



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN ESWATINI

Strengthening the Private Sector
to Grow Export Markets and Create Jobs

September 2022



WORLD BANK GROUP

THE WORLD BANK
IBRD · IDA

IFC

International
Finance Corporation

About IFC

IFC—a member of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record \$31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org.

© International Finance Corporation 2022. All rights reserved.
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
www.ifc.org

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC does not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The findings, interpretations, views, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the Executive Directors of the International Finance Corporation or of the International Bank for Reconstruction and Development (the World Bank) or the governments they represent.

ACKNOWLEDGMENTS

The Eswatini Country Private Sector Diagnostic was prepared by a team led by Zenaida Hernandez Uriz and Zivanemoyo Chinzara under the supervision of Douglas Pearce and Sebastien Dessus. The team included Gracelin Christina Baskaran, Marko Kwaramba, Andre Louw, Lindsay Jolly, Peter Nuamah, Dalton Nxumalo, Ronald Rateiwa, Rajeev Gopal, Wycliff Tlhalefang Moeletsi, and Rod de Vletter. The team is grateful for the contributions and comments provided by Ejiro Agbeyi, Tom Adcock, Edouard Al-Dahdah, Ubong Awah, Soumya Banerjee, Caroline Chepkorir Koech, Awa Diagne, Delphine Divan, Ivan Abdul Dula Remane, Ana Cristina Hirata Barros, Ruben Barreto, Edward Beukes, Chijioke Egejuru, Aki Enkenberg, Peter Goodman, Kirstin Iman Conti, Joseph Kapika, Thulani Matsebula, Sarah Moyer, Philippa McLaren, Abduel Mnzava, Elizabeth Ninan, Ganesh Rasagam, Marc Schrijver, Barry Patrick Maher, Alice Zanza, Dryden Mwangi Kirembu, Peter Boere, Hope Tariro Pachena, Hyea Won Lee, Simbi Wavinya Anzaya, Anne Njambi Kabugi, Priyanka Tayal and Carol Marina Tojeiro. The team gratefully acknowledges the guidance of Marie Françoise Marie-Nelly, Kevin Njiraini and Mona Haddad, as well as Nonhlanhla Zindela, Adamou Labara and Wolfgang Fengler in the preparation of this report.

The team is grateful to peer reviewers Liane Asta Lohde, Marcio Cruz, Michael Ehst, John Gabriel Goddard, Zeinab Partow, and Zano Mataruka. Superb administrative support to the team was provided by Nomagugu Khumalo and Jemima Harlley. The report was edited by Marcy Gessel and Kevin Morrow, Publications Professionals LLC, and designed by Christiane Wakim.

The team would like to express gratitude to the many officials of the government of the Kingdom of Eswatini and private sector representatives who generously shared their knowledge and insights with the CPSD team.

EXECUTIVE SUMMARY

Eswatini is facing multiple challenges. It was already experiencing weak economic growth before the COVID-19 pandemic, a reflection of longstanding, deeply rooted issues such as fiscal unsustainability, declining private investment, weakening productivity and competitiveness, and falling export diversification and complexity, compounded by the impact of climate shocks. These preexisting challenges have been amplified by COVID-19 since 2020 and later by political unrest since mid-2021. The economy contracted 1.9 percent in 2020, while economic recovery in 2021 were dashed by political unrest. The COVID-19 pandemic strained health systems in a country where health outcomes were already poor owing to high HIV prevalence, poor child nutrition, and poor maternal health. Eswatini faces high unemployment and poverty rates, especially in rural areas, and high inequality in access to assets, markets, opportunities, and rights, a situation in which women and youth in particular are disadvantaged. The immediate and direct economic loss (including loss of public property and business assets) from political unrest in Eswatini has been estimated at US\$210 million, prompting the government to reallocate budget resources toward an E 500 million (US\$35 million) reconstruction fund to assist affected businesses, despite the extremely constrained fiscal space. The indirect economic cost of the political unrest, though, will likely be higher and could cause a delay or cancellation of investment plans as investors weigh the risks of possible direct and indirect loss from future unrest. This underscores the importance of finding a long-term solution to the unrest. Consultations with the private sector suggest that all eyes are now on the national dialogue, the success of which would restore the country's past record of peace and stability and rebuild investor confidence.

Eswatini shifted from a private investment-led higher-growth model to a government spending-led lower-growth model after the end of apartheid in South Africa. Eswatini experienced strong investment-led growth during apartheid South Africa due to foreign direct investment (FDI) inflows from companies that sought to avoid the sanctions against South Africa while keeping access to its market. Eswatini lost its comparative advantage as an investment destination after South Africa's democratic transition in 1994, though, as the latter became the region's preferred destination for investment and skilled labor. As a result, Eswatini suffered disinvestment, and the contribution of capital accumulation to growth has been almost nonexistent since 2000. The government scaled up recurring spending to offset falling private investment, but its spending has been difficult to finance because of the weaker revenues of the Southern African Customs Union (SACU) since 2014, which has led to an accumulation of arrears and debt and crowding out of the private sector. The growth outcomes of the two models have been starkly different: real gross domestic product (GDP) growth averaged 6.7 percent between 1980 and 2000 and 3 percent between 2000 and 2019.

With weak investment in productive sectors, Eswatini's job market failed to keep pace with an expanding, younger labor force, leading to a large informal sector. Falling private investment left growth in the private sector stagnant, with a formal job creation rate of just 1,000 per year, yet 25,000 youths enter the labor market annually. About 40 percent of Eswatini's working-age population is either formally or informally engaged in micro, small, and medium enterprises (MSMEs), and this creates mostly low-productivity, low-wage jobs. Women face particularly significant challenges in accessing employment opportunities, the gender gap in labor force participation in 2019 being 6 percentage points.

Eswatini's public sector-driven growth model is unsustainable under current fiscally constrained conditions, and there is a need to reduce and reprioritize public spending. Staying with the current growth model would trap Eswatini in a low-growth equilibrium, while the country continues to accumulate domestic debt and public spending arrears, further crowding out private sector growth. A sustainable growth model would involve cuts to recurrent public spending and a return to the private investment-led growth of the pre-1995 era. This entails reversing the ongoing fall in capital stock, which under the current, fiscally constrained conditions can only be sustainably funded by mobilizing sizeable private sector investments into productive sectors. While public investments and social expenditures could be maintained at the current level, they could be reprioritized toward areas that unblock the cross-cutting constraints to private investments. For example, infrastructure that enhances the availability or quality of energy, water, and trade logistics, as well as health, education, and social protection could boost skills and human capital. Moreover, the public investment management system should be strengthened to ensure Eswatini gets value for its money. To gain economies of scale from additional private investment, Eswatini needs a larger market than what is available domestically given a small population, low incomes, and falling domestic private consumption over the past decade. The first pathway to sustainable and productive growth, therefore, is adopting an export-led private sector growth model that leverages the current preferential access to regional and global markets.

An assessment of existing sectoral data and consultations with Eswatini's private sector and policy makers suggest that four sectors can help drive the export-led private sector growth model. These are sectors in agribusiness (sugarcane, beef, and forestry value chains) and light manufacturing (textile and apparel). Eswatini has a comparative advantage in these sectors: they already attract sizable FDI, they possess job creation and value addition growth potential, and in the case of beef and textile and apparel, Eswatini has preferential market access that is currently being underused. In expanding export markets, Eswatini may leverage shifts in global value chains emerging from the COVID-19 pandemic that include the regionalization of value chains and the expansion of supplier bases.

The second pathway entails leveraging MSMEs and entrepreneurship potential to enhance the inclusiveness of the export-led private sector growth model and to develop new products and services, especially opportunities in the digital economy. Eswatini's missing middle suggests barriers to firm entry and growth, while linkages of MSMEs with export value chains remain limited. MSMEs account for 40 percent of employment but consist primarily of low-production, informal microenterprises. Supporting MSMEs with well-targeted policies, including those addressing the specific constraints in managerial capabilities and access to finance that women and youth face, would enhance their capacity to generate more jobs and increase productivity and wages. Eswatini has an opportunity to capitalize on the potential of digital transformation to increase productivity, develop new business models, and leverage the global acceleration in the use of digital technologies by firms resulting from the COVID-19 pandemic.

Several factors constrain Eswatini's competitiveness and ability to unlock export potential and private sector-led growth, making reform an urgent priority. The government has articulated an ambitious, long-term reform agenda to unlock private investment (the National Development Plan 2019/20–2021/22 and the Post-Covid-19 Economic Recovery Strategy), but the pace of implementation has been uneven. Eswatini has a dual governance system: a modern constitutional system and a traditional system, both of which place the king at the top. Most business transactions fall under the administration of the modern system, which is anchored in market institutions, but Eswatini's governance system creates avenues for discretionary access to opportunities and privilege by connected individuals and firms, and this dilutes the government's previous reform commitments. Moreover, land governance in the traditional system creates disincentives to investing in agriculture.

Reforms need to focus on unlocking the potential of the digital economy and creating a more balanced playing field by completing ongoing reforms while sequentially implementing cross-cutting reforms to strengthen the trade environment, the regulatory environment, and access to financial services, land, and skills. One reform priority is implementing the cabinet-approved state-owned enterprise (SOE) restructuring framework designed to separate commercial activities from regulatory functions, consolidate and close some SOEs to decrease their fiscal burden, improve operational performance, and reduce the state presence in sectors that can be served by the private sector. Among the most critical SOE reforms in progress is the unbundling of the Eswatini Posts and Telecommunications Company (EPTC), a necessary step that will allow increased competition and private investment in the digital sector and lead to lower prices and increased access. This reform can, in turn, open opportunities for job-creating digital services and help Eswatini reach the goal of the African Union's Digital Transformation Strategy ensuring that every African individual, business, and the government is digitally enabled by 2030.

To return to an export-led growth model, Eswatini needs to increase export competitiveness by advancing regulatory reforms and improvements in trade logistics that include regional collaboration to address trade facilitation constraints. Policy reforms also need to address existing skills mismatches. Small and medium enterprises (SMEs) in Eswatini face a large gap in managerial capabilities and financing. Reducing the latter gap will require strengthening financial sector infrastructure and encouraging the development of new financial products better tailored to company assets, cash flows, and financing requirements by leveraging digital technologies and the frequent use of mobile money platforms. Finally, given the country's vulnerability to climate risks, policies to foster economic resilience amid extreme weather events (mainly droughts that affect agriculture) and improve disaster preparedness need to be pursued. The private sector must adapt to this challenge and work with the government to improve climate resilience. Table ES.1 summarizes the main recommendations of this CPSD, ranking them by the level of priority (high to low) in terms of the needs for addressing constraints to private investment and the timelines required to implement them (short to long).

Sector assessments


Sugar. Despite limited diversification and value addition, the sugar sector is one of Eswatini's key sectors, accounting for about 5 percent of GDP and about 20,000 jobs. Around 92 percent of the sugar output is exported. Sugar output is expected to grow by around 100,000 tons over the next five years because of the expansion of mill plantations and smallholder farm areas, and this could help scale up exports throughout the region by leveraging the resources of the African Continental Free Trade Area (AfCFTA). Efforts to introduce climate-smart agriculture in the sector could help improve water security and efficiency, a critical issue for sugarcane production sustainability. Smallholders are facing rising production costs, including energy for irrigation. Supporting smallholders to increase efficiency, adapt to climate change, and adopt on-farm solar irrigation is important for Eswatini's quest to maintain competitiveness. There are opportunities for diversifying into biomass if an enabling policy framework for renewable energy is developed. The government has proposed agro-industrial parks to develop downstream sugar processing opportunities, but ensuring that the model responds to investor demand and addresses Eswatini's competitiveness constraints will be necessary.

Forestry. Eswatini's forests cover approximately 33 percent of Eswatini's total land area, but commercial forestry constitutes only 22.6 percent of total forestry. Ninety percent of the plantations in Eswatini have forest management certification. The forestry sector accounts for about 1.3 percent of GDP, 5.9 percent of exports, and 14 percent of formal employment, and forestry sector productivity is relatively high. Eswatini has the potential to take advantage of a number of positive global and regional prospects for timber arising from growing demand for quality packaging and sanitation products to meet the rise in e-commerce shopping and face masks and an expected 51 percent growth in roundwood demand in South Africa by 2030. On the domestic front, biomass energy production is an opportunity for the forestry sector given an enabling energy policy. The constraints to private investment in the sector include issues around (a) trade logistics and facilitation, (b) land tenure, (c) an outdated industrial forestry policy, (d) poor public-private dialogue, (e) the rising threat from climate change, and (f) a lack of adequate policy framework and instruments to address this threat.


Beef. The beef value chain is growing quickly, contributing 2.9 percent of total GDP and 32 percent of total agricultural GDP in 2018. Only 11 percent of beef livestock is kept under the title deed land (TDL) system, while informal beef sector activities dominate the industry. Eswatini Meat Industries Limited (EMI) is the only licensed exporter. Eswatini beef enjoys preferential tariff-free access into the European Union (EU) market through the Economic Partnership Agreement, but exports are well below the quota. In the longer run, Eswatini could expand its export market to SACU member states and through the AfCFTA, where it could export value-added meat products. The constraints to investment in the beef sector arise from the current traditional approach to cattle farming (including preference for larger and older animals) and the lack of incentives to investment in commercial production in the traditional land tenure system as well as (a) the lack of adequate meat grading systems, (b) the lack of capacity and knowledge among communal farmers, (c) the rising risk from climate change-induced droughts, and (d) the overgrazing of rangelands.

Textile and apparel. Textile and apparel account for 10.5 percent of the country's exports and employs over 22,000 people, 95 percent of whom are women. Since 2000, the sector has benefited from the Multi-Fibre Agreement (MFA) and the African Growth and Opportunities Act (AGOA), despite a temporary suspension from AGOA (2015–18) that resulted in 46.9 percent job loss and a shift in main export markets from the United States to South Africa. Textile exports to South Africa have doubled from US\$95 million in 2011 to over \$230m in 2021. To become competitive, Eswatini needs to offer more than low-cost labor and move toward a full package that involves incorporating parts of the supply chain, including design, fabric development, yarn, and fabric vertical integration. The sector is facing a number of challenges, including (a) skills shortages that require 95 percent of new hires to receive training while firms have difficulty in retaining trained workers; (b) high transport costs at the nearby port of Maputo, which forces exporters to use the port at Durban, a round trip of about 1,200 kilometers; (c) the high cost and poor supply of water (which could be worsened with climate change) and electricity to factories; (d) poor access to finance; and (e) poor compliance with environmental standards.


TABLE ES.1 RECOMMENDATIONS

	Recommendations	Responsible entity	Priority	Timeframe (short: 1–2 years, medium 3–5 years)
 CROSS-CUTTING	Strengthen competition by rationalizing SOEs and strengthening sector regulations			
	Implement the SOE restructuring framework approved by the government to revise the legal framework for separating commercial SOEs from other entities and strengthening operational performance and oversight mechanisms, as well as divesting where government involvement is not justified.	Ministry of Finance, Public Enterprise Unit	High	Medium
	Unbundle EPTC into separate telecommunications infrastructure and retail service operators.	Ministry of Telecommunications	High	Medium
	Update the legal and institutional framework on competition to strengthen capacity to enforce anticompetitive behavior.	Ministry of Finance	High	Medium
	Implement reforms stated in the National Energy Policy to enable private investment in renewable energy.	Ministry of Natural Resources and Energy	High	Medium
	Consider revising the operation and strategy of the sovereign fund in line with international good practice.	Ministry of Finance	Medium	Medium
Conduct an assessment of the enabling environment and the PPP regulatory framework to identify gaps.	Ministry of Finance	Medium	Medium	


Note: EPTC = Eswatini Posts and Telecommunications Corporation;
 PPP = public-private partnership;
 SOE = state-owned enterprise.



Recommendations	Responsible entity	Priority	Timeframe (short: 1–2 years, medium 3–5 years)
Strengthen the trade and regulatory environment			
Review and streamline value added tax refund procedures, eventually through joint monitoring, controls, and improved interconnectivity with South Africa.	Eswatini Revenue Authority	Quick win	Short
Implement the national trade single window and automate and streamline procedures to process trade licenses, permits, certificates, and other authorizations.	National Trade Facilitation Committee	High	Medium
 <p>CROSS-CUTTING</p> Improve border management coordination at domestic (through the national single window) and bilateral levels, by developing strategies for one-stop border inspection, joint declarations, and smart borders (deployment of new technologies such as cargo tracking and tracing solutions, automatic identification, joint risk management and inspections and the exploration of biometric technology for identification and control of drivers and border residents).	Ministry of Commerce, Industry and Trade	High	Medium to long
Expand the preferred trade program over time through implementing a single government-authorized economic operator program aligned and mutually recognized with South Africa and Mozambique and explore expedited border procedures or dedicated trade lanes.	Eswatini Revenue Authority	Medium	Medium
Fast-track regulatory reforms in the investor roadmap to reduce the cost of doing business and enable efficient commercial dispute resolution.	Ministry of Commerce, Industry and Trade	Medium	Short
Review investment policy and assess the role of incentives in attracting FDI.	Ministry of Finance	Medium	Medium
Develop linkages programs connecting SMEs and large firms.	Ministry of Commerce, Industry and Trade	Medium	Medium

Note: FDI = foreign direct investment; SME = small and medium enterprise.

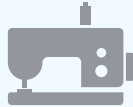
	Recommendations	Responsible entity	Priority	Timeframe (short: 1–2 years, medium 3–5 years)
 CROSS-CUTTING	Strengthen access to financial services, land, and skills			
	Strengthen financial sector infrastructure, expand the use of credit guarantee schemes, and develop regulations to foster new financial products for SMEs.	Central Bank	High	Medium
	Introduce a “clearance” real-time e-invoicing system and regulations on maximum payment terms to SMEs.	Ministry of Finance	High	Medium
	Reform SME support programs to improve targeting in the context of the proposed restructuring of the Small Enterprise Development Corporation.	Ministry of Commerce, Industry and Trade	High	Medium
	Consider adopting legislation that allows use of Swazi Nation Land as collateral for loans.	Ministry of Natural Resources and Energy	High	Medium
	Involve the private sector in the design of skills development programs to address mismatches, create incentives for recruitment, and track results.	Ministry of Education	High	Medium
Assess opportunities for deepening capital markets, including growth potential, key constraints, and a regulatory framework.	Financial Sector Regulatory Authority	Medium	Medium	

Note: SME = small and medium enterprise.

	Recommendations	Responsible entity	Priority	Timeframe (short: 1–2 years, medium 3–5 years)
 <p>SUGAR</p>	Strengthen the policy framework for renewable energy and diversification			
	Provide incentives and enabling regulations for on-farm solar power generation for irrigation.	Ministry of Natural Resources and Energy	Medium	Short
	Investigate the likely demand and feasibility for an agro-industrial park complex adjacent to any of the sugar mills and assess potential markets for sugar by-products.	Ministry of Commerce, Industry and Trade	Medium	Short
	Implement best management practices to reduce costs and increase sustainability and climate resilience			
	Maintain and enhance technical and extension support and training to small growers, farming companies, and grower associations.	Ministry of Agriculture, Eswatini Sugar Association	High	Short
	Continue developing resilience to climate change through the implementation of the Eswatini Sugar Association’s seven-pronged strategy, particularly in the area of water management.	Eswatini Sugar Association	High	Short to medium
	Promote adoption of best management practices for sugarcane production according to international sustainability standards and the use of digital tools by smallholders.	Ministry of Agriculture, Eswatini Sugar Association	Medium	Medium
	Optimize market access			
	Continue with advocacy efforts to optimize market access for sugar in regional markets.	Ministry of Commerce, Industry and Trade, Eswatini Sugar Association	High	Medium

	Recommendations	Responsible entity	Priority	Timeframe (short: 1–2 years, medium 3–5 years)
 FORESTRY	Improve public-private dialogue			
	Encourage greater collaboration among sector stakeholders to share information, promote advocacy, and form an industry association.	Forestry Department, Ministry of Agriculture	Quick win	Short
	Facilitate community participation to foster value added products within the plantations.	Forestry Department, Ministry of Agriculture	Medium	Short
	Investigate diversification models appropriate for Eswatini			
	Implement production diversification models appropriate for Eswatini such as the integrated crop-livestock-forest system pioneered in Brazil.	Forestry Department, Ministry of Agriculture	Medium	Medium
 BEEF	Scale up and commercialize the production systems in traditional beef farming			
	Implement a formal and credible grading system for beef.	Ministry of Agriculture; Ministry of Commerce, Industry and Trade	High	Short
	Improve extension services to enhance animal health and disease control, including upgrading and digitizing dipping systems.	Ministry of Agriculture	High	Short
	Support scale-up and commercialize production systems in Swazi Nation Land with pilot projects and structured education plans for activities such as breeding, grazing management, stock health, marketing, and financial management.	Ministry of Agriculture, commercial farmers, and chiefs	High	Medium
	Consider the use of mobile abattoirs for slaughtering.	Ministry of Agriculture	Medium	Short
	Improve public-private dialogue between government and the industry			
	Enhance stakeholder cooperation through forming a red meat suppliers organization.	Ministry of Agriculture, private sector	Quick win	Short
	Consider PPP models such as for extension services, dipping tank services, an improved traceability model, and the development of a grading system.	Ministry of Agriculture, commercial and smallholder farmers	High	Medium

Note: PPP = public-private partnership.

