mainly from a surge in net current transfers supplemented by the growth in export earnings. In the medium term the current account surplus is expected to increase as a result of higher beef exports to the EC, new market access conditions for sugar concentrates and a boost from current transfers. However, low demand for exports in key markets and a possible decline in SACU revenue may dampen the rise.

In 2008/09, current transfers are expected to reach 14.1 per cent of GDP and 15.6 per cent of GDP, respectively, before falling to about 14.3 per cent of GDP in 2010. The main reason for this decline is an expected fall in SACU revenue as the trade liberalisation agenda progresses. There is a possibility that the SACU formula will be revised, which may further reduce the revenue pool. Revenue from the common customs area was augmented by the strong demand for imports of motor vehicles and machinery for the 2010 World Cup in South Africa as well as the associated demand for construction inputs.

The net position in investment income also improved due to the significant gains from higher interest rates in 2007. Interest income, which accounts for 64.4 per cent of investment income, increased by 29.5 per cent to SZL 1.3 billion at the end of the year. In 2008, net income is expected to decline to 1.4 per cent of GDP and a further decline is expected in 2009/10 of the order of 0.9 per cent of GDP and -0.1 per cent of GDP, respectively, mainly because of lower remittances as more mines in South Africa close due to the financial crisis.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-6.1	-7.5	-9.1	-10.7	-12.6	-6.5	-5.5
Exports of goods (f.o.b.)	64.8	62.8	58.5	56.2	64.0	61.4	60.5
Imports of goods (f.o.b.)	70.9	70.3	67.6	66.9	76.6	67.9	66.0
Services	0.0	-5.4	-3.4	-1.8	4.9	5.4	-0.8
Factor income	0.0	7.1	0.5	2.2	1.4	0.9	-0.1
Current transfers	0.0	3.9	4.9	6.7	14.1	15.6	14.3
Current account balance	**-6.1**	**-2.0**	**-7.0**	**-3.6**	**7.8**	**15.4**	**7.9**

Source: Central Bank of Swaziland; estimates (e) and projections (p) based on authors' calculations.

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The services account recorded a net outflow of SZL 367.7 million (1.8 per cent of GDP) in 2007. Outflows are expected to decline in 2008/09, leading to an improvement of the net services account of the order of 4.9 per cent of GDP and 5.4 per cent, respectively.

The trade deficit stood at 10.7 per cent in 2007 and is expected to deteriorate further in 2008, but will start to improve in 2009. In 2008, the high import bill in the first part of the year was the result of high oil and food prices and this pressure will ease in 2009. Major exports include meat products, sugar and sugar-based products, textiles and clothing, soft drink concentrates, wood pulp and timber products, and citrus and canned fruit. Improvements in market access opportunities in the beef sector contributed to higher exports in 2008. In addition, in the second half of 2008, Swaziland benefited from the depreciation of the local currency, which boosted export earnings from markets outside the CMA. However, the global slowdown will reduce demand for exports in key developed markets beyond 2008.

Swaziland is a member of the World Trade Organization (WTO) and has increased its participation in WTO negotiations since establishing a permanent mission in Geneva in 2005. The regional customs union SACU is the major market for its exports and also the main supplier of its imported goods and services. Within SACU, South Africa remains Swaziland's largest single trading partner, accounting for approximately 90 per cent of imports and 66 per cent of exports (excluding re-exports). The customs union concluded negotiations on three trade agreements in 2008. The SACU-EFTA (Iceland, Lichtenstein, Norway and Switzerland) Free Trade Agreement (FTA) came into effect in May 2008. Negotiations between SACU and MERCOSUR (Argentina, Paraguay, Brazil and Uruguay) for a Preferential Trade Agreement (PTA) were also concluded in 2008 and the agreement is scheduled to be signed during 2009. In addition, the Trade, Investment and Development Cooperation Agreement (TIDCA) between SACU and the United States was signed in July 2008. Negotiations for a PTA between SACU and India are ongoing and a Memorandum of Understanding (MOU) was signed in November 2008. SACU is also preparing to start negotiating a PTA with the East African Community (EAC) in 2009.

Strengthening SACU's integration depends on a collective approach towards external trade with third parties, requiring a coherent and common trade strategy. Member states have agreed on the need to support national export strategies through closer cooperation, including between sectors. SACU continues to work towards harmonising policies on industrial development, agriculture, competition and unfair trade practices. The challenge for the smaller members like Swaziland is to ensure that any SACU industrial development policy promotes industrial integration in the region and leads to increased benefits for them.