	Recommendations	Responsible entity	Priority	Timeframe (short: 1–2 years, medium 3–5 years)
 TEXTILE AND APPAREL	Improve the supply of skilled labor			
	Provide incentives to firms to address underinvestment in training new workers.	Ministry of Commerce, Industry and Trade; Ministry of Training and Education	High	Short
	Develop a training center that offers centralized training to the textile and apparel sector, with cofinancing and curriculum support from the private sector.	Ministry of Commerce, Industry and Trade; Ministry of Training and Education; Eswatini Textile and Apparel Traders Association	High	Medium to long
	Move from CMT to full-package offerings			
	Host private sector forums to understand what bottlenecks block further supply chain investments.	Eswatini Investment and Trade Promotion Authority	Quick win	Short
Develop a strategy and consider incentives to attract investment in undeveloped parts of the full garment supply chain.	Eswatini Investment and Trade Promotion Authority	Medium	Medium to long	

Note: CMT = cut, make, and trim.

CONTENTS

ACKNOWLEDGMENTS	I
EXECUTIVE SUMMARY	II
ABBREVIATIONS AND ACRONYMS	XIV
01. INTRODUCTION	1
1.1 Country Context	2
1.2 The State of the Private Sector	12
02. CROSS-CUTTING CONSTRAINTS TO PRIVATE INVESTMENT	19
2.1 A Large State Presence Hindering Competition and Private Sector Participation	22
2.2 A Slowly Improving Business and Trade Environment	31
2.3 Constraints in Access to Skills, Land, and Finance Hinder Private Investment, Especially for SMEs	35
03. SELECTED SECTOR ASSESSMENTS	45
3.1 Sugar	47
Sector overview and prospects	47
Key constraints to investment and growth	54
Recommendations	57
3.2 Forestry	59
Sector overview and prospects	59
Key constraints to investment and growth	61
Recommendations	63
3.3 Beef	65
Sector overview and prospects	65
Key constraints to investment and growth	68
Recommendations	69
3.4 Textile and apparel	71
Sector overview and prospects	71
Key constraints to investment and growth	75
Recommendations	83
04. APPENDICES	88
Appendix A: Eswatini Sector Fitness	88
Appendix B: Sugar Value Chain	89
Appendix C: Beef Value Chain	92

ABBREVIATIONS AND ACRONYMS

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunities Act
ASYCUDA	automated system for customs data
CBE	Central Bank of Eswatini
CMT	cut, make, and trim
COMESA	Common Market for Eastern and Southern Africa
CPSD	country private sector diagnostic
DFS	digital financial services
DPO	development policy operation
E	emalangen
EAC	East African Community
ECA	Eswatini Canegrowers Association
EEA	Eswatini Environmental Authority
EEC	Eswatini Electricity Company
EIPA	Eswatini Investment Promotion Authority
EMI	Eswatini Meat Industries Limited (previously SMI)
EPA	Economic Partnership Agreement
EPTC	Eswatini Posts and Telecommunications Corporation
ESA	Eswatini Sugar Association
ESE	Eswatini Stock Exchange
ESERA	Eswatini Energy Regulatory Authority
EU	European Union
FAO	Food and Agriculture Organization
FDI	foreign direct investment
GAPP	Generally Accepted Principles and Practices
GDP	gross domestic product
GNI	gross national income
GWh	gigawatt-hour
ICT	information and communication technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Cooperation
IMF	International Monetary Fund
IPP	independent power producers
IT	information technology
kWh/m²	kilowatt-hour per square meter

LPCO	licenses, permits, certificates, and other (authorizations)
LUSIP II	Lower Usuthu Small Holder Irrigation Project
MFA	Multi-Fibre Agreement
MLCFA	Money Lending and Credit Financing Act
MSME	micro, small and medium enterprise
MW	megawatt
NEP	National Energy Policy
OECD	Organisation for Economic Co-operation and Development
PE Act	Public Enterprises (Control and Monitoring) Act
PPP	independent power producers
PV	photovoltaic
REDD+	reducing emissions from deforestation and forest degradation
RESC	Royal Eswatini Sugar Corporation
RSTP	Royal Science and Technology Park
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAPP	Southern African Power Pool
SEZ	special economic zones
SME	small and medium enterprise
SMI	Swaziland Meat Industries Limited
SNL	Swazi Nation Land
SOE	state-owned enterprise
SWF	sovereign wealth fund
TDL	title deed land
TFP	total factor productivity
TFTA	Tripartite Free Trade Area
TRS	time release study
TVET	technical and vocational education and training
VAT	value added tax

01. INTRODUCTION



1.1 COUNTRY CONTEXT

1.2 THE STATE OF THE PRIVATE SECTOR

The Country Private Sector Diagnostic (CPSD) is a joint World Bank-IFC analytical tool that aims to identify key opportunities for private sector investment and financing to drive development. The Eswatini CPSD comes amid a rising policy momentum and the growth of political will to put the private sector at the center of the post-COVID-19 recovery as the public sector drivers of growth slow down and policy buffers continue to deteriorate. The CPSD (a) identifies the sector-specific and cross-cutting policy issues that undermine the role of private sector solutions to development challenges, (b) highlights and discusses the sectoral opportunities that can catalyze private sector investment in Eswatini, and (c) suggests policy actions to unlock these sectors for greater private sector participation.

The Eswatini CPSD provides actionable recommendations by (a) prioritizing the policy actions that are likely to be achieved in the medium term (three to five years), including those that are already being implemented and those that have high potential for buy-in, (b) prioritizing policies that have high development impact, and (c) highlighting policies that can be supported through World Bank Group interventions.

1.1. COUNTRY CONTEXT

The Kingdom of Eswatini is one of Africa's three monarchies and is landlocked and small both in population and land mass. The country has an estimated population of 1.2 million people, 76 percent of whom live in rural areas. Eswatini has an area of 17,364 square kilometers, making it the second-smallest state on the African mainland after The Gambia in population and land mass. It is mountainous, and surrounded on three sides within South Africa (apart from a short border with Mozambique, all its boundaries are with South Africa).

Eswatini is relatively resource poor, but arable land and forestry are its key natural wealth. Arable land is estimated at 10.3 percent of total land. This makes agriculture a source of livelihood for most Swazi people. The country's forest land is another key natural resource, extending over 24 percent of the country's land area. Eswatini is also endowed in gold, diamond, and coal, but mineral output is negligible, accounting for just 0.1 percent of gross domestic product (GDP) in 2019.

Eswatini faces multiple climate challenges, but drought is the most serious and threatens the country's environmental and socioeconomic stability. The extended drought conditions between 1989 and 1992 contributed to the slow economic growth that has afflicted the country since the 1980s.¹ The drought induced by the El Niño effect in 2015 and 2016 cost the government 19 percent of its annual expenditures, equivalent to roughly 7 percent of GDP. The sugar, beef, and textile sectors were among the most severely affected. About 16 percent of sugarcane, 67 percent of maize, and 90 percent of cotton failed, while 10 percent of the national livestock died. A recently completed Disaster Risk Finance Diagnostic for Eswatini found that the average annual cost of emergency disaster relief is US\$10.8 million, which increased to US\$30 million in response to events such as the 2015–16 El Niño drought.² Compared to the current ex post funding approach, a comprehensive risk-layering strategy could generate savings of up to US\$6 million for frequent events (in other words, 1-in-5-year to 1-in-10-year events) and up to US\$26 million for more severe events.

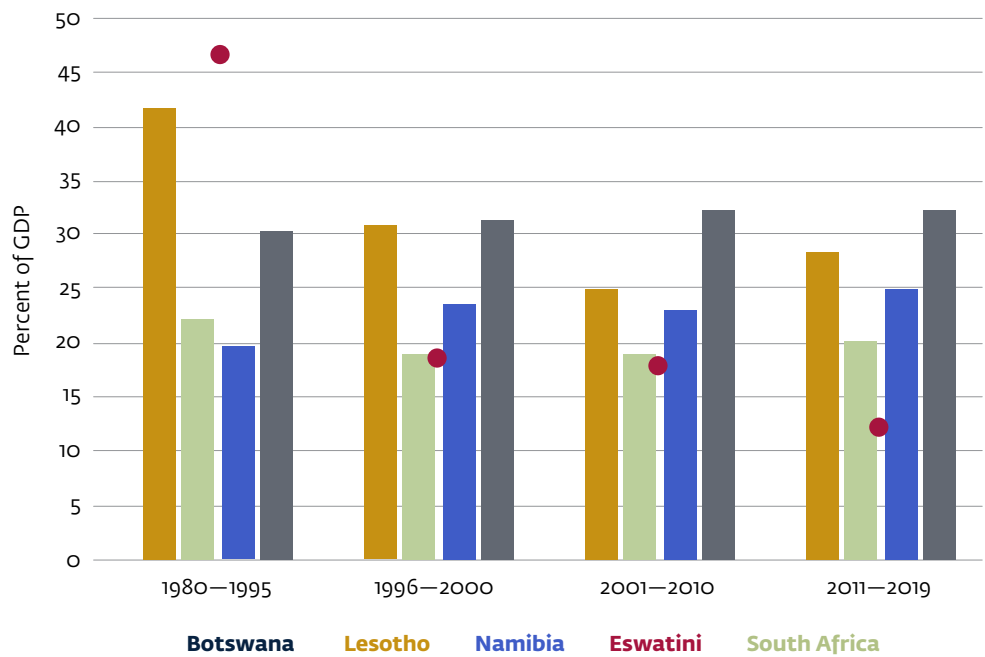
Despite its middle-income status, Eswatini confronts development challenges that mirror those of low-income countries. Eswatini faces high unemployment, which is estimated to have increased from 23.0 percent in 2016 to 33.3 percent in 2021, a figure that is higher among women, youth, and the rural population. Labor force participation is low at around 52 percent. Poverty is high (the national poverty rate was 59 percent in 2017). Approximately 92.6 percent of the poor population lives in rural areas and predominantly relies on subsistence agriculture for livelihood.³ High rural poverty results in an urban-rural income and wealth gap, which is reflected by a high Gini coefficient, estimated at 54.6 in 2020. Inequality also manifests itself in access to assets, markets, opportunities, and rights, with a bias against women and youth.

In Eswatini, human capital is undermined by a low adult lifespan, poor nutrition, and poor learning outcomes. Eswatini faces challenges to building human capital, such as having the world's highest HIV prevalence rate for people ages 15–49, poor maternal and child health, and a rising incidence of noncommunicable diseases.⁵ Eswatini also has high levels of child malnutrition and growth stunting,⁶ and half of the children are affected by micronutrient deficiencies.⁷ Children from poor families (mostly those from rural areas) are three times more likely to be stunted than their peers. Eswatini has a large skills gap: the education system does not meet the needs of the labor market and the efficiency of education spending needs improvement.

Eswatini is an open economy, closely integrated with South Africa through various channels. First, Eswatini has close trade links with South Africa: 67 percent of Eswatini's exports went to South Africa and 73 percent of imports were from South Africa in 2019.⁸ Second, Eswatini imports 60 percent of its electricity from South Africa.⁹ Third, Eswatini received nearly 94 percent of its total remittances (US\$108 million in nominal terms,¹⁰) from South Africa in 2017, which were equivalent to 8.6 percent of exports from South Africa and 8.5 percent of imports.¹¹ Fourth, the top three largest of the four commercial banks in Eswatini, which have a combined market share of 78 percent and cross investment in the financial sector, are South African banks.

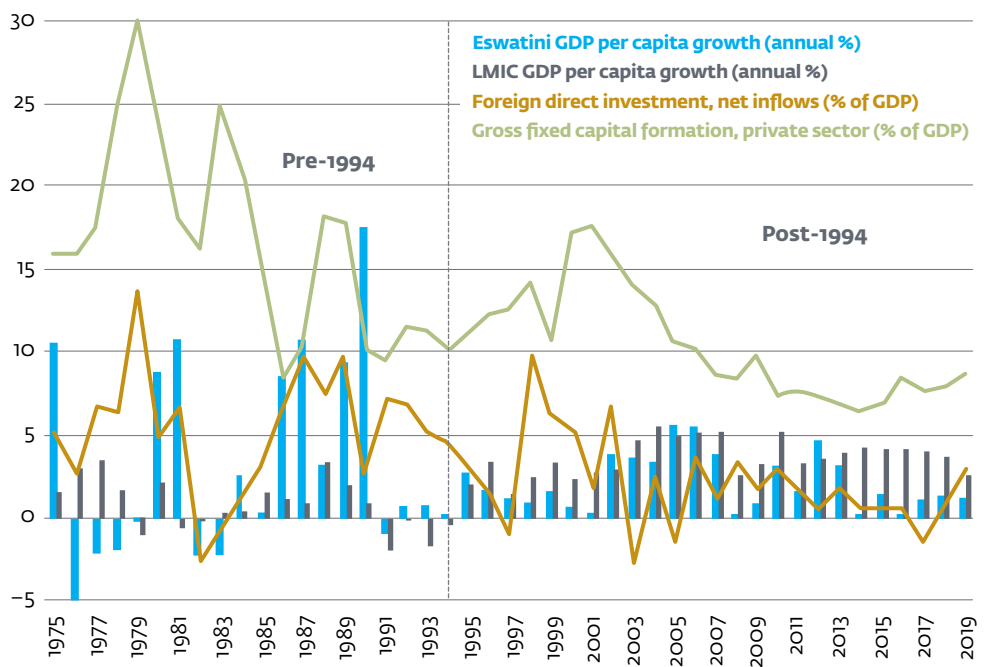
Eswatini experienced strong investment-led growth during South Africa's apartheid era. Before the end of apartheid in 1994, Eswatini received large investment inflows from companies seeking to avoid the global sanctions against South Africa, Coca Cola being the most prominent in 1986.¹² At that time, Eswatini's comparative advantage as an investment destination was due to its proximity to the large South African market, political stability, sound macro-fiscal management, and high investment in infrastructure, education, and health. High foreign direct investment (FDI) inflows turned Eswatini into a regional investment outperformer (see figure 1.1), boosting manufacturing exports and economic growth (to an average of 7.6 percent over 1980–95) and propelling Eswatini to middle-income status by 1995 (see figure 1.2).

FIGURE 1.1 FALLING PRIVATE INVESTMENT POST-1994



Source: World Bank, World Development Indicators, 2021

FIGURE 1.2 LOW NET FDI SINCE 2003



Source: World Bank, World Development Indicators, 2021.

Note: FDI = foreign direct investment; LMIC = lower-middle-income country.

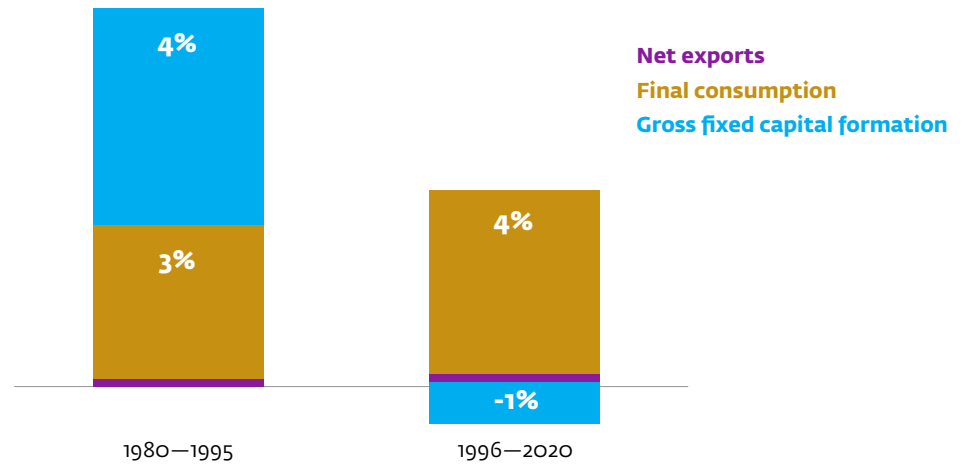
Eswatini nonetheless lost its comparative advantage as an investment destination after the democratic transition of South Africa in 1994 as regional competition for investment intensified. Most economic sanctions against South Africa were lifted, making South Africa a viable investment destination again. Meanwhile, with the end of the civil war in 1992, Mozambique became another key competitor for foreign investments due to its low labor cost and sea access.¹³ As a result, Eswatini suffered disinvestment. Net FDI inflows as a percentage of GDP declined from an average of 4.9 percent of GDP over the period 1980–95 to an average of 1.5 percent of GDP over the period 2001–19, while total private investment fell from an average of 15.0 percent of GDP to an average of 9.6 percent of GDP (see figure 1.2). Overall, Eswatini fell from being the Southern African Customs Union (SACU) region’s outperformer in private investment in 1980–91 to the worst performer in 2011–19. Despite this, Coca Cola retained its plant in Eswatini, drawing on locally produced sugar to supply concentrates to 20 countries in Sub Saharan Africa, and this accounted for 25 percent of Eswatini’s total exports.

South Africa is currently Eswatini’s major competitor for both investment and skilled labor. South Africa carries a comparative advantage over Eswatini because of its larger domestic market, more advanced infrastructure, and better access to external markets through roads, sea, and air, and it is generally considered a gateway to the Southern African region.¹⁴ Being at a comparative disadvantage to South Africa, Eswatini would naturally require more efforts, therefore, to attract investors. Moreover, South Africa is a regional hub for skilled labor in the Southern Africa region. As of 2013, South Africa hosted 92,854 Swazis, representing 96 percent of Eswatini’s total migrants.¹⁵

With falling private investment, the demand-side drivers of Eswatini’s growth shifted drastically toward government-led consumption, which has been fiscally unsustainable. Investment contributed about 4 percent to GDP growth between 1980 and 1995, but since the post-1995 disinvestment, the average contribution of investment to growth has been negative between 1995 and 2019 (see figure 1.3). The contribution of net exports has remained approximately zero. Consumption has been on average the sole positive demand-side driver of growth since 1995. A breakdown in the components of total consumption shows that real household consumption fell between 1995 and 2019, suggesting that on average, government consumption was the only positive driver of growth in that period (see figure 1.4).

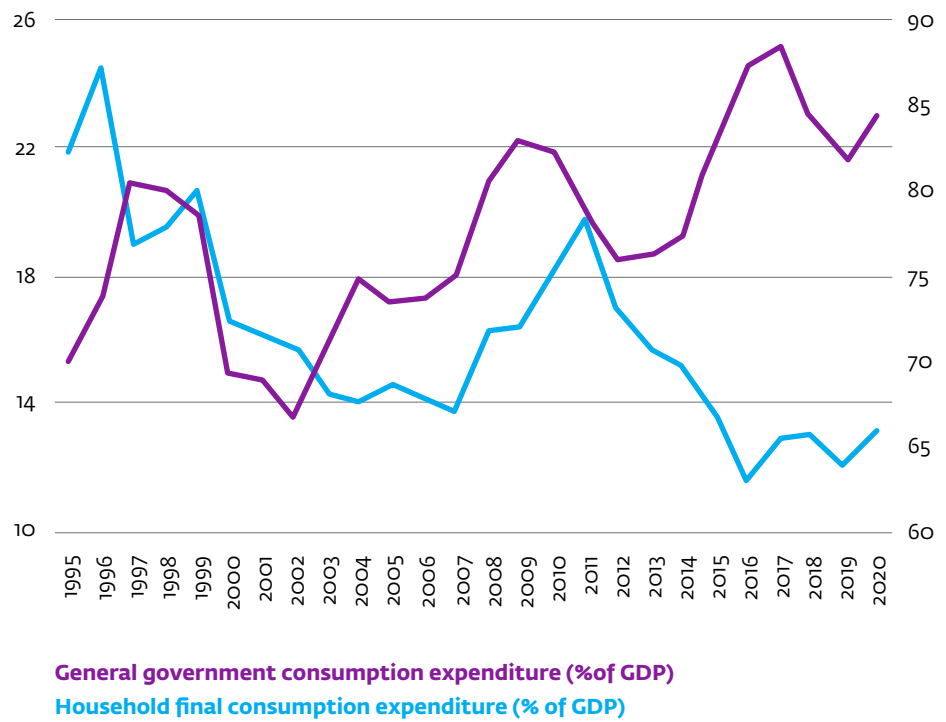
High government spending has been difficult to finance in recent years because of lower SACU revenues, and this has led to high domestic borrowing and accumulating debt, thereby crowding out the private sector. With weaker SACU revenues since 2014, fiscal deficits have been funded by domestic borrowing and partly by accumulating domestic public arrears. With shallow domestic capital markets, government borrowing may have contributed to increased costs¹⁶ and a lower availability of credit for the private sector, while spending arrears undermined the balance sheets of companies and banks.

FIGURE 1.3 A SHIFT IN THE DEMAND-SIDE DRIVERS OF GROWTH FROM INVESTMENT TO CONSUMPTION



Source: World Bank, World Development Indicators, 2021.

FIGURE 1.4 RISING GOVERNMENT CONSUMPTION AND FALLING PRIVATE CONSUMPTION

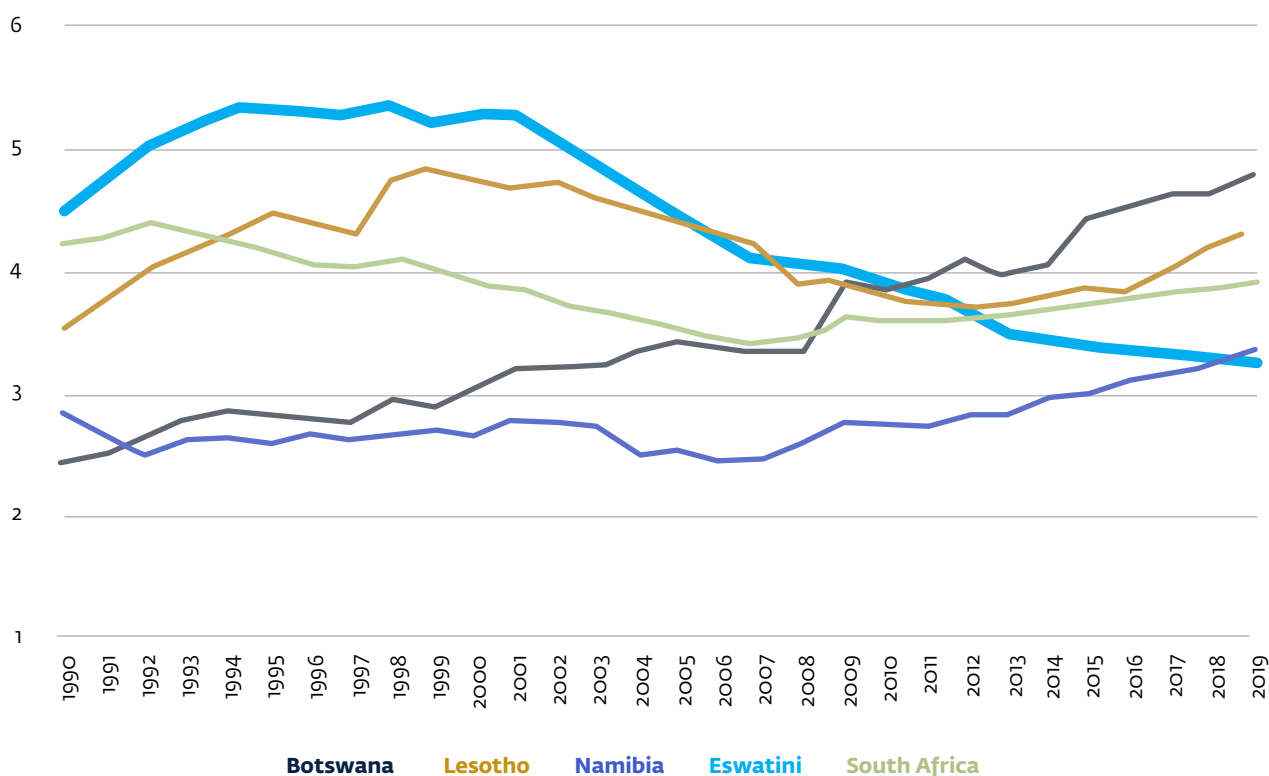


Source: World Bank, World Development Indicators, 2021.

Meanwhile the supply-side engines of growth, including physical and human capital and total factor productivity (TFP) weakened. With lower private sector investment not fully offset by rising public sector investment, capital stock has been falling since 2000 (figure 1.5). As a result, the contribution of capital accumulation to growth has been almost nonexistent since 2000 (figure 1.6). The fall in capital stock has had a debilitating impact on the capital-intensive industrial sector, and consequently, the contribution of the industrial sector to growth has declined since 1995.¹⁷ Despite remaining positive, the contribution of labor productivity also fell after 2000. The TFP made a positive contribution to growth, especially between 2001 and 2013, but its contribution fell from 2.3 percent in the early 2000s to 0.3 percent after the 2008 financial crisis (figure 1.6).

FIGURE 1.5 PHYSICAL CAPITAL DECUMULATION SINCE 2000

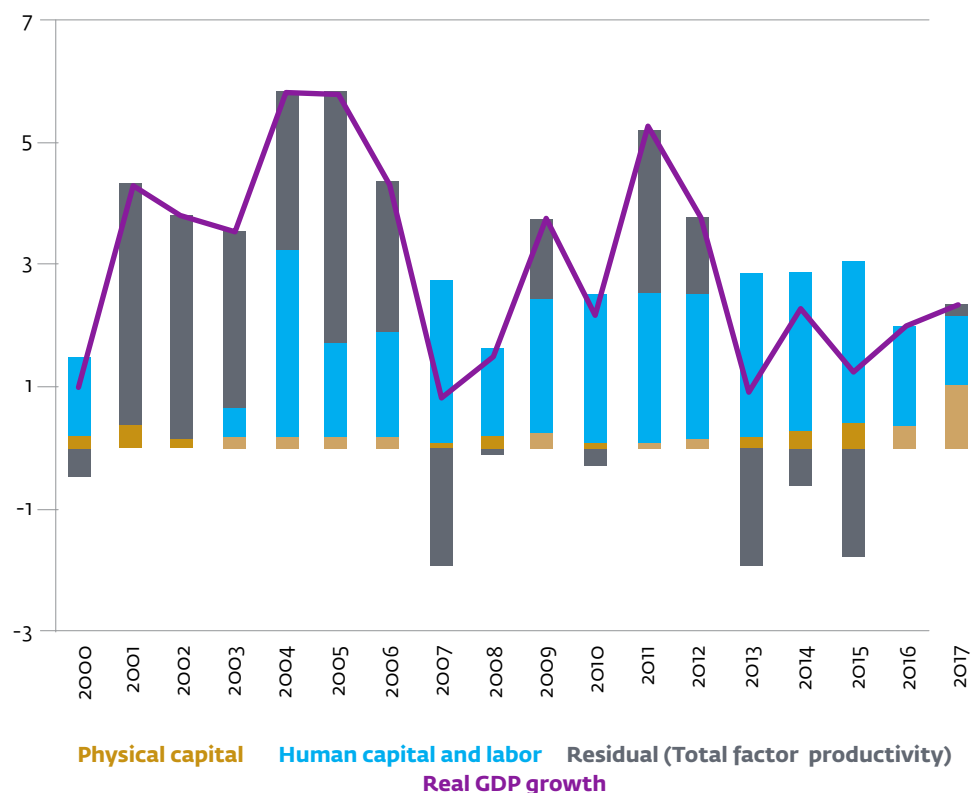
Declining capital-to-output ratio (in units)



Source: IMF (International Monetary Fund), “2019 Article IV Consultation Press Release, Staff Report, and Statement by the Executive Director for the Kingdom of Eswatini” (Country Report 20/41, IMF, African Department, Washington, DC, 2020).

FIGURE 1.6 FALLING TFP AND NO CONTRIBUTION OF CAPITAL TO GROWTH

Growth accounting decomposition (percent)

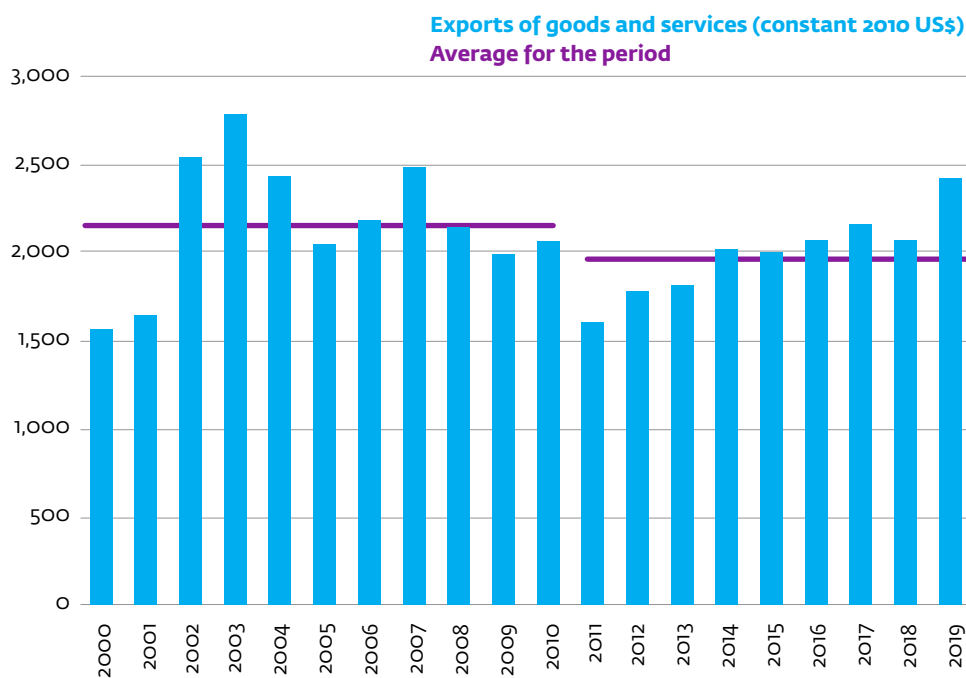


Source: IMF (International Monetary Fund), "2019 Article IV Consultation Press Release, Staff Report, and Statement by the Executive Director for the Kingdom of Eswatini" (Country Report 20/41, IMF, African Department, Washington, DC, 2020).

Exports have weakened despite Eswatini's preferential market access. Export growth has been weak since 2010, and total exports in US dollars (constant 2010 prices) fell from an average of US\$2.17 billion between 2000 and 2010 to US\$1.99 billion between 2011 and 2019 (see figure 1.7). The export-to-GDP ratio fell from an average of 62 percent between 2000 and 2010 to an average of 41 percent from 2011 and 2019, despite preferential access to the SACU market, the US market (through the African Growth and Opportunities Act [AGOA] since 2000), and the European Union (EU) beef market (through the Economic Partnership Agreement; EPA). Exports are highly concentrated.

Eswatini has experienced deteriorating economic fitness due to falling competitiveness across many sectors and products (appendix A). Over the past five years, the majority of economic sectors have lost competitiveness. The key sectors that have experienced a deterioration in fitness are wood, agricultural crops, textile materials, and chemicals. The declining competitiveness in crops was mainly due to the impact of droughts, but there are ongoing efforts in the sugar sector to improve adaptation such as better water management and the increased use of drip irrigation.

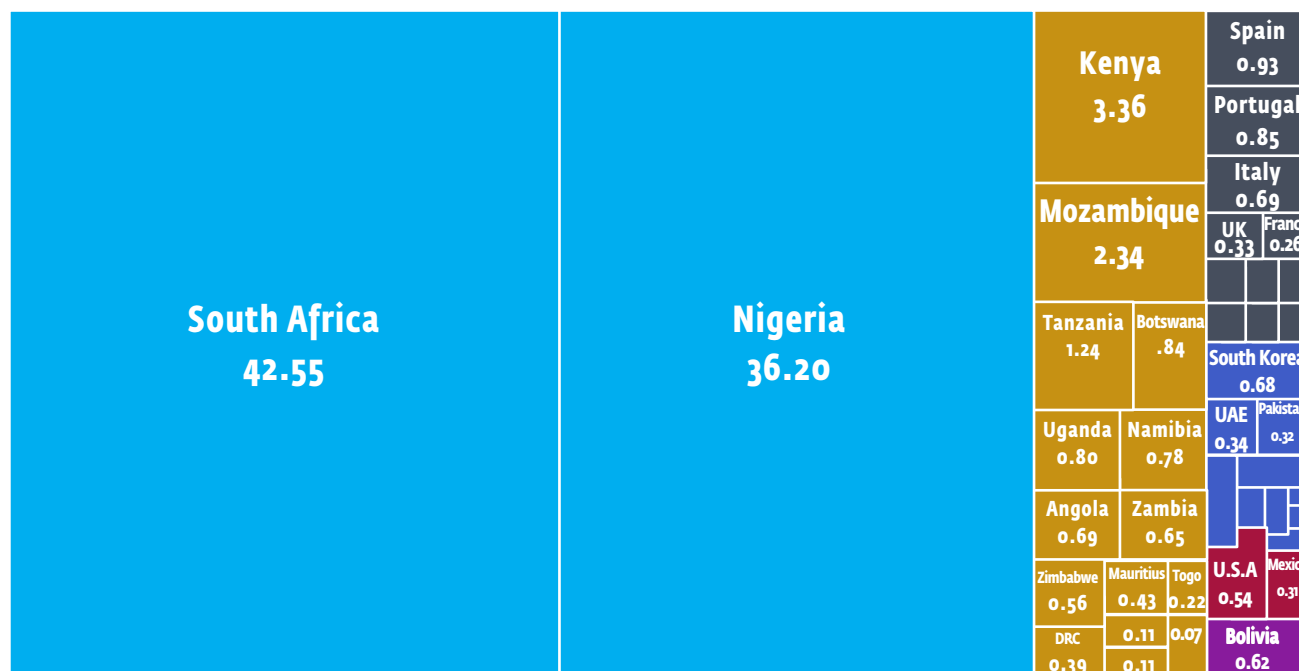
FIGURE 1.7 EXPORTS HAVE FALLEN IN THE PAST DECADE



Source: World Bank, World Development Indicators, 2021.

FIGURE 1.8 ESWATINI EXPORTS ARE LARGELY TO AFRICAN COUNTRIES

% of total 2019 exports



Source: Atlas of Economic Complexity, 2022

With weak investment, especially in productive sectors, Eswatini's job market failed to keep pace with a rising youth labor force, leading to a rise in informality. Falling private investment has left the private sector stagnant, with just 1,000 new formal jobs being created per year.¹⁸ Job creation has mostly been in low-productivity service sectors, which has contributed to lower wages and poorer job quality. The public sector is the largest formal employer, but it's accessible only to those with a higher quality of education. About 41 percent of Eswatini's working-age population is either formally or informally employed in micro, small, and medium enterprises (MSMEs),¹⁹ the majority of which have low productivity rates and offer very low wages. Thus, Eswatini has failed to meet jobs demand for roughly 25,000 young people entering the labor force each year. Accordingly, at least two-thirds of new workforce entrants in the past decade have been absorbed by the informal sector.²⁰

Recent economic developments and outlook

Since 2015, Eswatini has faced challenges from rising climate vulnerabilities, macroeconomic and trade shocks, and, more recently, the COVID-19 pandemic and political unrest. Climate vulnerabilities, reflected in the two El Niño-induced droughts since 2015 and the absence of climate risk mitigation mechanisms, led to poor performance in the agricultural sector.²¹ Sixteen percent of sugarcane, 67 percent of maize, and 90 percent of cotton crops failed, for example, while 26,000 calves and 88,000 livestock died.²² Eswatini has also faced elevated external vulnerabilities due to negative terms-of-trade shocks, weak growth in South Africa (which lowered export earnings and SACU revenue receipts), and the inability of Eswatini to take advantage of preferential market access opportunities due to weak competitiveness. Moreover, fiscal imbalances have increased as falling SACU revenues have been met by high and rigid recurrent spending, leading to rising public domestic debt and the accumulation of government arrears, both of which have been crowding out private sector investment.²³ These vulnerabilities have contributed to weak real GDP growth that have averaged 1.7 percent between 2014 and 2019, compared to 2.6 percent for Sub Saharan Africa in the same period.²⁴

The COVID-19 pandemic has compounded Eswatini's macroeconomic and development challenges. COVID-19 cases increased sharply between January and August 2021 and again in November and December 2021. The COVID-19 pandemic caused business closures, job losses, and export losses. A 2020 survey showed that over 75 percent of MSMEs reported revenue losses of more than 50 percent.²⁵ Women-owned small and medium enterprises (SMEs) suffered larger turnover losses than male-owned businesses. Job losses were mainly in the textile and hospitality industries.²⁶ At a more aggregated level, COVID-19 resulted in the secondary sector contracting by 9.8 percent in 2020, while the contraction in the tertiary sector (transport and accommodation) was counterbalanced by growth in health and communications. From the external front, trade, tourism, remittances, and fiscal revenue from SACU were severely impaired by COVID-19 containment measures. A weak private sector compounded by COVID-19 have put a severe dent in the labor market, with the latest labor force data suggesting that overall unemployment was 33 percent in 2021 (up from 23 percent in 2016), while youth unemployment rose to 58.0 percent in 2021 from 47.4 percent in 2016. Real GDP growth fell from 2.6 percent in 2019 to an estimated -1.9 percent in 2020.²⁷

The government's fiscal stimulus for COVID-19 was weak because of a constrained fiscal space. The fiscal response to COVID-19 included a 1.64 percent GDP package to scale up health and social protection measures, a 0.07 percent of GDP SME support fund, and a 0.04 percent of GDP relief fund for laid-off workers.²⁸ The government also established tax relief and tax payment extension schemes, but these negatively affected public revenues, putting pressure on debt and public expenditure arrears. Monetary policy has been accommodative to help firms and banks deal with COVID-19 impact.

Eswatini's economic outlook remains fragile and has been negatively affected by political unrest and the omicron variant. Eswatini's economy is estimated to have expanded modestly by 3.1 percent in 2021, much lower than expected given the respective year-on-year growth rates of 9.0 percent and 17.5 percent in the first two quarters of 2021. In the second half of 2021, the economy faced a drag from the impact of the political unrest and the subsequent outbreak of the omicron variant. The unrest caused an estimated output loss of 1.5 percent of GDP, a loss of business assets (through arson and pillaging), and a loss of sources of livelihood for 5,000 people.²⁹ The riots and the ensuing political climate have increased uncertainty and dented investor confidence in the country's stability, leading to a postponement and/or suspension of investment plans by some companies.³⁰ The government approved a US\$35 million fund to compensate businesses that were affected by the unrest, straining an already stretched fiscal situation, but this kept the 2021 fiscal deficit to about 5.1 percent of GDP. The public debt increased in 2021 and this trend is expected to continue over the medium term as the country continues to borrow to meet the financing needs arising from low SACU revenue and subdued economic growth. The current account surplus declined slightly due to a fall in SACU revenue and interest payments on external debt.³¹

Eswatini is addressing macroeconomic imbalances and implementing structural reforms with support from international financial institutions. Eswatini benefited from US\$110.4 million from IMF's emergency fund in 2020. Moreover, the World Bank has supported Eswatini's COVID-19 response efforts through a two-tranche programmatic development policy operation (DPO) focused on fiscal, social, health, digital, and private sector reforms. The first tranche disbursed US\$40 million in December 2020, and the second tranche (amounting US\$75 million) was approved in May 2022. The African Development Bank approved and disbursed US\$36 million in budget support in 2021. These programs have partly helped in closing the financing gap and reducing government arrears and are supporting reforms to foster fiscal sustainability and promote the role of the private sector in inclusive and sustainable growth.

Reform progress has been mixed so far. Progress areas include setting up the treasury single account and commercial courts, approving the state-owned enterprise (SOE) restructuring framework, introducing electronic e-government procurement and debt clearance platforms. There has been, by contrast, only limited progress on areas such as the unbundling of the Eswatini Posts and Telecommunications Corporation (EPTC) to allow for more private sector participation, the enactment of legislation on unemployment benefits,³² financial sector reforms such as the movable assets registry for the enhancement of better access to finance for SMEs, and electronic case management.

1.2. THE STATE OF THE PRIVATE SECTOR

Eswatini's private sector has a dual structure that includes a small number of large private firms and SOEs and the majority of informal micro firms. Exports and FDI are concentrated in a few large firms, the top 1 percent of exporting firms that account for 76 percent of exports.³³ SOEs are involved in many sectors of the economy including agriculture, digital, transport, finance, tourism, and housing. The large presence of SOEs has implications for competition and government finances, as most are loss-making and benefit from transfers.³⁴

Eswatini firms are generally older than the average firm in Sub-Saharan Africa, but domestic ownership of firms is on par with the regional average. According to the 2016 enterprise survey, the average age of Eswatini firms is 18 years, younger than a typical South African firm (25 years) in the region but older than an average firm in Sub-Saharan Africa (15 years).³⁵ Eighty percent of firms are domestically owned, while 20 percent of firms have at least 10 percent of foreign ownership.³⁶ This domestic ownership rate is generally in line with the regional average but different from that of South Africa (99.7 percent), where only 0.4 percent of firms have at least 10 percent foreign ownership.³⁷

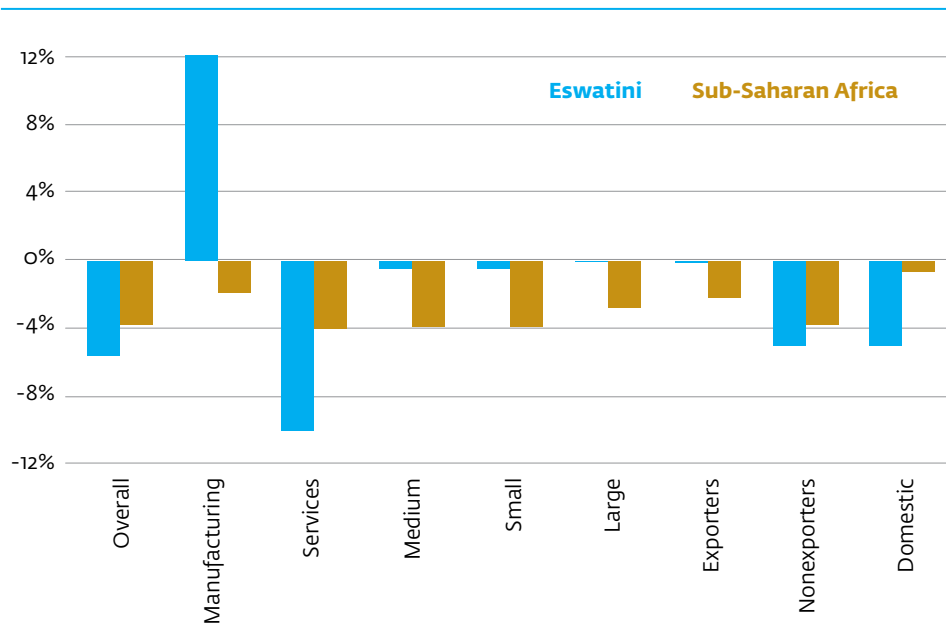
Informality is high and represents a drag on productivity growth. Of the 16,500 establishments identified in the 2015 economic census, 47 percent were formal, and 53 percent were informal.³⁸ The size of the informal economy was estimated at 39 percent of GDP in 2017, the highest among SACU countries.³⁹ Informality is most prevalent in trade services, mining and quarrying, manufacturing, the arts, and recreation.⁴⁰ Informal firms have low productivity and contribute just 5 percent to total private sector turnover, according to the 2015 economic census. High informality reflects poor labor market outcomes, skills mismatches, business environment constraints, and declining productivity.⁴¹