Swaziland is a member of the Common Market for Eastern and Southern Africa (COMESA) and enjoys duty free market access without reciprocating to her COMESA counterparts. COMESA was launched as a customs union in 2008. Since Swaziland is the only member of both COMESA and SACU, it gets a derogation to export to the COMESA region, an arrangement that the Council of Ministers recently extended for another two years beginning in January 2009. The major products exported to this region are sugar, soft-drink concentrates, textile accessories such as zippers, and refrigerators. The economy's exports were the third and fourth largest in 2006/07, respectively, relative to the total value of exports in COMESA.

Swaziland is also a member of the Southern African Development Community (SADC), which was launched as an FTA in August 2008 and is scheduled to become a customs union in 2010. It aims to eliminate tariffs via phased reductions by member states on an asymmetric basis. The plan was for SACU members to implement 99.5 per cent of their offers to the rest of SADC, while the latter implement 60 to 80 per cent of their offers by the end of 2008. Currently, Swaziland's trade with the non-SACU countries in SADC is less than 4 per cent of her exports and virtually none of her imports. A first tripartite summit held in

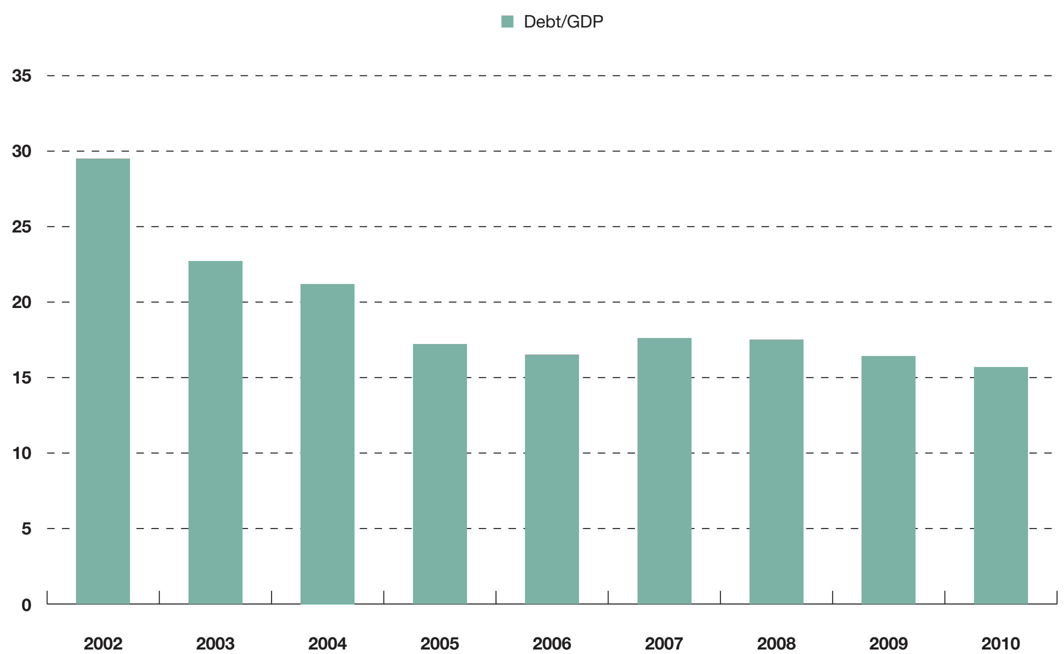
October 2008 put forth the idea of creating a pan-regional FTA and eventually a customs union encompassing COMESA, SADC and the EAC, an idea endorsed by Swaziland.

The EU remains one of the most important preferential markets for Swaziland's products including sugar, citrus, pineapple, beef, textiles and clothing. Approximately 36 per cent of sugar is exported to the EC at agreed quantities and supported prices. Swaziland and other SADC states initialled the Interim Economic Partnership Agreement (IEPA) that extended the duty-free and quota-free market access for goods originating from the African, Caribbean and Pacific (ACP) group of countries to the EU in November 2007. Negotiations in 2008 focused on extensions to the initialled text involving liberalisation of services and investment and also to conclude the market access conditions. Swaziland is likely to schedule commitments on the liberalisation of the tourism sector at the beginning of 2009. The deadline for signing the initialled IEPA was extended from July 2008 to the first half of 2009 and the government is expected to sign and then ratify the EPA for notification to the WTO.