Aggregate formal firm productivity fell between 2007 and 2016, but manufacturing firms experienced productivity gains. According to the 2016 Enterprise Survey, Eswatini's aggregate firm level productivity fell by 5.1 percent in that period (see figure 1.9). Firms in the manufacturing sector, though, gained in productivity, a trend that has been ongoing since 2003 owing to technological innovation and restructuring.⁴²

Formal firms show higher levels of compliance with international quality certification and adhere more closely to external auditing standards than the regional average. According to the 2016 Enterprise Survey, 16 percent of formal firms have an internationally recognized quality certification, a much higher proportion than in South Africa (6 percent), Lesotho (3 percent), and a typical country in Sub-Saharan Africa (10 percent). This is largely driven by large firms (over 100 workers), 68 percent of which hold such certification compared to just 9 percent of small firms.⁴³

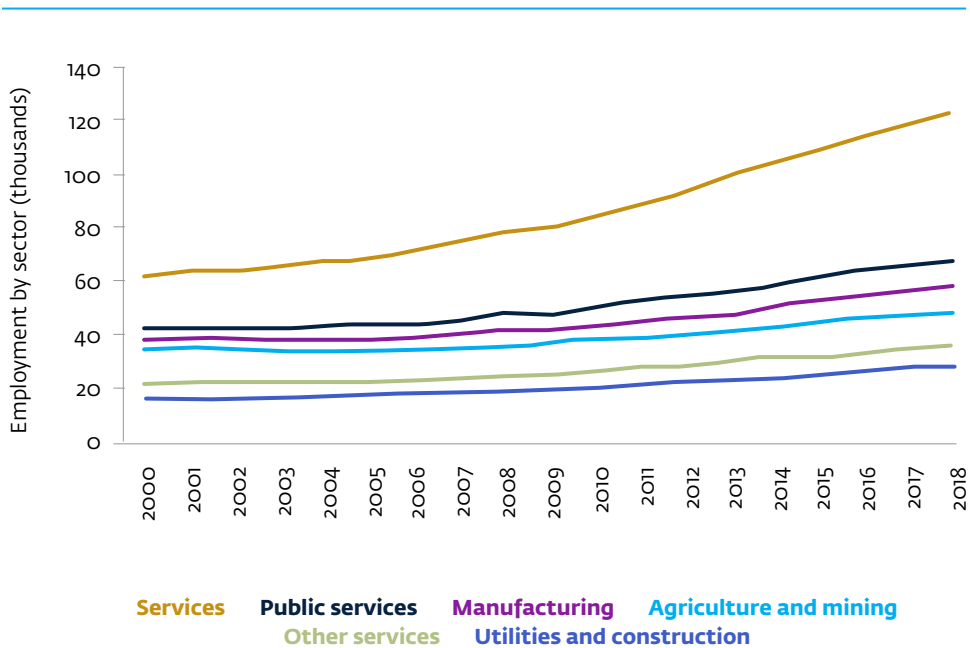
There is a gender gap in private sector participation, but female representation in formal firms is generally at par with the SACU average and outperforms the average for Sub-Saharan Africa. One-third of firms have female participation in ownership, 17 percent of which have a majority stake owned by females (against an average of 13 percent for Sub-Saharan Africa).⁴⁴ Twenty-seven percent of firms have a female top manager, mostly on par with SACU but higher than the Sub-Saharan Africa average (16 percent).⁴⁵ Approximately 40.5 percent of permanent full-time workers are women, on par with the SACU average but much higher than the regional average (27 percent).⁴⁶

FIGURE 1.9 FIRM PRODUCTIVITY GROWTH, 2007-16



Source: World Bank Enterprise Surveys

FIGURE 1.10 EMPLOYMENT BY SECTOR (THOUSANDS), 2000-18



Source: Government of Eswatini Central Statistics Office

The private sector has not created enough good-quality jobs, and the 2021 labor force survey suggests that informal employment is higher than formal employment. The private sector accounted for 73 percent of jobs in 2016, while the public sector accounted for 22 percent. Within the private sector, the services sector has been the main employer (42.0 percent in 2016), followed by industry (28.9 percent) and agriculture (7.8 percent). Informality dominates the labor market, accounting for 61.9 percent of total employment, while formal employment accounts for 25.4 percent, and the remainder are employed in household work.⁴⁷ Women accounted for 59 percent of informally employed workers in 2021, up from 51 percent in 2016.⁴⁸

MSMEs play a key role in Eswatini, representing about 40 percent of employment. A 2017 MSME survey studied 59,283 MSMEs that were predominantly locally owned and employed about 92,643 people (16 percent of the working-age population or 40 percent of total formal and informal employment).⁴⁹ Approximately 93 percent of the MSMEs, though, are in the low-productivity, low-wage category, 75 percent of which are individual entrepreneurs while 18 percent are micro enterprises with annual turnover of less than E 60,000 per year (table 1.1).⁵⁰ Only 8 percent of the enterprises are SMEs. Most MSMEs are located in the rural areas (mostly household enterprises) and are therefore likely to face the challenges of a rural economy such as poor access to markets, a lack of agglomeration effects associated with urban centers, inadequate access to electricity and water, lack of titled land, and so on.

TABLE 1.1 MICRO, SMALL, AND MEDIUM ENTERPRISES

	Share of total MSMEs	No. of employees	Assets (E)	Turnover (E)
Individual entrepreneurs (mostly low productivity and informal)	75%	0	50,000	<60,000
Micro enterprises (mostly low productivity and informal)	18%	0-3	50,000	<60,000
Small enterprises (mostly low productivity and informal)	7%	4-10	50,000 - 2 million	60,000 - 2 million
Medium enterprises (mostly formal and productive)	1%	11-50	2 million - 5 million	2 million - 8 million

Source: Finmark Trust, "FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report" (Mbabane, Eswatini, 2017).

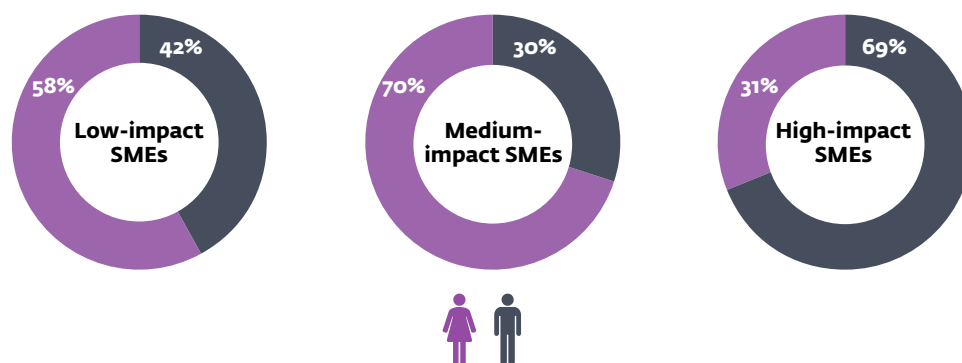
Note: (E) = emalangení ; MSME = micro, small, and medium enterprise.

Within the SME segment (about 8 percent of the MSMEs), only 4 percent of the firms are considered high impact, while 79 percent are low impact. Eswatini’s 2018 SME diagnostic report defined high-impact SMEs as those with high revenue potential, high formal employment potential, and high productivity. Medium-impact SMEs also have high productivity and earnings potential but have low employment potential. Low-impact firms have low productivity, as well as low earnings and jobs potential.⁵¹

Youth participation in SMEs is significant, making SMEs a potential avenue to tackle youth employment, but there is a gender imbalance among high-impact SMEs (figure 1.11). Young people between the ages of 18 and 34 own 22 percent of the high-performing SMEs and 26 percent of total SMEs.⁵² Men own 69 percent of high-impact SMEs, while women own 31 percent. However, women dominate ownership of the medium-impact SMEs (70 percent) and low-impact SMEs (58 percent), where there is low productivity and high informality. The high proportion of Eswatini women’s involvement in micro-level businesses may reflect their lower educational attainment compared to their male counterparts. As a result, women have less access to formal jobs and therefore engage in informal activities for subsistence.

Most SMEs in the high-impact category are registered, while most of those in medium- and low-impact categories are not registered. Approximately 87 percent of high-impact businesses are registered, while only 24 percent in the medium-impact category and 34 percent in the low-impact category are registered.

FIGURE 1.11 WOMEN DOMINATE LOW-GROWTH SMEs



Source: Finmark Trust “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report” (Mbabane, Eswatini, 2017).

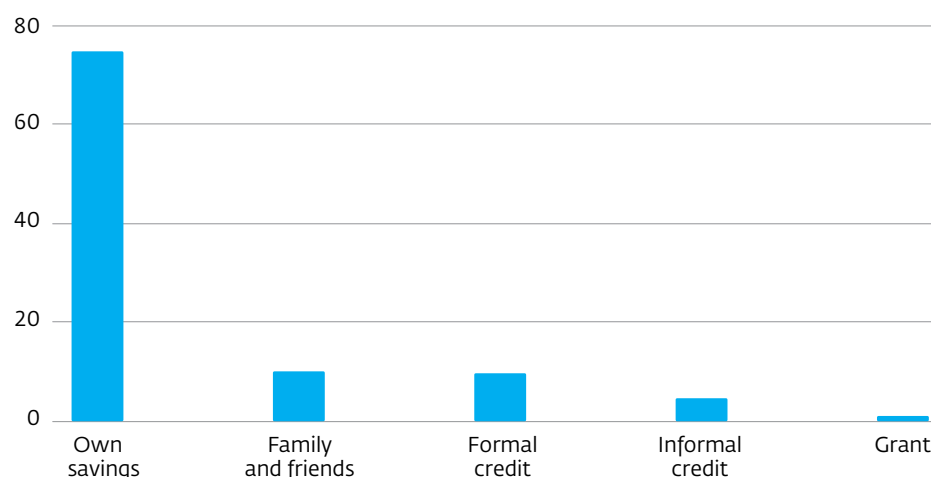
Note: SME = small and medium enterprise.

Limited access to finance and insurance are key constraints to SME growth, productivity, and upgrading. Despite high ownership of bank accounts (84 percent among SMEs), most SMEs lack access to either formal or informal credit (see section 2.3). Almost 84 percent of start-ups do not borrow from banks, and only a few borrow from informal sources (see figure 1.12). Insurance is expensive and is considered only optional by SMEs. Only 20 percent of the high-impact SMEs, 1 percent of medium-impact SMEs, and 3 percent of low-impact SMEs have insurance.

SMEs rarely make use of business development services and thus lack management and business leadership skills. About 55 percent of SMEs know that business support services exist, but very few make use of the service. According to Finmark Trust and Centre for Financial Inclusion, many business development services are offered by government, donors, and the private sector, but they are poorly coordinated and fail to meet the needs of more advanced SMEs (see section 2.3).⁵⁴ Most SMEs do not have any bookkeeping, filing, or record-keeping systems in place. Overall, Eswatini faces gaps in start-up skills, networking, and technology absorption.

Poor access to domestic and foreign markets is also a key constraint to SME growth and upgrading. Most SMEs rely on government tenders, although they still find it difficult to access these tenders because of an uneven playing field.⁵⁵ Some SMEs in the agricultural and manufacturing sectors struggle to access the local wholesale and retail sectors (for example, supermarkets), as well as the accommodation and restaurant sectors. Only a few SMEs in the agricultural sector (vegetables and fruits), agro-processing, and the arts and crafts sector have successfully penetrated international markets, but their export volumes remain low.

FIGURE 1.12 SOURCE OF START-UP CAPITAL (%)



Source: Finmark Trust "FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report" (Mbabane, Eswatini, 2017).

To support the role of SMEs in economic development and job creation, policy can focus on three areas: policies targeted at (a) stimulating SMEs growth, (b) enhancing access to finance, and (c) strengthening business development and capacity building. The CPSD consultations with various stakeholders suggest that there has been little progress in addressing these issues.

1. UNDP (United Nations Development Programme). “Enhancing Innovative Capacity For SDG-Solutions in the Kingdom of Eswatini” (Report, UNDP, New York, 2018).
2. World Bank, *Eswatini Disaster Risk Finance Diagnostic* (Washington, DC: World Bank, 2022).
3. Poverty is multidimensional and manifests in education, health, and access to basic public services. World Bank, Kingdom of *Eswatini Toward Equal Opportunity: Accelerating Inclusion and Poverty Reduction, Systematic Country Diagnostic* (Washington DC: World Bank, 2020).
4. World Bank, “Drought Resilience Profile: Eswatini” (Southern Africa Drought Resilience Initiative [SADRI] Report, World Bank, Washington, DC, 2021).
5. World Bank, *Eswatini Systematic Country Diagnostic*.
6. About 25.5 percent of children under five are stunted, 5.8 percent are underweight, and 9.0 percent are overweight as of 2017.
7. This includes anemia (47 percent) and vitamin A deficiency (45 percent).
8. WTO (World Trade Organization), Trade Profiles: Eswatini, 2019, https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/SZ_e.pdf.
9. Government of Eswatini, Kingdom of Eswatini Energy Masterplan 2034 (Mbabane, Eswatini: Ministry of Natural Resources and Energy, 2018).
10. Pew Research Center, “Remittance Flows Worldwide in 2017” (online fact sheet, Pew Research Center, Washington, DC, 2017), <https://www.pewresearch.org/global/interactives/remittance-flows-by-country/>.
11. WITS (World Integrated Trade Solutions), “Eswatini Wood Exports, Imports, Tariffs, by country and region 2019,” Trade Statistics for Eswatini, https://wits.worldbank.org/CountryProfile/en/Country/SWZ/Year/2019/TradeFlow/EXPIMP/Partner/All/Product/44-49_Wood.
12. World Bank, *Eswatini Systemic Country Diagnostic*.
13. World Bank, *Eswatini Systemic Country Diagnostic*.
14. D. Games, “South Africa as Africa’s Gateway: A Perspective from Business” (Policy briefing 46, South African Institute of International Affairs, Johannesburg, South Africa, 2012), https://www.files.ethz.ch/isn/145931/saia_spb_46_games_20120307.pdf.
15. UNICEF (United Nations Children's Fund), “Migration Profiles” (online information sheet), undated, <https://esa.un.org/migmgprofiles/indicators/files/Swaziland.pdf>.
16. With high fiscal deficits since 2015, real lending rates have increased from 3.3 percent in 2015 to an average of 7.7 percent over the period 2017–19 but declined to 5.1 percent in 2020 due to accommodative monetary measures to support the private sector during the COVID-19 pandemic. Central Bank of Eswatini, Annual Economic Review Report 2020/21 (Mbabane, Eswatini: Central Bank of Eswatini, 2021), <https://www.centralbank.org.sz/annual-report/>.
17. World Bank, World Development Indicators, 2021.
18. World Bank, *Eswatini Systemic Country Diagnostic*.
19. Government of Eswatini, Labor Force Survey (Central Statistics Office, Mbabane, Eswatini, 2016).

20. Government of Eswatini, Labor Force Survey, 2016.
21. World Bank, “Eswatini—Economic Recovery Development Policy Financing” (Program Information Document PIDA30420, World Bank, Washington, DC, 2020).
22. ESEPARC (Eswatini Economic Policy Analysis and Research Centre), The Socio-Economic Impacts of the 2015/16 EL Niño-Induced Drought in Swaziland (Mbabane, Eswatini: ESEPARC, 2017).
23. World Bank, “Eswatini—Economic Recovery Development Policy Financing.”
24. World Bank, World Development Indicators data, 2021, <https://databank.worldbank.org/source/world-development-indicators>.
25. SEDCO (Small Enterprises Development Company) and Ministry of Commerce Industry and Trade,. “Impact of COVID-19 on SMEs in Eswatini” (Report, SEDCO, Mbabane, Eswatini, 2020).
26. United Nations, “Rapid Socio-Economic Assessment of COVID-19 in Eswatini” (United Nations Development Programme, Mbabane, Eswatini, 2020), <https://eswatini.un.org/en/54337-rapid-socio-economic-assessment-covid-19-eswatini>.
27. World Bank, “Macro Poverty Outlook,” September 2021.
28. IMF (International Monetary Fund), “2019 Article IV Consultation Press Release, Staff Report, and Statement by the Executive Director for the Kingdom of Eswatini” (Country Report 20/41, IMF, African Department, Washington, DC, 2020).
29. World Bank, “Macro Poverty Outlook.”
30. Consultations with the private sector suggest that some companies will suspend investments until they are confident that the underlying causes of the unrest are addressed and the chances of further unrest disruptive to businesses reduced. Some foreign participants consulted noted that the choice of Eswatini had been largely driven by a lower crime rate and a more stable labor market (few incidents of labor unrest, that is) than South Africa, but the risk created by the political unrest might overshadow these locational advantages if its fundamental causes are not addressed and the risk of future unrest is not minimized.
31. World Bank, Macro-Poverty Outlook: Sub-Saharan Africa, April 2022 Washington, DC: World Bank, 2022), https://www.worldbank.org/en/publication/macro-poverty-outlook/mpo_ssa.
32. The government is planning to establish an unemployment benefit and insurance fund. Unemployment benefits help with the allocation on human capital. In the absence of such benefits, people without savings will be affected by sudden shocks leading to job loss and will
33. World Bank, *Eswatini Systemic Country Diagnostic*.
34. See chapter 2 on cross-cutting constraints for a discussion on SOEs.
35. World Bank, “Enterprise Surveys: Eswatini 2016” (Report, World Bank, Washington, DC, 2016), <https://microdata.worldbank.org/index.php/catalog/2811>.
36. World Bank, “Enterprise Surveys: Eswatini 2016.”
37. World Bank, “Enterprise Surveys: Eswatini 2016.”
38. Some 17.1 percent of these were licensed to trade and 35.1 were trading without a license.
39. L. Medina and F. Schneider, “Shedding Light on the Shadow Economy: A Global Database and the Interaction with the Official One” (Working paper 7981, CESifo, Munich, Germany, 2019).
40. Government of Eswatini, Economic Census, Central Statistics Office, Mbabane, Eswatini, 2015.
41. World Bank, *Eswatini Systemic Country Diagnostic*.
42. World Bank, *Eswatini Systemic Country Diagnostic*.
43. World Bank, “Enterprise Surveys: Eswatini 2016.”
44. World Bank, “Enterprise Surveys: Eswatini 2016.”
45. World Bank, “Enterprise Surveys: Eswatini 2016.”
46. World Bank, “Enterprise Surveys: Eswatini 2016.”
47. Government of Eswatini, “Integrated Labor Force Survey: Key Findings” (Central Statistics Office, Mbabane, Eswatini, 2021).
48. Government of Eswatini, “Labor Force Survey” (Central Statistics Office, Mbabane, Eswatini, 2016).
49. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report” (Mbabane, Eswatini, 2017), https://finmark.org.za/system/documents/files/000/000/214/original/FinScope_MSME_Report_Eswatini_2017.pdf?1601980048.
50. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report.”
51. Finmark Trust “Eswatini MAP SME Diagnostic Report 2018.”
52. Finmark Trust and Centre for Financial Inclusion, “Making Access Possible SME: Eswatini Diagnostic 2018” (Report, Finmark Trust and Centre for Financial Inclusion, Mbabane, Eswatini, 2018), https://finmark.org.za/system/documents/files/000/000/194/original/Eswatini_MAP_SMME_Diagnostic_online.pdf?1601971484.
53. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report.”
54. Finmark Trust and Centre for Financial Inclusion, “Making Access Possible SME: Eswatini Diagnostic 2018.”
55. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report.”

02. CROSS-CUTTING CONSTRAINTS TO PRIVATE SECTOR INVESTMENT



- 2.1 A LARGE STATE PRESENCE HINDERING COMPETITION AND PRIVATE SECTOR PARTICIPATION**
- 2.2 A SLOWLY IMPROVING BUSINESS AND TRADE ENVIRONMENT**
- 2.3 CONSTRAINTS IN ACCESS TO SKILLS, LAND, AND FINANCE HINDER PRIVATE INVESTMENT, ESPECIALLY FOR SMES**

This section presents the main cross-cutting constraints holding back private investment in Eswatini. It also identifies areas in which the private sector could contribute to ease the constraints, particularly in enabling sectors such as energy, information and communication technology (ICT), and financial services. Analysis of survey data (see box 2.1), sector assessments, and consultations with public and private sector officials identified several constraints hindering Eswatini's competitiveness as an attractive investment destination and limiting growth opportunities for domestic entrepreneurs. The most pressing constraints vary across sectors and firm typology but can be summarized in three interrelated categories: (a) a large state presence hindering market competition and private sector participation, for instance, in enabling sectors like energy and ICT; (b) slowly moving improvements to the business and trade environment; and (c) constraints in access to skills, land, and finance. At the core of these constraints are governance issues that contribute to a tilted level playing field for businesses and that delay reforms in the investment climate.

BOX 2.1 ESWATINI'S ANNUAL COMPANY SURVEY

The Ministry of Economic Planning and Development and the Central Bank of Eswatini have conducted annual company surveys since 2015, with the latest published results based on the 2019 survey. These surveys attempt to understand private sector performance in relation to growth, investment, and employment creation and examine the challenges confronting the private sector. Although the severity of the challenges varies across sectors, there have been a few top recurring challenges. First are the ongoing macro-fiscal challenges, which have created a weak environment for private sector performance. An example is an unsustainable fiscal situation that has been partly funded by domestic borrowing and public expenditure arrears and that has crowded out the private sector. Second, companies feel that regulation is excessive, and its intensity has increased.

Third, there has been unfair competition from both state-owned enterprises and foreign companies (some local companies have accused foreign companies of dumping poor-quality goods). Fourth is the high cost of utilities, including electricity and water. Fifth, local businesses complain that the investment threshold required to access tax concessions is too high, making the concession inaccessible to local small and medium enterprises. Broader logistical challenges, shortages of skilled personnel, high tax rates, and difficulties in getting refunds for the value added tax also rank within the top 10 challenges. High operational costs, particularly for electricity and water, seem to have moderated in the ranking because of a freeze in utility tariffs, while legislative and tax issues continued to negatively affect most industries.

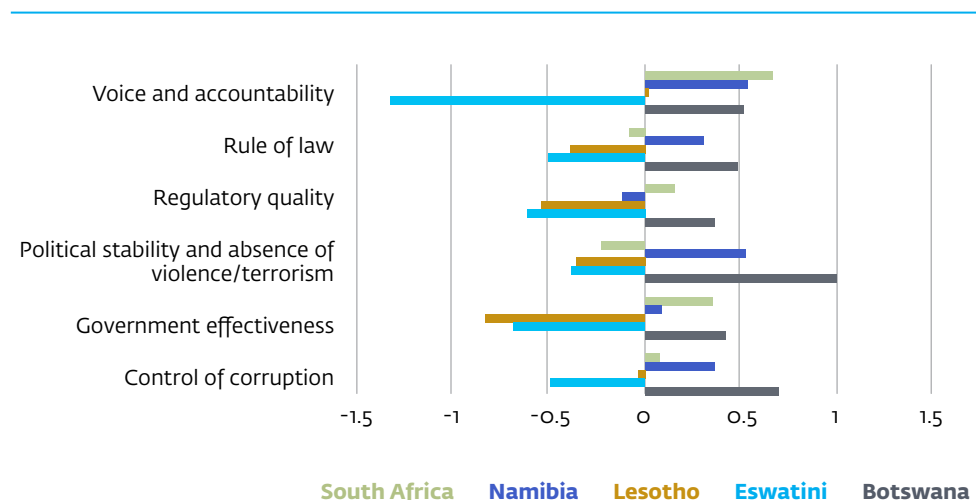
Source: Ministry of Economic Planning and Development, Central Bank of Eswatini company survey reports.

Addressing these constraints requires reforms to increase opportunities for private sector participation, more efficient and predictable regulations, and investments in government modernization and human capital. Existing country strategic documents, including the National Development Plan 2019/20–2021/22 and the post-COVID-19 economic recovery strategy, acknowledge the need for such reforms and investments. Strong leadership from the top will be necessary to follow through on implementation. Consultation with the private sector and other stakeholders during the identification and implementation of reforms will ensure that reforms are prioritized to respond to pressing needs and will result in economic and social benefits.

Eswatini has a dual governance system—a constitutional (modern) system and a traditional system, both of which place the king at the top. For years, this dual system helped create a sense of pride, identity, and cohesion, which are key ingredients for political stability. Political tensions have nonetheless emerged as the deteriorating economy has fueled discontent. While most business transactions are administered under the modern system, which is anchored in market institutions, Eswatini’s governance system creates avenues for discretionary access to opportunities and privilege by connected individuals and firms and for the government to evade commitment and accountability for certain policies or courses of action.¹ Legal reforms advance slowly, while institutions in charge of enforcing competition and anticorruption legislation are reportedly weak.²

A good enabling environment for investment calls for the transparency, predictability, and consistency of regulations. The loopholes in the current governance system create vulnerabilities to state capture and weaken the formulation and implementation of policies and regulations for increasing market access and competition, thus creating a perception of insider-outsider dynamics.³ In fact, indicators of governance and institutional quality reveal some weaknesses in comparison to other SACU countries (see figure 2.1). The following sections describe the main constraints and propose reforms to address them.

FIGURE 2.1 ESWATINI’S PERFORMANCE IN GOVERNANCE INDICATORS, 2020



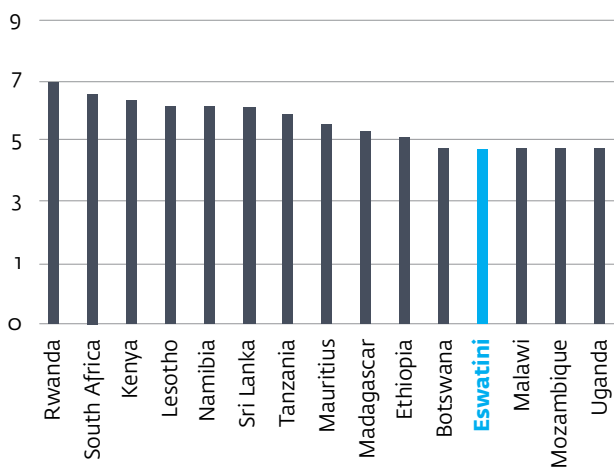
Source: Worldwide Governance Indicators.

2.1. A LARGE STATE PRESENCE HINDERING COMPETITION AND PRIVATE SECTOR PARTICIPATION

Competition in Eswatini is constrained by (a) the presence of SOEs and a lack of competitive neutrality among firms; (b) sector regulations that restrict entry, foster collusion, and discriminate among market players; and (c) insufficiently effective authority to identify and deter anticompetitive behavior in markets. Poor competition erodes consumer welfare as consumer surplus is converted into producer surplus through prices that are above market equilibrium prices. At the same time, high barriers to entry protect inefficient incumbents, thus stifling private sector development. Ongoing reforms in Eswatini aim to address these challenges.

Compared to peer countries, Eswatini has relatively concentrated markets (see figure 2.2). Market dominance is not a problem per se, but it can create opportunities for the abuse of market power by dominant players, especially in cases where the effectiveness of the competition framework is limited. Figure 2.3 shows that in addition to having relatively concentrated markets, Eswatini has a relatively less effective antimonopoly policy and low market-based competition.⁴ Low levels of competition increase market concentration and dominance, thus worsening consumer welfare.

FIGURE 2.2 EXTENT OF MARKET DOMINANCE

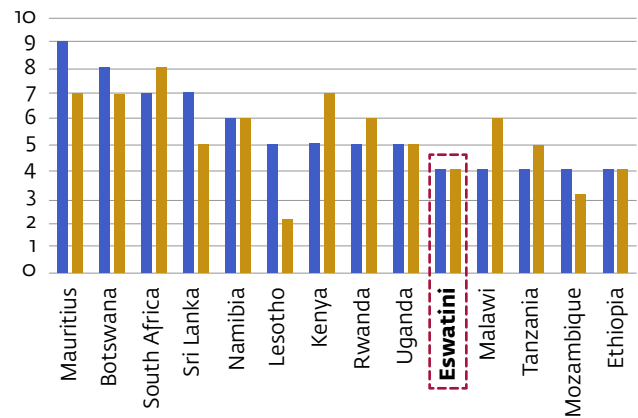


1-7, 7 is best

Source: World Economic Forum, Global Competitiveness Index 2019.

Note: This is a response to the survey question "In your country, how do you characterize corporate activity?" (1 = dominated by a few business groups; 7 = spread among many firms). It represents the 2018-19 weighted average or the most recent period available.

FIGURE 2.3 COMPETITION INDICATORS FOR SELECTED COMPARATORS OF ESWATINI



Market organization and competition (0-10)

Competition policy (0-10)

Source: Transformation Index BTI, Bertelsmann Stiftung 2022.

Note: The BTI is a perception indicator based on in-depth assessments of countries and is managed by the Bertelsmann Stiftung.

The Public Enterprises (Control and Monitoring) Act of 1989 (PE Act), which empowers the Public Enterprises Unit to oversee the operations of SOEs, is dated and does not differentiate between the different categories of SOEs, a deficiency which increases the risks to their competitive neutrality. Eswatini's definition of SOEs does not conform with universally accepted definitions such as that of the Organisation for Economic Co-operation and Development (OECD),⁵ which centers on the notion that the SOEs carry out economic activity that could be performed by a profit-seeking company. Conversely, in the case of Eswatini, the PE Act combines a heterogeneous mix of profit-seeking commercial corporations, essential service providers, developmental agencies, and entities that do not pursue commercial activity such as government agencies, regulatory bodies, and entities tasked with sector development. Furthermore, the number of SOEs has grown. While the PE Act identifies only 27 enterprises wholly or mostly owned by the government (Category A) and 10 minority-owned SOEs (Category B), the Ministry of Finance Dividend Policy (2015) mentions 50 Category A and 22 Category B enterprises.

The SOE footprint is significant (there are 30 commercial SOEs), raising the risk of crowding out the private sector. Given their social and developmental mandate, SOEs are sometimes confronted with the need to charge low prices for their services, yet the lack of cost-recovery tariffs may be unsustainable. This situation discourages the private sector from entering into such sectors. SOEs are active in agribusiness, information and communication, energy, travel and tourism, transport, health, and housing. While monopoly positions in some sectors such as energy, transport, and communications might have been previously justified by the small size of the economy, the urgency and ongoing efforts to unbundle EPTC demonstrate the need to introduce competition into these markets. Moreover, the presence of SOEs in sectors such as agribusiness, in which where the private sector is active, can be distortive if the competition framework is not effective.

Overlap between ownership, regulation, and management can upend competitive neutrality and lead to preferential treatment for SOEs. Assigning regulatory functions to SOEs in the sector in which they operate can create conflicts of interest, thus increasing barriers to entry for other firms. In the construction sector, for example, the governance body of the regulatory council consists of members who are directors of construction firms, hence creating opportunities for collusion and regulatory capture. This creates an incentive to make decisions that can harm both consumers and competition by creating barriers to entry. Vertically integrated SOEs that provide essential services upstream and compete with their customers for market share in the downstream markets can distort competition. EPTC and the Eswatini Electricity Company (EEC) are typical examples of SOEs that provide essential infrastructure to upstream customers but that may end up competing with their customers in the downstream markets. The EEC provides transmission to all electricity generators and at the same time competes for the renewable energy market with independent power producers (IPPs). In addition, the Marketing Board also combines regulatory and commercial functions in both the input and output markets, thus creating potential sources of conflict of interest.

Inefficiently targeted subsidies may create an uneven playing field because the subsidies may have the effect of subsidizing the inefficiencies of SOEs at the expense of the private sector players. Four of the top seven beneficiaries of government transfers are SOEs operating in sectors in which the private sector operates, such as air travel, health (two hospitals), and media (broadcasting). Royal Eswatini National Airways Corporation received the second-largest government transfer, after the Eswatini Revenue Authority. The Eswatini TV Authority was the seventh-largest beneficiary of government transfers.⁶

Groundwork for comprehensive reform of the SOE sector and the competition framework has started with the approval by the cabinet of the SOE Restructuring Framework. As part of fiscal consolidation efforts, the National Development Plan 2019/20–2021/22 includes objectives to contain the wage bill and transfers to SOEs and improve SOE performance through streamlining and privatization. The government commissioned a comprehensive assessment of SOEs as a first step to identify options to restructuring and consolidation. This assessment, prepared by a local think tank, resulted in the SOE Restructuring Framework, which lays out a comprehensive roadmap to rationalize the SOEs. The proposed legal and institutional reforms would reduce the number of SOEs from 49 to about 31 by consolidating some SOEs and privatizing or closing others. Moreover, once the proposed roadmap is implemented, it will separate regulatory and commercial functions and strengthen the accountability and oversight of the remaining SOEs. Purely commercial SOEs would be privatized, including the Pigg’s Hotel and Casino, Eswatini Bank, airport operations of the Eswatini Civil Aviation Authority, Eswatini Railway, and the Royal Eswatini National Airways Corporation.

Enhanced data collection and reporting is central to carrying out performance monitoring and reporting for SOE activities and to competition enforcement in Eswatini. The use of digital platforms can enhance service delivery and also generate and store data useful for planning and performance measurement. Because of capacity constraints, however, most of the SOEs struggle to produce reports or data about their operations, and their websites are often outdated. Thus, improved SOE performance (particularly stronger corporate governance and financial management) has the potential to reduce the cost of doing business and to improve service delivery.

The finalization and the implementation of the Competition Bill (2020) is expected to increase the effectiveness, consistency, predictability, and transparency of the enforcement and administration of competition law in Eswatini. The Competition Bill, which will replace the Competition Act of 2007, proposes the establishment of an independent competition tribunal. This tribunal should enhance the effectiveness of the adjudication and prosecution of matters and make regional frameworks such as Common Market for Eastern and Southern Africa (COMESA) competition regulations more effective, but finding personnel with the right skills can also be a challenge given the country’s short history in implementing legislation that regulates competition. There is no information publicly available that relates to prohibited mergers or penalties instituted against prohibited conduct since January 2019.⁷ This reflects either insufficient reporting or limited enforcement capabilities by the competition authority. The Competition Bill specifically mentions that competition enforcement will be applied to all economic activities, whether conducted by a private or public enterprise or exerting economic influence in Eswatini. Previously, the Competition Act of 2007 administered the handing out of preferential trading privileges conferred on any person by an act of Parliament or by an agency of the government acting in accordance with an act of Parliament. This includes, for example, players in the digital and broadcasting sectors with monopoly by virtue of acts of Parliament.

A transparent and accountable procurement system can support the development of the private sector and create opportunities for SMEs. Although Eswatini spent as much as 25 percent of its GDP on public procurement, weaknesses in the institutional framework meant to support public procurement result in significant inefficiencies that may hinder private sector development. The situation is sometimes worsened by government arrears for services offered by the private sector, which causes liquidity challenges for firms. Furthermore, public procurement operations were reportedly most vulnerable to bribes: 48 percent of surveyed firms expected to pay gifts to secure a government contract, 16 points above the regional average.⁸ Ongoing reforms in the public procurement framework, including introducing electronic systems, are expected to improve its transparency and accountability with the help of public procurement regulations approved in 2020. The new regulations include provisions to promote the participation of Swazi firms and citizens in procurement processes. The regulations reference the possibility of providing training to local companies on procurement processes, favoring standards familiar to them, and dividing procurement in lots where feasible and appropriate. The implementation of the new regulations can offer opportunities for SMEs to compete in procurement processes.

The sovereign wealth fund (SWF) Tibiyo Taka Ngwane (“wealth of the nation” in siSwati) could play a more developmental role and leverage private sector investment into strategic and infrastructure sectors. Tibiyo was established at independence to benefit the nation, and its main source of income is land leased to multinational companies. It also owns forest land, urban property, and farms on titled land. Its value is generally estimated around US\$100 million, although it has not published accounts since 2018, and it is not subject to government oversight. Tibiyo has become a vehicle for royal ownership in Eswatini’s larger companies such as the Royal Eswatini Sugar Corporation, the country’s largest sugar producer, and Ubombo Sugar, the Royal Swazi Spa Holdings, and other hotels.⁹ Limited up-to-date knowledge regarding Tibiyo’s operations and investments could discourage participation or entry by the private sector into certain sectors or markets. Moreover, there is potential for Tibiyo to play a larger role in development beyond these sectors. Tibiyo could, for instance, focus some of its investment in the extractive or infrastructure subsectors, embedding the necessary safeguards on environmental sustainability and climate resilience. To play such a catalytic role in mobilizing private investment, Tibiyo could adapt some international good practice for SWFs (see box 2.2).

Eswatini could develop frameworks to embed competition principles in government support measures and investment promotion programs to minimize economic distortions. State support measures should always (a) be awarded on the basis of transparent criteria applied consistently across economic activities and firms, (b) be granted to broad segments of the economy under equal conditions rather than on an individual-firm basis, and (c) be closely monitored in terms of their expected effects.

BOX 2.2 SOME INTERNATIONAL GOOD PRACTICE FOR SWFS

A sovereign wealth fund (SWF) is a special-purpose investment fund or arrangement owned by the state to hold, manage, or administer financial assets to achieve financial and developmental objectives. In line with the sources of their funds, SWFs can be distinguished by their objectives: (a) reserve investment corporations that aim to enhance returns on reserves, (b) pension reserve funds; (c) fiscal stabilization funds, (d) fiscal savings funds, and (e) development funds that use returns to invest for development purposes. Tibiyo can be classified in the fifth category. Created in 1968 following Eswatini's independence, Tibiyo's business model focuses on the social and economic development of Eswatini. Through equity shareholding and the ownership of key businesses, Tibiyo aims to "ensure that the people of Eswatini are active participants and beneficiaries of the economic activities of the country."

In Eswatini and the global economy at large, the management of SWFs has become a major focus on policy discussions. This is because of the lack of transparency often associated with SWFs, the potential to disrupt financial markets, and the risk that political economy issues may influence investment decisions ultimately leading to unfavorable impacts on the real economy. Moreover, SWFs' investments are sometimes a cause of concern for competition because they pose risks of public subsidization and other market distortions due to their size.

These concerns led to the adoption of the Generally Accepted Principles and Practices (GAPP) for SWFs (also known as the Santiago Principles). The GAPP was developed in 2008 by the International Working Group of Sovereign Wealth Funds made up of countries with SWFs under the coordination of the International Monetary Fund. The objectives of the GAPP include providing a framework for a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability. The Santiago Principles outline 24

good practices covering governance and operational frameworks for SWFs.

Starting with transparency and accountability, GAPP recommends that an annual report and accompanying financial statements on the SWF's operations and performance be punctually and consistently prepared in accordance with accounting standards. The GAPP recommends that relevant financial information regarding the SWF be publicly disclosed to demonstrate its economic and financial operations. To minimize the crowding-out and disincentivizing of private investment, the GAPP recommends that SWFs not take advantage of privileged information or inappropriate influence by the government when competing with private entities. It further encourages the SWF's investment policy to be clear and consistent with its defined objectives, risk tolerance, and investment strategy and to base itself on sound portfolio management principles.

Investing with private investors, demutualizing the fund, pooling with other SWFs, and cofinancing with international financial institutions could be used by the SWF to reduce risk, bring in additional expertise, and enhance the credibility of investment decisions. Institutional investors regularly use cofinancing to manage risk, and crowd in strategic partners. In instances in which there are concerns that investment decisions may be affected by political-economy issues, setting a limit on the role of the SWF to that of a minority investor may enhance the integrity of the investment process. SWFs can also leverage public-private partnerships to pull private investment into marginally commercial projects with large social benefits. With regard to strengthening the corporate governance of SWFs, international good practice also recommends an independent board and professional staff. Ownership should be fully separate from supervision to avoid conflicts of interest and political interference.

Source: Alan Gelb, Silvana Tordo, and Håvard Halland, "Sovereign Wealth Funds and Domestic Investment in Resource-Rich Countries: Love Me, or Love Me Not?" (Economic Premise note 133, World Bank, Washington, DC, 2014); IFSWF (International Working Group of Sovereign Wealth Funds), "Generally Acceptable Principles and Practices, 'Santiago Principles'" (IFSWF, London, 2008).

In line with government objectives to foster private investment and reduce the fiscal burden of SOEs, reforms in the energy and digital sectors have been identified as priorities. These sectors are critical to enhance Eswatini’s export competitiveness and to unlock new opportunities for job creation and entrepreneurship. The following paragraphs describe these sectors. In addition, the government has expressed interest in mobilizing private investment in infrastructure through public-private partnerships (PPPs), but the lack of a legal framework and a limited track record may hamper opportunities to develop PPPs in the short term (see box 2.3).

Eswatini has made significant progress toward providing access to electricity to its population. Access to electricity is estimated around 80 percent, in large part due to the rural electrification program, which seeks to achieve universal access to electricity by 2022 in accordance with the aspirations of the National Development Strategy—Vision 2022. In comparison with regional peers, the national electricity utility, EEC, is one of the better performers. Aggregate technical and commercial losses are estimated at 12.7 percent, and tariff increases granted by the regulator, the Eswatini Energy Regulatory Authority (ESERA), have helped strengthen the financial health of the company. Tariffs are determined under a multiyear price determination formula and the average tariff is approximately US\$0.14/kilowatt-hour. Tariffs are dependent on the cost of power imports from South Africa.

The energy mix is primarily driven by imports mainly from South Africa. The Southern African Power Pool (SAPP) regional market provides an additional source for imports, and in 2020 electricity imports from Mozambique resumed. Of the 1,143.4 gigawatt-hours (GWh) sold by the EEC in 2020, imports accounted for approximately 90 percent. The EEC has an installed generation capacity of approximately 70.0 megawatts (MW) that is dominated by hydropower from the Maguga (19.8 MW), Ezulwini (20.0 MW), Edwaleni (15.0 MW), and Maguduza (5.6 MW) power stations. The balance of the EEC’s installed capacity of 9.0 MW is provided by two diesel-fired units at Edwaleni that are currently mothballed because of high operating costs. Using bagasse, by contrast, the sugar industry is able to operate a significant number of cogeneration facilities that provide electricity to its factories and associated communities. Total sugar industry cogeneration capacity is 107.0 MW, or 41.5 MW and 65.5 MW at Ubombo Sugar Limited and Royal Eswatini Sugar Corporation (RESC), respectively. In addition to its own use, Ubombo Sugar sells a portion of the electricity it generates to the EEC, which in 2020 amounted to 65.2 GWh.

The government’s priorities for the sector are defined in the National Energy Policy 2018 (NEP 2018), which has five objectives: (a) ensuring access to modern energy services for all, (b) enhancing employment creation, (c) ensuring security of the energy supply, (d) stimulating economic growth and development, and (e) ensuring environmental health and sustainability. To achieve these objectives, the NEP 2018 sets out 11 policy positions among which are (a) ensuring adequate security of supply, (b) supporting the development of renewable energy resources for a target of 50 percent of the electricity generation mix, (c) planning and supporting a comprehensive development of national capacities for the development of renewable energy projects, (d) striving to provide all households with access to modern energy services by 2022, (e) facilitating the further liberalization of the electricity market, and (f) facilitating the access of IPPs to the electricity market through an effective regulatory framework.