The US is the second largest market for Swaziland's exports, mostly textiles and clothing. Its preferential access to the US market under the Generalised System of Preferences (GSP) was enhanced by the African Growth and Opportunity Act (AGOA) of 2000. The AGOA renewed the GSP until 2015 and expanded duty-free access for textiles and apparel products. But to reap the full benefits of the deal, Swaziland will have to attract new investment and increase production capacity. The US also offers Swaziland a tariff rate quota and variable amount of extra access for sugar. Exporters in the country also enjoy preferential access to the markets of other developed countries under the GSP. Determined to improve its trade competitiveness, Swaziland has set up a Trade Facilitation Committee to remove domestic bottlenecks to trade.

One of the major concerns in Swaziland is the drastic slowdown in net foreign direct investment (FDI)

Figure 3 - **Stock of Total External Debt** (percentage of GDP)



Source: IMF.

StatLink http://dx.doi.org/10.1787/574117148582

from SZL 823.7 million in 2006 to SZL 101 million in 2007. The inflows recorded in 2007 were mainly channelled to the investment, finance and service sectors. FDI is expected to decline through 2010, as liquidity constraints in the global economy persist.

Swaziland's balance-of-payments transactions and a cautious fiscal policy boosted the country's foreign reserves. Gross official reserves increased by 98.3 per cent year-on-year in December 2007 to reach SZL 5.2 billion before rising further to SZL 7.3 billion at the end of November 2008. The reserves of the Central Bank of Swaziland increased from a share of 75 per cent of gross official reserves in December 2007 to 100 per cent in November 2008. Consequently, the level of import cover improved from 3.6 months in December 2007 to 5.1 months in November 2008.

Structural Issues

Private Sector Development

The World Bank's 2009 Doing Business report ranks Swaziland 108 out of 181 in the overall ease of doing business, citing a weak regulatory framework as a major bottleneck. The country's rating in Transparency International's Corruption Perception Index improved from 84 in 2007 to 72 in 2008, signalling a better climate for investment. Concerned about its declining success in attracting FDI, the Swaziland Investment Promotion Authority (SIPA) identified specific administrative, procedural and regulatory impediments to investment. A subsequent draft discussion paper was drawn up to guide the development of an investment policy to complement the National Export Strategy. The paper emphasises the need for laws governing investment, government guarantees to investors, support services for the private sector, and wealth creation incentives for entrepreneurs. In addition, a new competition commission, created by the 2007 Competition Act, aims to monitor, regulate and prevent behaviour that is likely to adversely affect competition. It is expected that a competition policy will be drafted in the near future. The government is also working on draft legislation to implement the privatisation policy it adopted in 2006.

In recognition of the importance of small- and medium-sized enterprises (SMEs) in job creation, the government has instituted policies to increase both the number of new SME enterprises and the growth of existing businesses. As part of this policy, the Ministry of Enterprise and Employment is preparing to conduct an SME census. It plans to publish the results in July 2009 and use them to create an SME database. Also, the Draft Government Procurement Bill of 2008 includes measures to make it easier for Swazi companies to take part in public procurement. This should provide the potential for SME growth through the provision of goods and services to the government and increase the meaningful participation of local businesses in government- or donor-funded capital projects. In the 2008/09 fiscal year, the government will review its SME Policy, with an eye to incorporating micro enterprise development issues. The main activities expected to drive the initiative include the restructuring of the loan guarantee schemes to be more accessible to entrepreneurs.

The financial services and banking sector grew significantly in 2007/08. The number of non-bank financial institutions (NBFIs) rose in the two-year period after the liquidity surge prompted by the implementation of the Retirement Funds Act of 2005. While one of the targets for the legislation was to generate sufficient liquidity for capital formation through the Swaziland Stock Exchange, the exchange remains largely inactive with small market capitalisation. The liberalisation of the insurance industry through the Insurance Act of 2005 was another factor in the growth in non-bank financial institutions. The legislation has led to impressive growth in foreign direct investment in the sector especially from South Africa. Two new institutions, the Registrar of Insurance and Retirement Funds and the Insurance and Retirement Funds Board, were established in 2008 to regulate the industry.