BOX 2.3 PPPs IN ESWATINI

Eswatini has had a public-private partnership (PPP) policy since 2008 but no PPP law and a scant implementation track record. The National Development Plan 2019/20–2021/22 recognizes the role that the private sector can play in infrastructure investments through PPPs and the need to reform the policy and legal framework for PPPs. Efforts to develop independent power producers (IPPs) in solar energy have encountered challenges in the regulatory framework (those related to tax treatment, for example) and the procurement phase, which reveal capacity issues related to implementing PPPs and support the need to review the legal, regulatory, and policy environment for PPPs. Developing PPPs in Eswatini faces a number of challenges including the macroeconomic environment, policy uncertainty, and the lack of a track record.

Because the government in principle supports considering PPPs, it could undertake a legal and regulatory assessment to identify any potential constraints on private sector firms engaging in PPPs and on potential options to remedy these constraints. This engagement could entail high-level legal due diligence and a supplementary technical, sector, and commercial analysis to inform policy design on the key requirements to implement PPP projects successfully. The preliminary legal due diligence would identify material legal, regulatory, and policy issues that might affect the implementation of a competitive procurement process for PPPs and the ability of the private sector to participate in such PPPs.

The scope of the legal due diligence would typically include the following:

1. A review of the PPP enabling environment in Eswatini, including any relevant legislation, regulations, and governmental policies applicable to PPPs, highlighting legal or policy changes that

may be required for their implementation. The PPP framework and public procurement regime would be reviewed, highlighting any mandatory steps and processes relating to the competitive procurement of PPPs, including procedures involving tender evaluation, bidder selection, and the negotiation of project documents. The scope of the legal due diligence would consider how any credit enhancement structures required for bankability would interface with the local legal and regulatory environment. For a successful study, input from both legal and transaction advisory consultants is typically required.

2. Any tariff-setting regime that may prevent competitively set tariffs envisaged as part of an open tender of PPPs.
3. Any land administration and titling laws relevant to PPPs that may affect bankability.
4. A review of other pertinent matters for the enabling environment for PPPs in Eswatini, such as the government's capacity for undertaking international arbitration and granting support in respect to off-taker obligations, as well as other components that may be required for bankability such as a payment guarantee or liquidity support obligations.

In parallel, the government could follow a gradualist strategy by first exploring private solutions based on performance-based contracts (in the transport sector, for example) and could develop experience in PPPs by focusing on low-hanging fruit sectors where PPPs are more frequent. If transaction advisers are being considered to support Eswatini, a requirement for capacity building of local institutions should be anticipated. This would allow Eswatini to gain experience and reach a stage where investors are willing to take more risks.

Source: World Bank.

To meet sector objectives, a number of challenges across the supply chain need to be overcome. First, variable hydrology and the limited water storage capacity of hydrogeneration facilities compromise the ability of that solution to meet demand domestically. An El Niño–induced drought, for example, caused domestic electricity production in 2016 and 2017 to be 123 GWh and 119 GWh, respectively, accounting for only about 10 percent of total energy sent out. Reliance on electricity imports from South Africa puts supply security at risk given ongoing operational challenges in that country. Furthermore, constraints in the transmission and distribution network reduce the reliability of supply and restrain demand growth. Costs to provide electricity access through on-grid connections are growing as the country approaches universal access because such access requires increasing distances from the national grid. In addition, despite liberalization of the power market in 2007, new entrants into the market had been limited until the recent launch of auctions to increase renewable energy capacity in Eswatini.

Although the overall policy direction for private sector participation is appropriate, implementation needs to be expedited and requires substantial coordination within government. Policies for private sector participation in the NEP include the following key reforms: (a) developing and publicizing a menu of available financial and fiscal incentives such as exemptions from the value added tax (VAT) and other taxes or tax holidays, capital allowances, and cost-recovery electricity pricing; (b) consideration of support for credit enhancement; (c) faster and lighter licensing requirements for small-scale investments (bagasse and cogeneration, for instance); and (d) clear connection to the grid rules for effectively implementing a third-party access regime. A fiscal assessment would be necessary to help ensure that reform proposals are sustainable.

Eswatini could harness additional opportunities to achieve sector goals. On the generation front, the country’s hydrogeneration facilities could be complemented with large-scale solar generation facilities that could also include storage capacity.¹⁰ The Global Solar Atlas shows that solar irradiation in Eswatini ranges from approximately 1,700 kilowatt-hours per square meter (kWh/m²) per year and 1,500 kWh/m² per year to 1,830 kWh/m² per year and 1,800 kWh/m² per year for global horizontal irradiance and diffuse normal irradiance, respectively. The energy master plan released in 2018 therefore shows solar and wind as an integral part of a least-cost capacity expansion scenario expected to generate up to 250 MW and 165 MW, respectively, by 2034. The EEC in September 2021 commissioned a 10 MW solar photovoltaic (PV) plant, the first such utility scale facility, which will provide important lessons about the integration of variable renewable energy regulation into the country’s grid. Furthermore, the government in 2019 launched procurement for an initial 80 MW of renewable energy capacity (40 MW solar PV, 40 MW biomass) as part of its short-term generation expansion plan for which a total of 280 MW in renewable energy capacity is expected to be procured.

On the demand side, the government recognizes that as progress is made toward the goal of universal access, the conventional means of providing access through grid connections is becoming costly. The government is therefore keen to explore off-grid renewable energy options as a cost-effective complement to grid connections. The World Bank is supporting Eswatini’s government through financing and technical assistance with the objective of improving the reliability of electricity supply, increasing access to electricity services, and improving energy security.

Digital sector: an overdue sector reform to unlock the digital economy

Insufficient competition in the broadband market hinders internet affordability and access, undermining Eswatini’s opportunity to benefit from the digital economy. The monopoly and exclusive rights of the incumbent operator (the EPTC) in international connectivity and the national broadband backbone has led to the underdevelopment of digital infrastructure, particularly in rural areas. Although the introduction of a second operator in the broadband retail market has contributed to reduced prices, MTN Eswatini enjoys an 87 percent market share. Limited competition and the lack of direct access to an international gateway result in mobile internet prices that are out of reach for a large share of the population. As a result, it is estimated that less than one-third of the population uses the internet despite mobile broadband networks being available for 90 percent of the population, a wide usage gap.¹¹ Furthermore, Eswatini has mainly relied on individual mobile network operators to build its own infrastructure and share facilities, encouraging passive infrastructure sharing among service providers. Expanding infrastructure sharing to include active equipment such as intelligent networks and radio access networks among other active components of the network would promote private investment, maximize the use of network facilities, reduce the duplication of network infrastructure, and promote the availability of high-quality, cost-effective, competitive telecommunication services.

The government has committed to the unbundling of EPTC, a reform that started in 2013 as part of the Electronic Communications Law. Unbundling EPTC into legally separated telecommunications infrastructure and retail service operators could open opportunities for increased private sector participation and competition in the sector and is expected to translate into more affordable and better-quality services. This in turn could open up opportunities for developing other pillars of the digital economy, including government and private digital platforms and digital financial services, which remain underdeveloped. To complete the unbundling, the government will amend several regulations: (a) the Eswatini Telecommunications Corporation Bill, (b) the Eswatini Communications Infrastructure Corporation Bill, and (c) the Swaziland Postal Corporation Bill. Successful implementation of the reform will require careful consideration of market conditions and of structuring options for the new entities to ensure their sustainability. The cabinet recently approved a report from the International Telecommunications Union with recommendations on the EPTC unbundling and the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines (2021).

2.2. A SLOWLY IMPROVING BUSINESS AND TRADE ENVIRONMENT

In recent years, Eswatini has scaled up efforts to improve business regulations and trade facilitation as part of a broader agenda to improve the ease of doing business. Recent improvements have focused on improving access to information online regarding procedures and fees for construction permits, enhancing the property registration system, and upgrading electronic procedures for business registration. Other improvements relate to the adoption of a law that guarantees borrowers the right to access personal data. Ongoing reforms to establish a commercial bench and small claims courts and invest in electronic case management systems aim to reduce delays in resolving commercial disputes.¹²

A business environment reform agenda articulated in the investor roadmap is spearheaded by the Ministry of Commerce, Industry and Trade, but legal reforms are advancing slowly. Several reforms are under way to set up a one-stop shop for business registration, streamline trade and construction license approvals, and introduce a commercial bench and small claims court. A long legislative agenda is pending parliamentary approval.¹³ Government consultation with the private sector on regulatory changes has improved in the past few years under the current business-friendly administration, while there are opportunities to develop institutionalized public-private dialogue mechanisms to channel private sector concerns and inputs to legislative changes.

These reforms are important given Eswatini's relatively weak regulatory environment for businesses relative to that of its SACU neighbors. Existing indicators and feedback from private sector actors consulted for the CPSD reveal opportunities for strengthening property rights and streamlining business regulations and procedures. Eswatini's score in the regulatory quality index is -0.56 , which is higher than the regional average of -0.76 but lower than that of its SACU neighbors.¹⁴ Similarly, Eswatini's score on rule of law is -0.53 , above the Sub-Saharan Africa average of -0.7 but also below its SACU neighbors. There is room to streamline business entry regulations, reduce licensing costs, increase the predictability of import and export procedures, and strengthen property rights and investor protections. Some of the important focuses of these efforts could include contract enforcement, insolvency frameworks, and the resolution of legal labor disputes. Moreover, dated legislation such as the Marriage Act of 1964 and domestic and cultural norms are some of the barriers perpetuating gender inequality that results in low participation by women in the private sector and key decision-making positions.¹⁵

In particular, reforms to reduce red tape and automate procedures could help address perceptions of corruption. Improving access to information, streamlining procedures, and introducing electronic platforms such as the planned one-stop shop for business registration could reduce the opportunities for rent-seeking behavior. Enterprise Survey data from 2016 found that firms in Eswatini confront lower levels of corruption than the typical firm in Sub-Saharan Africa, with 7 percent of firms facing a request for a bribe compared to 22 percent regional average. Less than 2 percent of firms reported an expectation to pay bribes for obtaining trade and import licenses or electricity and water connections.¹⁶ Corruption was nonetheless cited by 18 percent of firms as the biggest impediment, the most cited obstacle for SMEs, and a substantial increase from 5 percent in 2006. Eswatini also lags behind its SACU neighbors in Transparency International's Corruption Perception Index, ranking at 117th out of 180 countries.¹⁷

Laws directing the modern governance system are generally supportive of private investment, and the government acknowledges the importance of FDI, as expressed in the government's 2012 investment policy. The Investment Promotion Act of 1998 recognizes good practice principles such as national treatment and protection from expatriation and repatriation of profits, and only a small list of sectors is restricted from receiving FDI.¹⁸ Eswatini is also a member of the Multilateral Investment Guarantee Agency and the International Center for Resolution of Commercial Disputes, and it offers five-year work and residence permits for expatriate directors, senior management, and key technical personnel of new enterprises. A new investment promotion strategy developed with support from the European Union was presented in February 2021, and the government has expressed interest in revising the investment policy to align it to current priorities. Yet implementation has lagged for some elements of the 2012 investment policy, including development of linkages and PPPs.

In an effort to attract foreign investment, Eswatini is setting up special economic zones (SEZs). The SEZ legal framework was established in 2018 and designated two initial SEZ locations: the Royal Science and Technology Park (RSTP) and King Mswati III International Airport, but COVID-19 has delayed implementation. The SEZs are meant to provide investors with access to serviced land, seamless procedures, and additional tax incentives. Implementation is still in the early stages, but international experience with SEZs shows mixed results. The performance of most zones resembles the economic trajectory of the countries where they are located, and program features such as tax incentives seem to have only marginal importance on zone success.¹⁹ Beyond the SEZs, Eswatini already offers various tax and nontax incentives for private sector investments focusing on manufacturing, agriculture, mining, international services, and tourism.²⁰ In a constrained fiscal space, the government could assess the efficacy of tax incentives (including revenue foregone) and assess their cost-benefit compared to other policies to improve the investment climate and develop skills.

Seamless trade is critical for Eswatini to regain competitiveness and a reform priority for the government. Eswatini has been a member of the World Trade Organization Trade Facilitation agreement since 2016 and has taken steps to implement its commitments set out in the Trade Facilitation Programme Roadmap of 2019, which aims to reduce the time and cost of trade by 30 percent by 2022.²¹ The government has undertaken reforms to ease cross-border trade by implementing a web-based customs data management platform, ASYCUDA World, establishing a national trade facilitation committee, and implementing a trade information portal to publish and consolidate the relevant information to support international trade. Reforms also include the creation of detailed import and export procedures and improvements in border procedures (for example, the automatic release for green channel and eliminating the need for documentary vetting). Eswatini has implemented a successful public-private dialogue on trade facilitation issues that can serve as a model for other reforms.

Consultations for this CPSD consistently identified trade facilitation issues as a constraint across sectors, while some delays can be attributed to COVID-19. The issues identified can be grouped into two categories: weaknesses in Eswatini's customs and border control agencies and insufficient coordination and nontariff measures in neighboring countries (mainly South Africa). A 2018 time release study (TRS) found that the average time needed to complete the regulatory process for importing goods is 6.5 hours, including about 2 hours for the border process.²² Comparing the 2018 TRS to the one undertaken in 2012 found that average times at the border for imports processed at Ngwenya (main border) dropped by two hours. Average border times at Lavumisa increased by over 30 minutes despite infrastructure improvements and other

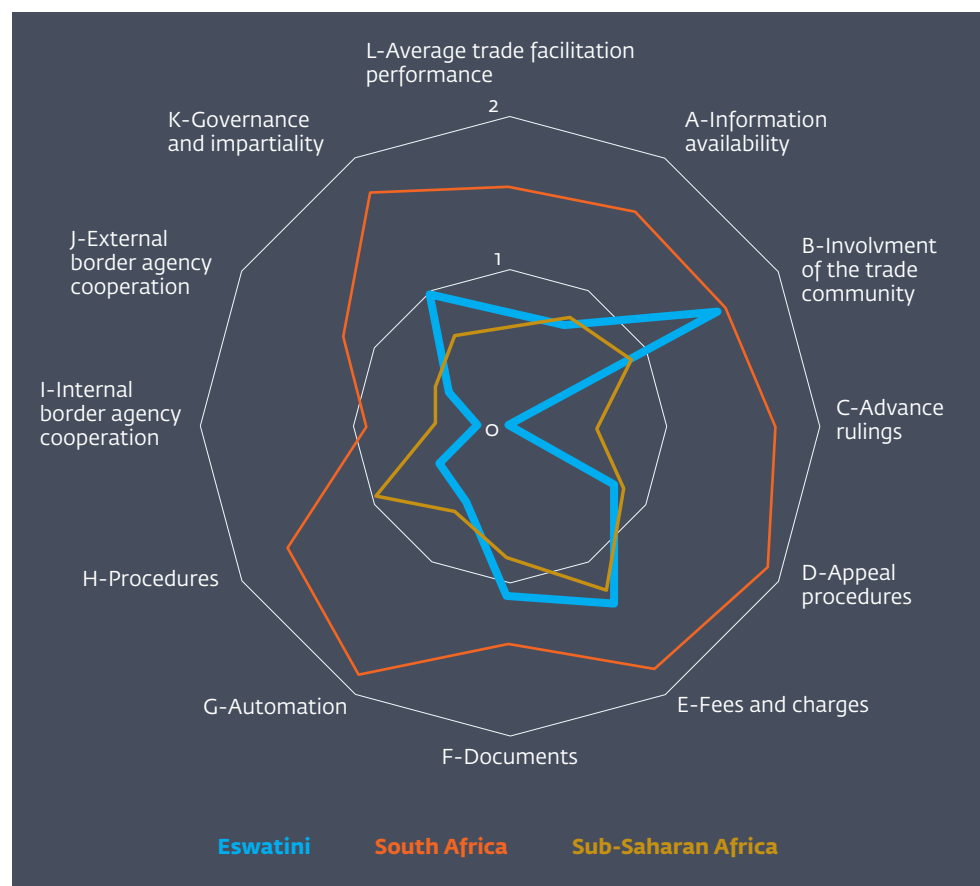
reforms, although the difference is not significant and can be explained by factors such as the sampling process. Another TRS has been recently completed. Preliminary findings show that the COVID-19 pandemic has affected border operations because of the need to introduce health controls to mitigate the spread of the virus and reduce physical interaction by such measures as closing border points or reducing working hours. Additionally, disruptions at the Durban Port and congestion at the Lebombo/Ressano Garcia border post (Maputo Corridor) diverted some traffic and increased the transit of cargo through Eswatini to reach Maputo Port. This led to an unexpected higher demand of border services and contributed to higher wait times, but the expectation is that some of these issues are circumstantial and performance will improve again.

The use of paper documents and the need for multiple permits and certificates contribute to delays in trade procedures. A comparison of Eswatini with South Africa on key trade facilitation dimensions shows opportunities to catch up on automation, coordination among border agencies, and advance rulings (see figure 2.4). In addition, private sector representatives point at system glitches and delays related to unannounced maintenance of the ASYCUDA system by the Eswatini Revenue Authority, as well as difficulties in correcting errors. Also, obtaining tax refunds can be a lengthy process (also in South Africa), with negative impact on business cashflow, especially for SMEs. The Eswatini Revenue Authority could eventually expedite and monitor VAT refunds by reviewing and streamlining refund procedures through joint monitoring, controls, and improved interconnectivity with South Africa. A target could be set, for example, ensuring that by 2024, compliant traders would be refunded in less than 10 days. Moreover, the Ministry of Finance exercises transactional controls on imports of selected goods²³ to address fiscal concerns and to exercise controls on prices, and this is neither a common nor effective arrangement in other jurisdictions. The Ministry of Finance could assess the effectiveness of these controls and their impact on trade facilitation and explore the replacement of the existing transactional-based controls by audit-based and enterprise-oriented compliance controls.

Implementation of the trade facilitation roadmap is advancing, but progress on automation is constrained by the lack of resources. Reforms envision reduced documentary requirements, coordinated border management, strengthened risk management systems, and expansion of the preferred trader program (which has low uptake), among others. Automation of border control agencies is uneven. The National Trade Facilitation Committee has approved a blueprint for the development of the national trade single window but has not yet secured the resources to advance with the implementation. Implementing the national trade single window and automating and streamlining procedures to process trade authorizations would improve the efficiency of trade processes. The government could also explore the possibility of providing licenses, permits, certificates, and other authorizations (LPCOs) that cover multiple transactions and operations to regular and compliant traders, such as certified preferred traders. The preferred trade program could be expanded eventually through the implementation of a single government-authorized economic operator program aligned and mutually recognized with South Africa and Mozambique that explores expedited border procedures or dedicated trade lanes. As a target, at least 20 percent of trade transactions could be performed by certified traders and operators by 2024.

Coordination of border management needs to be enhanced, both at the domestic level (all agencies engaged with cargo inspections) and at the international level. This would allow aligning strategies for one-stop border operation, joint declaration (for VAT controls), and the deployment of new technologies to expedite procedures such as tracking and tracing systems, automatic weighing machines, plate readers, biometrics for identification of regular drivers and border residents, joint risk management, and so on. Delays in trade are compounded by ad hoc requirements and random audits by the South African authorities, who can hold trucks at the border. Increasing working hours in South Africa to enable 24-hour border crossing would make procedures increasingly efficient. Finally, private sector representatives consulted for the CPSD asked for greater transparency and information exchange by South Africa and Mozambique and stronger mechanisms to address nontariff barriers.

FIGURE 2.4 ESWATINI TRADE FACILITATION PERFORMANCE, 2019



Source: OECD Trade Facilitation Indicators, 2019.

Note: The Trade Facilitation Indicators range between 0 to 2, with 2 designating the best performance.

2.3. CONSTRAINTS IN ACCESS TO SKILLS, LAND, AND FINANCE HINDER PRIVATE INVESTMENT, ESPECIALLY FOR SMES

Constraints in access to skills, land, and finance hinder private investment in Eswatini, especially for MSMEs. First, skills mismatches constrain the ability of firms to find qualified workers. Further, weaknesses in technical (including digital) and managerial skills result in weak capabilities for SMEs and their ability to identify and develop bankable projects, thus hindering access to credit. Second, the lack of formal land tenure documents in the Swazi Nation Land (SNL) constrains investment, especially for agriculture, and prevents landholders from using it as collateral for loans. Third, despite high levels of financial intermediation, access to credit is challenging, especially for SMEs, even while there are opportunities to leverage the success of mobile money to offer other types of digital financial services. The following paragraphs describe these constraints.

Skills and SME capabilities

Despite high government spending and improving education indicators, challenges in the education system undermine Eswatini's opportunity to harness its demographic dividend. Recent data show that Eswatini leads other SACU countries in terms of educational attainment, with 11.0 expected years of schooling, compared to 10.2 in South Africa, 10.0 in Lesotho, 9.4 in Namibia, and 8.1 in Botswana.²⁴ Harmonized test scores are better in Eswatini, suggesting a payoff for investments in the quality of education. To further strengthen educational outcomes, the recent World Bank education sector analysis identified the following challenges: (a) keeping students in school until completion; (b) strengthening the entry and exit points of the education system, including early childhood education, tertiary education, and technical and vocational education and training (TVET); (c) enhancing the management of teachers; and (d) ensuring adequate and equitable education financing, as well as spending.²⁵

Skills mismatches result in economic and development costs. On one hand, they undermine productivity and competitiveness. In the sugar sector, for instance, one company representative highlighted that the firm typically needs to train workers on growing sugar for 1.5 years. In general, skilled workers prefer to work in the public sector, where earnings are higher, driving up the cost of skilled labor for the private sector. Moreover, Eswatini faces competition from South Africa in opportunities for skilled workers.²⁶ On the other hand, skills mismatches perpetuate unemployment, low earnings, and poverty among low-skilled workers.

Stronger collaboration between the government and the private sector could help enhance skills development programs to address skills mismatches and increase employability.