Other Recent Developments

The government continues to support private sector development by investing in new infrastructure, providing tax incentives and fighting crime. One area where Swaziland should be commended for its efforts is infrastructure development. New road projects in progress include the Ngwenya-Mbabane-Manzini corridor and the Manzini by-pass. The African Development Bank has been a key player in these road projects. Improvements in other forms of infrastructure are also taking place, particularly in telecommunications. Projects envisaged in this area include increasing broadband services, supporting data and Internet solutions, and moving the Swaziland Television Authority from analogue to digital broadcasting.

The government is concerned about the potential impacts of the EU's CAP reforms on revenues and employment in Swaziland's sugar sector. For this reason, it is exploring options to diversify the manufacturing sector and expand its regional export markets. It is also evaluating agribusiness and tourism as possible avenues for diversification.

Innovation and ICT

Swaziland demonstrated its commitment to Information and Communications Technology (ICT) in the ICT policy document that was unveiled in 2006. It aims to provide universal access to the Swazi nation and enable ICT to contribute to employment creation, trade, tourism, health, education and culture. The new ICT policy emphasises the importance of low-cost access to information infrastructure, which is the prerequisite for ICT access by the poor. It also underscores the important role that ICT can play in changing the structure of an industry and altering the rules of competition, creating new competitive instruments and creating new businesses from existing activities. The Ministry of Telecommunication is responsible for the implementation of the ICT policy.

The Swaziland Posts and Telecommunications Corporation (SPTC) is a parastatal that operates as a monopoly in the provision of fixed telephone communication. Swaziland does not yet have an independent regulator; instead, SPTC effectively regulates the telecommunications sector. The existing fixed-line equipment serves the needs of approximately 43 800 users, giving a tele-density of about 4 per cent. Mobile phone service is provided by a single operator, MTN Swaziland, which is jointly owned by SPTC (51 per cent), MTN South Africa (30 per cent) and Swaziland Empowerment Limited (19 per cent). MTN Swaziland has a total of 120 base stations throughout the country covering about 92 per cent of the population, with almost full coverage in urban areas. In 2007, MTN had 288 200 mobile subscribers. The number of fixed line and mobile subscribers is expected to increase given that the country is starting from a low base.

Tableau 4 - **Indicateurs d'accès de base**

	2001	2002	2003	2004	2005	2006	2007
Telephone network							
Total telephone subscribers	33 900	35 340	39 520	41 700	42 150	42 800	43 800
Number of main telephone lines in operation ('000)	33.9	35.3	39.5	41.7	42.2	42.8	43.8
Waiting list for main lines	16 167	14 835	11 360	8 220	7 960	125	125
Number of public pay phones	1 000	1 000	1 400	1 600	1 600	1 600	1 600
Mobile services							
Number of cellular mobile telephone subscribers ('000)	39.5	62.2	86.2	111.7	212.6	260.6	288.2
Cellular prepaid subscribers	37 051	59 265	83 604	108 395	208 952	256 983	283 045
Population covered by mobile cellular telephony (%)	50%	60%	76%	79%	83%	89%	89%

Source: Swaziland Government Authorities

StatLink http://dx.doi.org/10.1787/580473131716

In terms of fixed infrastructure equipment, Swaziland has an all-digital fixed-line network that consists of copper, Asymmetric Digital Subscriber Line (ADSL), optic fibre and microwave radios as well as a few privately-owned WiFi hot spots, mainly in hotels. Optic fibre is used as the backbone as well as at access points and by big corporations. The network can support Integrated Services Digital Network (ISDN) of up to 128 kilobytes per second. Swaziland has one international gateway that connects to the United States, the United Kingdom, Austria and Zimbabwe via satellite and connects to South Africa and Mozambique via microwave radio and optic fibre.

ICT infrastructure is mainly towers and transmission equipment like microwave radios and is shared between SPTC and MTN Swaziland. The optic fibre is the responsibility of SPTC, which leases lines to MTN. The quality of the infrastructure, in general, is good and as it is the latest equipment from the suppliers, the Mean Time Between Failures (MTBF) is very high. The cost of equipment is high although in the case of mobile services flexible procurement policies and procedures have been negotiated to reduce the cost. Though Swaziland's small population limits the proliferation of telecom towers and other telecom infrastructure equipment, the Swaziland Environmental Authority ensures that the equipment does not cause any environmental or health damage. In addition, the mobile operator, Swaziland MTN, has to get approval and authorization before building new base stations.