The sector assessments for the CPSD identified critical gaps in technical and managerial skills. There is, for example, no dedicated higher education program on sugarcane. Involving the private sector in the design of training programs and creating the right incentives to increase the rate of employment for graduates could alleviate skills shortages for firms and enhance job opportunities for the youth. Moreover, while the number of TVET institutions has increased, there is need for stronger data collection for monitoring and quality assurance purposes, while a regulatory and coordination framework needs development to ensure TVET provider systems meet labor demand.²⁷

Interventions are underway to improve ICT skills, but a comprehensive framework is required to ensure access, affordability, and quality. The government has identified science, technology and ICT skills as a priority and set up the RSTP under the Ministry of ICT. The RSTP is divided into two divisions, the IT (information technology) Park, and the Biotechnology Park. The Advanced School of IT located at the RSTP IT Park is operated by a private company, Aptech Limited, a global retail and corporate training provider,²⁸ but it is struggling to attract students due to high costs.

Poor skills (both technical and managerial) undermine the ability of MSMEs to access finance and integrate into value chains. This is true despite the fact that 72 percent of MSME owners have a secondary education or higher, much higher than the country's secondary education penetration of 25 percent.²⁹ On average, owners of high-growth firms have higher levels of education. Forty-five percent of MSME owners have taught themselves the skills to run businesses, while 11 percent acquired requisite experience before opening a business.³⁰ The majority of MSME owners lack business education and skills to prepare financial statements and business plans.³¹ One of the consequences of the limited managerial skills is the lack of participation in easily accessible opportunities for profit as illustrated by some of the smallholder farmers in the beef sector. A recent study found that many business owners refer to financial management as a serious challenge, as reflected in the frequent mixing of personal and business finances.³² There is ample evidence suggesting that education, knowledge, and skills are positively associated with SME productivity and profitability.³³ Moreover, a lack of awareness about their real technological capabilities can lead firms to underinvest in production and organizational knowledge.³⁴

Eswatini's entrepreneurship support ecosystem underperforms compared with SACU neighbors. According to the Global Entrepreneurship Index, Eswatini lags behind other SACU countries with a score of 23.8 out of 100, while Botswana, the regional best performer, has a score of 34.9.³⁵ Eswatini still outperforms most countries in Sub-Saharan Africa, though. Entrepreneurship is undermined by low skills and poor business practices but also faces other challenges common with MSMEs, including poor access to finance and markets, a weak regulatory environment, high start-up costs, high tax rates, and corruption.³⁶ Moreover, many youths who might have interest in entrepreneurship live in rural areas, where access to transport, electricity, and internet service is poor.³⁷

Despite the Eswatini government's focus on MSMEs, supporting policies and programs face some limitations. The government has developed programs to support MSMEs—particularly through the Small Enterprise Development Company—yet there are limitations in firms targeted, services offered, monitoring and evaluation, and coordination across government agencies and with donors.³⁸ Well-targeted entrepreneurship support programs could help address the specific constraints faced by women and youth. Moreover, a 2017 study found that only one-third of high-growth MSME owners use business support services.³⁹ Opportunities also should be taken to strengthen the support ecosystem for digital entrepreneurs, improving coordination between the digital incubator at RSTP and private sector actors in the areas of digital entrepreneurship support and access to finance, as well as to enhance collaboration with regional and global institutions.⁴⁰ An assessment of the entrepreneurship ecosystem and MSME support policies could help identify specific reform opportunities.

Land management

Insecurity of land tenure hinders investment and productivity increases in agriculture, while access to land is identified as a constraint to investors. Land is central to the dual governance system. Communal land, known as Swazi Nation Land (about 62 percent of Eswatini’s 1.2 million hectares) is held in trust for the people by the king. Many Swazis view its distribution as equitable and accessible. SNL is allocated by community chiefs in a collective management approach. While the SNL system offers access to land for poor households, access to arable land is less accessible for women.⁴¹ Alternatively, title deed land is owned through freehold and concessionary title. The 500,000 hectares of title deed land include commercial forests, farms, and ranches, as well as land owned by the government. Titled or private land is mainly used for commercial farms and contributes nearly 80 percent of the agricultural GDP. According to the Eswatini constitution, foreigners are not allowed to own land but can lease government title deed land.

Lack of formal title in the Swazi Nation Land system prevents farmers from using the land as collateral for credit, thus restricting land improvements. In chiefdom settings, people receive land by swearing allegiance to the king and their chief. On urban land, parallel structures of chiefs and municipal/city councils govern with some contestation between them. The complexity of the dual governance structures (modern government and traditional chiefs) means that there is no certainty regarding land tenure, because chiefs can exercise their own discretion. Costs and restrictions on access to land for investment use were highlighted as a deterrent to investment, especially in agriculture.⁴²

No land reform has taken place since independence in 1968 and attempts at reforming land management have not progressed. Land governance reform is a sensitive issue. A draft national land policy aiming to “maximize benefits to the entire society from land on a sustainable basis” is a discussion document on the issues and policies surrounding the question of land management in Eswatini but was apparently not well received by the traditional authorities and has been indefinitely stalled. A more advanced piece of legislation, the Swazi Nation Land Agricultural Commercialization Bill (2016) aimed to enhance access to credit for smallholder farmers by allowing them to use SNL as collateral and providing for the designation, demarcation, and allocation of SNL for agribusiness, among other objectives. The status of this bill, though, is unclear. Given complex issues around land governance, use rights, culture, and land markets, land management issues will take time to address.

Access to finance

Financial intermediation in Eswatini has been increasing and has reached a considerable size, but access to finance is not widespread. Financial sector assets reached the equivalent of 105 percent of GDP in 2019 (about US\$4.8 billion) from 83 percent of GDP in 2014. Overall, financial sector depth is greater than in peer countries because of the substantial intermediation role played by the two large retirement funds.⁴³ The banking sector is smaller than in peer countries, which translates into low levels of bank credit in the economy, particularly in the private sector (see table 2.1).⁴⁴ The unemployed, underemployed, and self-employed—that is, the lower- and lower-middle-income population—are not well served by the formal financial system.

TABLE 2.1 FINANCIAL DEPTH IN ESWATINI: CROSS-COUNTRY COMPARISON, 2019

	GNI per capita	Broad money	Banking assets	Credit to private sector	MSME financing gap*
	(US\$, Atlas method)	(% of GDP)	(% of GDP)	(% of GDP)	(% of GDP)
Eswatini	3,670	28.4	33.3	20.9	44.9
Belize	4,480	84.0	—	58.2	26.3
Botswana	7,650	43.0	50.4	32.8	18.6
Fiji	5,800	72.6	92.3	100.7	24.7
Lesotho	1,380	39.3*	54.0	21.4	7.6
Namibia	5,060	64.6	80.2	72.0	15.5
North Macedonia	5,840	58.6	79.8	51.5	0.2
Income group average	2,176	70.7	—	45.1	—

Source: World Development Indicators, 2021; International Monetary Fund monetary and financial statistics; SME Finance Forum, <https://www.smefinanceforum.org/data-sites/msme-finance-gap>; calculations by World Bank staff.

Note: GDP = gross domestic product; GNI = gross national income; MSME = micro, small, and medium enterprises; — = not available.

* 2018 or latest data.

Access to credit by SMEs—particularly women-led MSMEs—also remains more challenging in Eswatini than on average in Sub-Saharan Africa. In 2017, IFC estimated an MSME financing gap of 45 percent of GDP, substantially higher than in Sub-Saharan Africa.⁴⁵ In 2016, only 18 percent of small enterprises and 32 percent of medium enterprises were estimated to have access to a bank loan or line of credit. Moreover, anecdotal feedback from banks suggests that no more than 10 percent of their loan portfolio is allocated to SMEs. Women-led MSMEs seem to be particularly constrained, with only 14 percent reporting having access to a bank loan or line of credit, much lower than the 32 percent of male-led MSMEs.⁴⁶ Moreover, while Eswatini law does not prohibit discrimination in access to credit based on gender, women cannot sign contracts or register businesses in the same way as men.⁴⁷

Limited access to credit by SMEs is a result of both demand-side and supply-side barriers. Demand-side challenges include weak productivity, high informality, unreliable financial management and reporting, and dominance of cash as the preferred means of payment.⁴⁸ These are exacerbated by supply-side challenges that include limited interest in the SME sector from banks, particularly with good returns on investment in government securities creating a high opportunity cost for providing loans to the private sector that are typically riskier and smaller. Credit infrastructure (such as credit reporting, secured transactions based on movable assets, and an insolvency framework) is underdeveloped and existing partial credit guarantee schemes are underused.⁴⁹ Communal land is not titled, and credit institutions are reluctant to use it as collateral. The real cost of credit has increased over the past few years. In the past, limited access may also have been partly explained by limitations on the pricing of SME lending imposed on some financial institutions by the now-revoked regulations of the Money Lending and Credit Financing Act of 1991 (MLCFA), which set an interest rate cap.⁵⁰ Moreover, the common law in duplum rule also applies in Eswatini, which may restrict the tenor of lending.⁵¹

Access to finance for Eswatini's SMEs is further constrained by inadequate innovation in products and processes and insufficiently viable (digital financial service or traditional) competition pushing incumbents to do more. Traditional SME finance techniques are developed through strong relationships with personalized contacts.⁵² This means that financial service providers have to invest in staff and confront the increasing cost of doing business with SMEs relative to return as it requires investing in staff, particularly in the Swazi context, where there is high information asymmetry and limited viable collateral. This ultimately deters them from working with SMEs. Several digital financial service (DFS) solutions have been launched in response to these challenges faced by financial services providers, including the automation of customer onboarding, underwriting, due diligence, and collection. The solutions, though, are highly dependent on the existence of digital databases with regulated access points for financial service providers or DFS third-party providers. The digitization of relevant databases and introduction of open banking type initiatives could contribute to lowering the costs of doing business with SMEs.

The current product offering is mostly made up of overdrafts and heavily collateralized term loans. There is a significant gap in the market of products such as secured revolving lines of credit, payment card receivables finance, and warehouse receipt finance or factoring.⁵³ Eswatini also suffers from limited marketplace platform finance operators such as peer-to-peer lenders or crowdfunding platforms. These products usually rely on digital collateral registries, alternative credit scoring, value chain links, and necessary infrastructure (for example, public warehouses) to lower risks and increase legal certainty and enforceability of contracts.

The capital market industry in Eswatini is relatively new and small but has been growing. Total assets managed by capital market participants have increased from E 16.9 billion (US\$1.6 billion) in 2014 to E 25.8 billion (US\$2.0 billion) in 2018. Pension funds account for 74 percent of total funds and therefore play an important role in ensuring that the sector realizes its potential of becoming a source of long-term capital for firms, including SMEs. The development of capital markets in Eswatini faces challenges inherent to all small countries, including the paucity of securities, illiquidity, and a narrow investor base.

The vulnerability of the Eswatini financial system to shocks has recently increased because of the prolonged economic downturn (exacerbated by the COVID-19 pandemic and economic difficulties in South Africa) and a weakening fiscal situation. The share of domestic debt rose from about 48 percent of total public debt in fiscal year 2015/16 to about 68 percent in fiscal year 2019/20. Government financing needs are expected to remain high and are likely to be met through a further increase in financial sector exposure to the government. Household total indebtedness increased sharply to 180 percent in 2019. As a response to COVID-19, the Central Bank of Eswatini (CBE) lowered monetary policy rates and relaxed liquidity requirements and other prudential norms. The banking system remains on average well capitalized and profitable, although this picture is blurred by the forbearance measures taken by banks in response to COVID-19 and does not consider the financial situation of South African parent banks. Eswatini is missing key components of the financial safety net and crisis management framework such as deposit insurance and an emergency liquidity assistance framework that meets good international practices.

Improved financial intermediation in Eswatini could help allocate more resources to more productive sectors, thereby supporting structural transformation. The World Bank review of financial markets in Eswatini has identified several opportunities:⁵⁴

- **Make SME credit an attractive segment for financial institutions, particularly banks.** Improving access to credit for high-growth SMEs, particularly in the four sectors highlighted in this report, could help create more growth and jobs. This would require addressing existing constraints in credit infrastructure (primarily credit information, secured transactions with movable assets, and insolvency regime) and making better use of credit guarantee schemes. Digitization and the introduction of new financial products could also encourage giving SMEs access to credit.
- **Develop financial instruments to help the most disadvantaged people better manage their financial lives when large shocks occur.** The many smallholders and individuals forced into self-employment and underemployment need financial instruments to better manage their financial lives, particularly in the face of large external shocks such as climate change or, more recently, the COVID-19 pandemic. The recent World Bank disaster risk finance diagnostic recommended exploring the development of index-based agricultural insurance to protect the agricultural sector.⁵⁵ Strengthening financial resilience to natural disasters and crises would hasten human and economic recovery, which is essential for a sustainable and robust private sector-led growth.
- **Use the financial system to increase sound investment opportunities to the large volume of capital managed by retirement funds.** Retirement funds are required to invest at least 30 percent of their funds domestically to support economic development. Capital markets, though, offer very limited long-term investments in Eswatini that meet the required risk-return profile and, consequently, retirement funds have been forced to place a large share of assets in short-term investments that have low returns or venture into private and self-administered investments that require complex asset management. The average profitability of retirement funds has been declining.⁵⁶

Improving SMEs' access to credit will require improvements in credit infrastructure and the introduction of new financial products. Better credit reporting would help reduce information asymmetries, support efficient credit allocation, and strengthen credit risk management, enabling lenders to make better credit decisions. A modern secured transactions framework could facilitate the use of movable property as collateral for business credit. Companies in the four sectors highlighted in this report have movable assets (cattle and machinery, for example) and accounts receivables that could be used to secure better financing solutions. Robust insolvency frameworks are positively associated with lower credit costs, an increased availability of credit, increased returns to creditors, job preservation through efficient restructuring tools, and the promotion of entrepreneurship and venture capital.

A solid legal and regulatory framework is important for the development of alternative products currently missing in Eswatini such as accounts receivable finance, secured revolving lines of credit (movable collateral), payment card receivable financing, and peer-to-peer lending. Authorities could consider introducing measures to make these financial products more viable, such as introducing an electronic invoice system to increase the reliability of invoices for discounting and decreasing financial asymmetry on businesses and regulations on maximum payment terms for government-to-business and business-to-business payments to SMEs. Finally, improving the outreach and sustainability of existing credit guarantee schemes could also help and would entail expanding access to the schemes to more qualifying nonbank financial institutions; relaxing interest rate caps on eligible loans; reducing coverage ratios to reduce moral hazard; improving claim management; exploring portfolio guarantees; and introducing risk-based pricing.

Building on the high number of transaction accounts (such as, particularly, mobile wallets) in Eswatini, financial institutions could offer new and more affordable savings and insurance products. Around 94 percent of Eswatini's adult population has access to a mobile phone and three in every four of these adults use mobile money. Products currently missing from the market include (a) micropension schemes that allow flexibility in frequency and contribution levels in line with informal and irregular earner income streams while allowing access to a limited amount of the investment prior to retirement in case of a shock, (b) index-based agricultural insurance, and (c) affordable medical plans and medical insurance schemes for the lower-income population.

Efforts to improve access to finance would benefit from expanding the use of new digital technologies. Deploying this innovative DFS would likely require overcoming constraints such as the dominance of cash as a preferred payment instrument, low levels of digital skills and trust, and limited interoperability between banks and nonbank payment service providers. Some government initiatives are attempting to promote DFS: a financial technology unit, for instance, has been set up at the CBE, and an enabling regulation for mobile money has been introduced.⁵⁷ The CBE regulatory sandbox allows for the live testing of innovative financial products, services, and business models in a controlled environment. These interventions are nascent and thus require investment of time and relevant expertise before they start yielding results.⁵⁸

Recommendations for deepening capital markets require a more in-depth assessment, including its growth potential, key constraints, and regulatory framework.

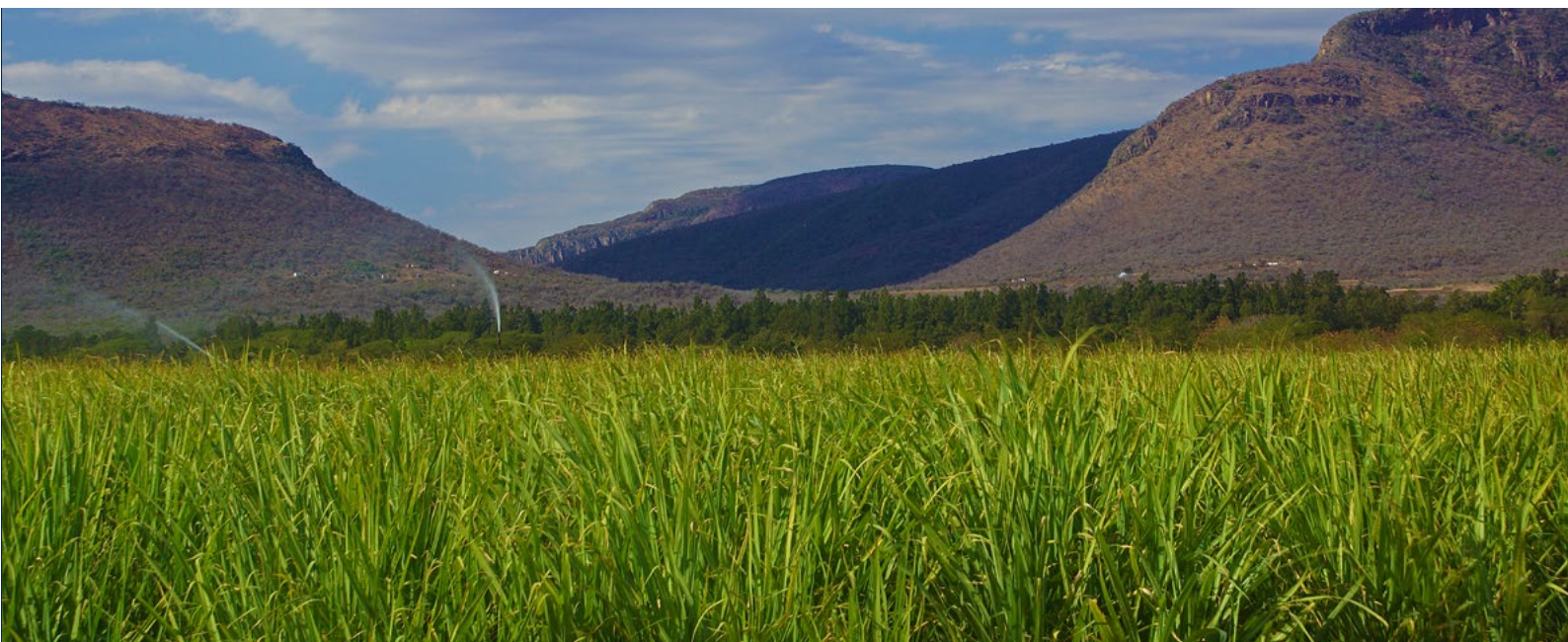
Municipalities and SOEs, for example, have the potential to join this effort, but their participation needs to be balanced with sound public financial management. There is also potential for venture capital to help early-stage businesses. The Eswatini Stock Exchange (ESE) is in the process of demutualizing, which could help increase investor confidence. The ESE is also developing strategies to address high listing costs and the limited technical knowledge typical in SMEs, which hinder participation in the capital markets. This includes the establishment of a growth enterprise market to help SMEs with technical knowledge and experience to participate in the capital markets.

-
1. World Bank, Kingdom of Eswatini Toward Equal Opportunity: Accelerating Inclusion and Poverty Reduction, Systematic Country Diagnostic (Washington DC: World Bank, 2020).
 2. The Federation of Swaziland Employers and Chamber of Commerce, “Business Advocacy Agenda (2017-2019)” (prepared by Altersol Consulting (PTY) LTD, December 2016).
 3. IMF (International Monetary Fund), “2019 Article IV Consultation Press Release, Staff Report, and Statement by the Executive Director for the Kingdom of Eswatini” (Country Report 20/41, IMF, African Department, Washington, DC, 2020).
 4. Analysis based on data from the WEF Global Competitiveness Index 2019 and the Transformation Index BTI 2018.
 5. Any corporate entity recognized by national law as an enterprise and in which the state exercises ownership should be considered as an SOE. This includes joint stock companies, limited liability companies, and partnerships limited by shares. Moreover, statutory corporations, the legal character of which has been established through specific legislation, should be considered as SOEs if their purpose and activities or parts of their activities are of a largely economic nature. OECD (Organisation for Economic Co-operation and Development), “Guidelines on Corporate Governance of State-Owned Enterprises” (OECD, Paris, 2015).
 6. ESEPARC (Eswatini Economic Policy Analysis and Research Centre), “State-Owned Enterprises Restructuring Framework in Eswatini” (Summary of key findings prepared for the Ministry of Finance, ESEPARC, Mbabane, Eswatini, 2022), <https://www.gov.sz/images/SOE-Restructuring-Framework-in-Eswatini-1.pdf>.
 7. Baker McKenzie, “An Overview of Competition and Antitrust Regulations and Developments in Africa: 2021” (Report, Baker McKenzie, Chicago, 2021).
 8. World Bank, “Swaziland—Lower Usuthu Smallholders Irrigation Project II 2016–23” (online data portal, 2016b), <https://projectsportal.afdb.org/dataportal/VProject/show/P-SZ-AAC-005>.
 9. World Bank, *Eswatini Systemic Country Diagnostic*.
 10. In October 2021, the government announced an agreement with Frazium Energy (part of the Australian-German Frazer Solar group) and the government of Eswatini for a €100 million (US\$115 million), 100 MW solar park to supply the SAPP. The project depends on a successful application by Frazium to join the SAPP.
 11. World Bank, “Eswatini Digital Economy Diagnostic Report” (World Bank, Washington, DC, forthcoming).
 12. The Doing Business report has consistently estimated that resolving a simple commercial dispute in Eswatini took about 2.5 years.