MTN Swaziland has two mobile switching centres located in Mbabane and Matsapha. These centres have the latest switching equipment in layered architecture supplied by Ericsson. MTN also provides General Packet Radio Service (GPRS) equipment as well as Intelligent Network for prepaid services. Microwave radios are used for the last mile of connectivity from the base station to the nearest backhaul transmission which is supplied by SPTC. MTN provides roaming services for voice and data. It has plans to provide broadband services and the infrastructure is already available but there are still several regulatory hurdles to overcome. One challenge for MTN Swaziland is keeping up with the products and services it offers to customers in the face of frequent changes in technology, as well as keeping the cost to customers down. Another challenge for the mobile operator is to improve its access networks in order to reduce the fault rate, especially in the rainy (summer) season.

About seven Internet Service Providers (ISPs) provide dial-up Internet access to approximately 20 000 users. No licenses are required for Internet providers but they must obtain a trading permit. Mobile phones are also used to access the Internet using GPRS and Enhanced Data Rate for Global Evolution (EDGE) technologies. There is also a number of GPRS/EDGE data modems fitted with a Subscriber Identity Module (SIM) cards that are widely used on laptops to access the Internet.

Currently only 20 per cent of businesses are involved in e-commerce and trade and the government is the largest consumer of data, voice and other ICT services. However farmers use mobile phone voice and data technology to conduct business. In addition, Swaziland's ICT infrastructure supports banks on GPRS and SMS, although the systems and technologies employed have limited the provision of financial products. For example, the ATM switching facilities that allow phone customers to use ATMs as well as credit cards are not yet available in Swaziland. The government has set a number of targets for ICT-enabled financial services. These include specific goals for financial institutions to develop websites and offer services through the Internet by 2009 and to reduce the average cost of electronic transactions by 25 per cent by 2010. They also include ICT-based goals to reduce the "unbankable" population by at least 30 per cent by 2010, operationalise a local inter-bank ATM switch by 2012, and promote local SMEs by ensuring that they acquire a minimum 30 per cent stake in all ICT procurement ventures by local financial institutions by 2008.

Swaziland participates in various regional ICT initiatives. The SADC Protocol established the Southern African Transport and Communication Commission (SATCC) and emphasises the need for a strong regulatory environment, infrastructure development, community participation and governance in ICT, along with ICT business development and ICT human resource capacity development. Swaziland adopted the COMESA ICT Policy in March 2003, which focuses on policies and legislation to liberalise mobile phone operations, privatise state-owned operators and introduce competition in member countries. The kingdom is also part of the New Partnership for Africa's Development (NEPAD) initiatives that aim to develop both ICT infrastructure and an appropriate regulatory framework to boost regional integration and trade in Africa.

The government is committed to an ICT policy that will deploy universal, equitable and reliable infrastructure at low cost, increase broadband and other innovative services, adapt ICT equipment to meet the needs of disabled persons, promote responsible information that is transmitted through the Internet, promote a competitive environment, and attract private sector investment to ICT. One of the key elements of its telecommunication policy is to establish an independent regulator for the industry that can assist in accessing technology, controlling prices and levelling the playing field between the fixed and mobile operators. However, given the dominance of SPTC in fixed lines and MTN in the mobile sector, keeping prices down may prove to be a challenge. The ICT sector needs to increase competition, which could entail private participation in the fixed-line sub-sector and an increase in the number of mobile operators.

Political Context

Swaziland is a monarchy ruled by His Majesty, King Mswati III who took power in 1986. The country has a unique combination of western (Roman-Dutch) and traditional legal systems. The Parliamentary system consists of two houses: the upper house (Senate) comprises 30 senators, 20 appointed by the King and 10 elected by the lower house (House of Assembly); the House of Assembly has 55 Members elected democratically under the *tinkhundla* system and ten royal appointees. The Parliament's task is to pass and amend legislation. A prime minister is appointed by the king from the members of Parliament. Under the traditional system, the Swazi National Council (Libandla), which is headed by the king and the queen mother and comprises a cross-section of society, advises the king. In 2006, Swaziland unveiled its constitution which seeks to support good governance, rule of law, and gender equality. Although there have been a lot of controversies surrounding governance issues in Swaziland, the government is committed to addressing some of these in order to improve the image of the country and investor confidence. In 2008 the country held elections under the new constitution, and new MPs gave parliament a fresher look. Prime Minister S. B. Dlamini was reappointed.

Social Context and Human Resources Development

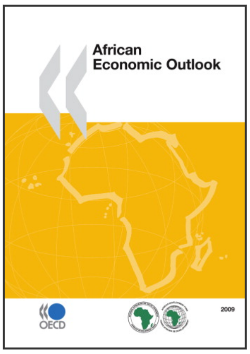
While Swaziland is classified as lower middle income, the poverty incidence of 69 per cent is exceedingly high and poses a challenge to future structural reforms. The Government aims to reduce poverty and eventually eradicate it by channelling resources to programmes stipulated in the PRSAP. There is a recognised, urgent need to prioritise and fund the programmes stipulated in the PRSAP and define clear targets that will allow for the systematic and effective implementation of the poverty reduction strategy. One of the challenges is to create a reasonable balance between investment in productive sectors which should complement the investment promotion and economic diversification programmes, on the one hand, and investment in human development, on the other. The economy is struggling to create sufficient jobs to curb the growth in unemployment. The Integrated Labour Force Survey of 2007 estimates that the rate of unemployment is 28.2 per cent at the national level and 53.3 per cent among youths aged 15-24. The rate of unemployment is approximately 21.9 per cent per cent in urban areas and 32.7 per cent in rural areas. Women have a 31.2 per cent unemployment rate compared to 25.7 per cent for men. Growth in Swaziland has fallen short of the 5 per cent target that's needed to half poverty by 2015. It has also been too slow to significantly reduce unemployment. It will clearly need to accelerate if the country is to make progress in increasing employment and reducing poverty.

HIV/AIDS poses a threat to sustainable development in the economy. Life expectancy declined from 60 years in 1997 to 37 years in 2005 and 45.8 years in 2008. If this situation is not urgently addressed, the number of people dying from AIDS will reach 30 000 annually by 2015 and life expectancy will drop to 33 years. According to the United Nations Human Development Report 2008 (HDR 2008), HIV prevalence among Swazi adults aged 15-49 is 26 per cent for men and 31 per cent for women. This puts an overwhelming burden on the health sector's capacity to effectively deliver services and care. Already, 40 per cent of financial resources in Government departments are under-spent due to capacity constraints partly arising from the HIV/AIDS situation. The government should be commended for its efforts in the war on HIV/AIDS. Some notable areas of intervention include mainstreaming HIV/AIDS into the planning and budgeting processes and increasing programmes on awareness, anti-retroviral therapy, voluntary counselling and testing, home-based care and sex education in schools. These initiatives are financed, in part, by grants from the Global Fund and a total of USD 16.6 million was disbursed in 2008.

The government is committed to the timely purchase and delivery of drugs as well as an improvement in the health care delivery system in general. Accordingly, it is committed to increasing spending in the health sector to a minimum of 15 per cent of total spending. In 2008, the proposed budget allocation for the health sector rose to 10.6 per cent of total expenditure.

According to the HDR 2008 school enrolment rates were 21 per cent in primary school and 26 in secondary school but the student-teacher ratio was 35:1. The government is making efforts to improve education in Swaziland at all levels. It is committed to supporting education through infrastructure, bursaries at the primary and secondary levels and scholarships at the tertiary level. The government is getting assistance from the World Bank and the European Union to develop a ten-year strategic plan for the education sector. This plan will review and provide guidance on the education system, infrastructure development, budgeting and programme implementation, research and plans for the achievement of national and international education policy targets.

The recent spells of drought have raised serious concerns about food security. Malnutrition levels rose by 24 per cent between 2006 and 2007 and about 665 000 people received food aid in 2007. The number of people receiving food aid is expected to decrease in 2008 due to favourable rains. According to the Food and Agriculture Organization, it is estimated that approximately 210 000 people in Swaziland will be food insecure during the 2008/09 harvest period. Of these, 60,000 people are transitory food insecure, primarily due to rising food prices, and they will need food assistance equivalent to 4 300 tonnes of cereals and 900 tonnes of other commodities. The government's new agricultural policy aims to address these food security concerns through improvements to irrigation infrastructure, the identification of drought resistant plants, and the diversification of agriculture beyond the staple food, maize.



From:
African Economic Outlook 2009

Access the complete publication at:
https://doi.org/10.1787/aeo-2009-en

Please cite this chapter as:

OECD/African Development Bank/United Nations Economic Commission for Africa (2009), “Swaziland”, in *African Economic Outlook 2009*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2009-49-en