13. This includes amendments of the Trading Licenses Order, Companies Act, Small Claims Courts Act, High Court Rules, Building Act, Legal Practitioners Act, Environmental Audit, Assessment and Review Regulations; Construction Industry Regulations; Financial Services Regulatory Authority Act; and Stock Exchange Regulations. Also under consideration are new regulations for the Commercial Bench Rules, Consumer Credit Regulations, and new legislation on Citizens Economic Empowerment, Revenue Appeals Tribunal.
14. See TheGlobalEconomy.com; search for Regulatory quality.
15. ILO (International Labour Organization), Discrimination (Occupation and Employment) Convention, 1958 (No. 111), Direct Request adopted 2019 and published 2021, https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:13101:0::NO::P13101_COMMENT_ID:4025368; United Nations, “International Covenant on Civil and Political Rights: Concluding Observations on Swaziland in the Absence of a Report” (report, Human Rights Committee, Geneva, 2017); World Bank, “Women Business and the Law: Eswatini” (World Bank, Washington, DC, 2021).
16. World Bank Group, Special Economic Zones: An Operational Review of Their Impacts” (World Bank, Washington, DC, 2017).
17. Transparency International Corruption Perception Index 2020.
18. Manufacture of weapons, radioactive materials, explosives, manufacture involving hazardous waste, and currency printing.
19. World Bank Group, Special Economic Zones.
20. EIPA (Eswatini Investment Promotion Authority), “Investment Incentives” (online information sheet, 2021), <https://investeswatini.org.sz/incentives/>.
21. Eswatini National Trade Facilitation Programme Road Map (2019–22), approved by the National Trade Facilitation Committee.
22. This includes time spent collecting certificates, permits, licenses, pre-border regulatory processes, and border processes, as well as driver waiting time. Licenses, permits and certificates are requested by the following entities, depending on the goods: Ministry of Agriculture (veterinary services, National Agricultural Marketing Board, Dairy Marketing Board, agricultural research and specialists), Ministry of Commerce (industry and trade), Ministry of Natural Resources (geology and mines), and Ministry of Health (Pharmaceutical Department).
23. This includes the following goods: wheat, wheat flour, dairy products, maize, rice, electrical appliances, and automotive parts. Import Control Regulations 1980.
24. World Bank, “Technical Note on Credit Infrastructure and SME Finance” (unpublished report, World Bank, Washington, DC, 2021).
25. World Bank, “Eswatini Education Sector Analysis 2021” (World Bank, Washington, DC, 2021), <https://openknowledge.worldbank.org/handle/10986/35787>.
26. Z. Manana, “Assessing the Relationship between Brain Drain and the Economy of Eswatini” (Eswatini Economic Analysis and Research Center, Mbabane, Eswatini, 2019).
27. World Bank, “Investing in Human Capital in Eswatini: A Framework for a Coordinated Multi-Sectoral Approach” (World Bank, Washington, DC, 2021).
28. World Bank, “Investing in Human Capital in Eswatini.”
29. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report” (Mbabane, Eswatini, 2017), https://finmark.org.za/system/documents/files/000/000/214/original/FinScope_MSME_Report_Eswatini_2017.pdf?1601980048.
30. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report.”
31. World Bank, “Investing in Human Capital in Eswatini.”
32. Finmark Trust and Centre for Financial Inclusion, “Making Access Possible SME: Eswatini Diagnostic 2018” (Report, Finmark Trust and Centre for Financial Inclusion, Mbabane, Eswatini, 2018), https://finmark.org.za/system/documents/files/000/000/194/original/Eswatini_MAP_SMME_Diagnostic_online.pdf?1601971484.
33. D. R. Soriano and G.J. Castrogiovanni, “The Impact of Education, Experience and Inner Circle Advisors on SME Performance: Insights from a Study of Public Development Centers.” *Small Business Economics* 38, no. 3 (2012): 333–49, <http://www.jstor.org/stable/41410022>.
34. Xavier Cirera et al., “Technology within and across Firms” (Policy research working paper 9476, World Bank, Washington, DC, 2020).
35. The Global Entrepreneurship Index uses a mixture of several factors, including attitudes, resources, and infrastructure to score the entrepreneurship “ecosystem” of countries. It then compares scores across 137 countries (Global Entrepreneurship and Development Institute 2019).
36. UNDP (United Nations Development Programme), “Enhancing Innovative Capacity for SDG-Solutions in the Kingdom of Eswatini” (UNDP, New York, 2018), <https://info.undp.org/docs/pdc/Documents/SWZ/SDG%20Innovative%20Enterprises%20Project%20%20signed%20ProDoc.pdf>.
37. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report.”
38. World Bank, “Eswatini Digital Economy Diagnostic Report” (World Bank, Washington, DC, forthcoming).
39. Finmark Trust, “FinScope: Micro, Small, and Medium Enterprise Survey, Eswatini 2017 Report.”
40. World Bank, “Eswatini Digital Economy Diagnostic Report.”

41. World Bank, *Eswatini Systemic Country Diagnostic*.
42. CBE (Central Bank of Eswatini), “Company Survey” (Central Bank of Eswatini, Mbabane, Eswatini, 2019).
43. Unlike most countries in the Sub-Saharan Africa region, the sector is dominated by retirement funds (47 percent of assets), followed by banks (32 percent), nonbank credit institutions (13 percent), and insurance companies (7 percent). The sector is composed of more than 300 licensed financial institutions, including 4 banks, 2 building societies, 170 credit and savings institutions, 73 retirement funds, 14 insurance companies, 29 capital market participants, and 2 mobile money providers. Stock market capitalization stood at a low 6 percent of GDP in 2019, limiting investment options in the country for the large pension funds and insurance companies. Sources: World Bank staff calculations, based on information available in the annual reports of the Central Bank of Eswatini and the Financial Services Regulatory Authority.
44. Bank credit to the economy (estimated at 26 percent of GDP as of end-2020) is lower than expected from Eswatini’s structural characteristics and lower than peer countries. This figure includes the Swaziland Building Society.
45. SME Finance Forum, <https://www.smefinanceforum.org/data-sites/msme-finance-gap>.
46. World Bank, “Swaziland—Lower Usuthu Smallholders Irrigation Project II 2016–23.”
47. World Bank, “Women Business and the Law: Eswatini.”
48. A survey of SMEs showed that 93 percent of respondent firms used cash for their transactions.
49. The Export Credit Guarantee Scheme, for example, has not provided guarantees since 2009 while the Small-Scale Enterprise Loan Guarantee Scheme has only provided E 31 million in funding despite a funding capacity of E 147 million. Source: UN Capital Development Fund Making Access Possible 2020: Eswatini Financial Inclusion Refresh.
50. The MLCFA was repealed by the Consumer Credit Act, but the World Bank team heard different interpretations on whether the secondary legislation of the MLCFA remains in force or not, since the Consumer Credit Act regulations have yet to be approved. The MLCFA regulations imposed a cap of the prime rate plus 4.5 percentage points. This had a stronger impact on those credit institutions that did not have access to cheap deposit funding.
51. The rule provides that interest stops running when unpaid interest equals the outstanding capital.
52. World Bank, “Technical Note on Credit Infrastructure and SME Finance” (unpublished report, World Bank, Washington, DC, 2021).
53. World Bank, “Technical Note on Credit Infrastructure and SME Finance.”
54. World Bank, “Technical Note on Credit Infrastructure and SME Finance.”
55. World Bank, *Eswatini Disaster Risk Finance Diagnostic* (Washington, DC: World Bank, 2022).
56. Low returns may be partly explained by the increase in the share of unlisted investments in retirement fund portfolios, which are accounted for at book value and do not reflect potential increase in valuations.
57. The World Bank Digital Economy Assessment includes detailed recommendations to develop digital financial services.
58. World Bank, “Technical Note on Credit Infrastructure and SME Finance.”

03. SELECTED SECTOR ASSESSMENTS



3.1 SUGAR

3.2 FORESTRY

3.3 BEEF

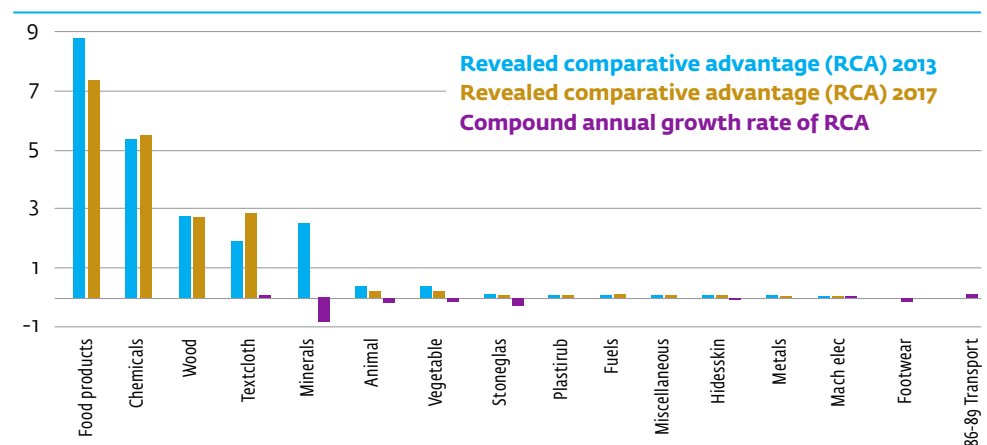
3.4 TEXTILE AND APPAREL

The following section reviews agribusiness (sugar, forestry, and beef) and light manufacturing (textile and apparel) as the productive sectors with potential to drive an export- and private sector-led economic recovery. The CPSD team considered several factors for selecting the sectors of focus for the CPSD. After starting with a long list of sectors, team members assessed the role of the private sector in supporting growth and addressing the development challenges (especially jobs) by using a desk review and consultations with IFC and World Bank experts. The team considered those sectors with the greatest potential for scalable private sector opportunities as reflected by export data, comparative advantage (see figure 3.1), and opportunities to expand or diversify value chains to capitalize on existing preferential market access in US (AGOA), EU, and regional trade agreements. The team then considered sectors that were identified by the Eswatini private sector and authorities during consultations and that are aligned with their strategic and post-COVID-19 recovery plans. The final sector selection also considered World Bank Group expertise and knowledge, which is based on past and current engagements.

Agribusiness and light manufacturing ranked highly on all the criteria. In agribusiness, sugar, forestry, and beef were the selected value chains for a sector assessment. Eswatini has other agribusiness value chains that show promise including macadamias,¹ avocados, and poultry. The three selected agribusiness value chains along with the textile and apparel sector have nevertheless been prioritized for this assessment on the basis of their potential to contribute to economic diversification, exports growth, and job creation. The analysis of other agribusiness value chains could be part of future research. Following is a discussion of these four sectors that is focused on the opportunities in each, their development impact, the constraints limiting their performance and growth, and recommendations to increase private sector participation.

Renewable energy is also an important enabling sector and also presents diversification options for the sugar and forestry sectors. Financial services and ICT/digital services are also enabling sectors particularly critical to facilitating SME access to value chains and opening up new opportunities for entrepreneurs. These sectors are already covered by other World Bank analytical work, the key findings of which are summarized in chapter 2.²

FIGURE 3.1 COMPARATIVE ADVANTAGE HAS GROWN IN CHEMICALS* AND TEXTILES



Source: UNCTADSTAT, Revealed Comparative Advantage, 2020.

* Chemicals exports are mixtures of odoriferous substances and mixtures (including alcoholic solutions) of a kind used in the food or drink industries (HS Code 330210)—in this case, sugar concentrates for soft drinks.



3.1 SUGAR

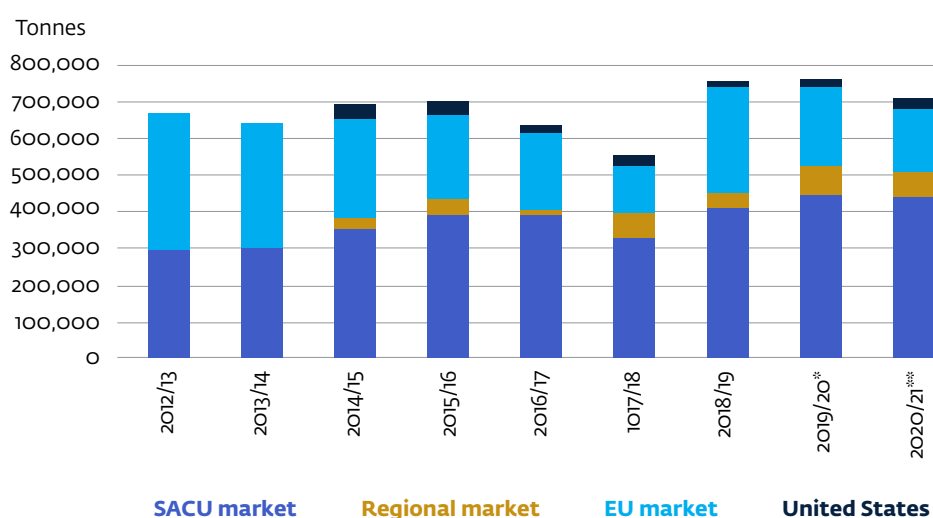
Sector overview and prospects

Eswatini is Africa's fourth-largest sugar producer. The sector plays an important role in the national economy, contributing around 5 percent of GDP and creating much-needed jobs. Sugar miller-owned estates account for 49 percent of the country's sugar output, followed by smallholders (21 percent), large-scale growers (18 percent), and medium-sized farms (12 percent; see appendix A3.1 for more details).³ There are three sugar mills⁴ and 489 growers of the commodity of which 450 are smallholder farmers. South African firms have a strong presence in the industry. The sector has created opportunities for small-scale growers to participate in a formal sector that generates significant multiplier effects, particularly in rural areas. Importantly, milling companies provide key social services, including education and health care, to their local communities. The industry employs approximately 20,000 indirect and direct workers.⁵ The ESA estimates 16,000 direct employees in growing and milling.⁶ According to the ESA, a larger number of women are participating in the sugar sector, particularly in the farmer companies or associations set up over recent years, although there are no readily available statistics to offer additional insight. Not only are rural women members of the associations, but more also are being voted in as board members.

The ESA is the regulatory authority of the sugar industry, in which millers and growers have equal representation. It was established by the Sugar Act of 1967 and is responsible for developing and regulating the industry and selling sugar and its by-products. The ESA is also responsible for enhancing market access, testing sugarcane, and regulating product quality, as well as storage and marketing.

Eswatini’s sugar industry is export oriented and contributes almost 10 percent of export earnings, although diversification has been limited. Key markets for Eswatini’s sugar are the SACU with 60 percent of the demand, followed by the EU (see figure 3.2). The domestic sugar market absorbs only around 8 percent of annual production. The industry has focused on sugar as its main product because of historically high and stable prices in preferential markets (specifically the EU until the reform of EU sugar policy in 2017).⁷ Eswatini also fulfils its tariff rate quota allocation to the United States, a high-priced market. Crucially, SACU is a sugar surplus region, meaning there is a limit to how much sugar can be sold into the market without depressing prices. For that reason, the ESA currently limits shipments to South Africa to up to 450,000 tonnes annually, considered to be a fair volume based on relative production levels between Eswatini and South Africa. Sugar is also sold to COMESA countries, mainly Kenya. The SACU and COMESA markets currently offer the highest returns, and the ESA optimizes sales into these two markets. All sugar for export outside SACU goes through Maputo Port, both by road and rail.

FIGURE 3.2 SUGAR SALES BY MARKET, 2012–21



Source: Eswatini Sugar Association.

Note: EU = European Union; SACU = South African Customs Union.
* estimated; ** forecast

For the smaller industrial sugar market, several major food and beverage manufacturers use sugar in Eswatini.⁸ Proximity to the sugar mill for collection (most sales are on an ex-mill basis), and therefore better management of on-time delivery, is the main advantage of locating in Eswatini. Furthermore, the ESA offers those firms with operations in Eswatini a rebate as an incentive to add value in country. The value of the rebate differs according to the basis of the value added, although no information is available in the public domain on the magnitude of sugar rebates. Importantly, new entrants (for instance new food and beverage manufacturers) need to apply for a sugar allocation for selling Eswatini sugar into the following regional markets: SACU, the Southern African Development Community (SADC), and COMESA. Limited sugar is available for allocation because most of the production is already allocated to existing customers and there is limited scope for new allocations. The industry is continuously looking at the optimal market mix as well as striking the appropriate balance between improving the economies of scale for existing customers and introducing new customers into the system. As a matter of policy, the local manufacturing sector receives first priority in any allocations to support high-end local value addition in Eswatini and to ensure that they never have to stop production owing to lack of sugar.

Despite growing global and regional sugar demand, scaling up and diversifying exports in regional markets are likely to be slow-moving. At the global level, the two key forces for rising consumption have been rising world population and income growth. Looking at prospects in Sub-Saharan Africa reveals the historical annual growth of sugar consumption in the region is the world's highest, averaging 3.7 percent (between 2014/15 and 2018/19) compared to the world average of 1.36 percent. Trade negotiations happen between governments, though, and the government of Eswatini's approach has always been to secure market access for all key exports in the country, leaving the sugar industry to then decide whether to sell in that market on the basis of value realized. If there is value and room to improve the preferences, the ESA engages the government to pursue these, providing whatever technical support is needed. The sugar industry will expand only if high-value regional markets are further unlocked by taking advantage of trade preferences with moves toward freer trade in the region.

Entering regional markets is usually difficult. Sugar deficit countries give no margin of preference to regional suppliers. Nontariff barriers are applied even in the case of trade preferences through import licences and vitamin A fortification requirements, among others. Often, members of free trade areas seek derogations from free trade goals to protect their local industries. Eswatini's share of the South African market, for example, is protected from non-SACU members of SADC under annex VII of the SADC Trade Protocol, which limits access by non-SACU producers into SACU through a quota system. Even within SACU, as the terms governing the common market disallow new trade barriers, South Africa's Department of Trade and Industry has supported attempts to limit the amount of sugar coming from Eswatini with a "buy local" campaign. Most of the sugar for the South African market is sold to prepackers in Eswatini, so the battle to maintain volume in South Africa is predominantly being waged by that sector. However, Eswatini's sugar remains price competitive in South Africa and continues to be an attractive option to buyers.

Given a very small domestic market, the consequent orientation toward exports, the loss of price premiums in the EU market, and the self-imposed limit on exports to South Africa, there is a constant need to explore and unlock premium regional markets within the context of COMESA, the Tripartite Free Trade Area (TFTA), and the African Continental Free Trade Area (AfCFTA), although Eswatini is only a small player at the negotiating table. The subcontinental TFTA, which combines the markets of SADC, COMESA, and the East African Community (EAC), is progressing, while the AfCFTA is more advanced. This includes protocols on rules of origin that seek to deal with the issue of third-party exports into free zone areas. Both the TFTA and the AfCFTA are expected to provide improved preferential access for Eswatini sugar into these regional markets over the medium to longer term. The issue is to achieve access to markets with preferences while also avoiding the destabilization of the SACU market through imports from these regions. Achieving this outcome will depend on diligent and adept trade negotiations at the appropriate forums. At the same time, the competition bill proposes putting into effect regional frameworks such as COMESA's competition regulations, and this option may create risks for Eswatini's sugar sector.

Eswatini's sugar industry shows high productivity in field and factory and is consistently among the lower-cost sugar industries in the world. (See appendix A3.1 for more details.) As illustrated in table 3.1, the best-performing lower-cost industries boast high cane yields and sucrose levels as well as good levels of factory capacity utilization. Processing costs are heavily affected by factory size and the length of the crushing season. Hence, industries with a large average mill size and a relatively long crushing season benefit from lower unit fixed costs because of economies of scale and high rates of capacity use. Sugarcane productivity is affected by local agricultural factors such as soil quality, climate (temperature and solar radiation), water availability (rainfed or irrigated), sugarcane variety, weed and pest control, and the application of fertilizer.⁹ Eswatini's high cane yields and sucrose yield per hectare, as well as large mills with good levels of factory capacity utilization, make Eswatini very competitive from an international perspective.

TABLE 3.1 COMPARATIVE TECHNICAL PERFORMANCE

Indicator	Eswatini	Malawi	Mozambique	South Africa	Zambia	Brazil
Cane yield (tonnes/ha)	97.6	95.7	70.5	66.0	112.8	78.1
Sugar yield (tonnes/ha)	12.4	12.2	8.7	8.1	15.1	10.7
Average mill size (tonnes/day)	10,740	6,464	5,575	4,600	18,560	11,509
Season length (days)	170	172	143	234	171	181
Ex-mill production costs index	128	130	160	170	135	100

Source: World Bank background note on sugar.

Note: ha = hectare. Ex-mill is the cost at the mill, excluding transport and other costs for getting the goods to the final buyer.

Diversification into green energy (electricity cogeneration and fuel ethanol, for instance) has been limited. All three mills cogenerate electricity for their own use, but only one mill, Ubombo, supplies cogenerated electricity to the grid on a commercial basis using bagasse. Bagasse cogeneration requires supporting policy measures, along with the appropriate physical and institutional infrastructure to facilitate independent power production (see chapter 2 on cross-cutting constraints and appendix A3.1 for more details regarding cogeneration).¹⁰ Locally sourced wood chips could be used to supplement bagasse supply, possibly allowing year-round cogeneration.¹¹ Realizing cogeneration potential needs new investments but can be a solution for new revenue streams for the sugar company. Moreover, a key issue going forward is how to incorporate electricity into revenue sharing formulas while still ensuring that the mill (the investor) can make a sufficient return to justify the required investment.¹²

With regard to other value addition, existing avenues include prepacking sugar ready for distribution to retail markets in SACU. Indeed, the major users downstream of sugar sold in Eswatini are so-called prepackers, who buy the sugar from the ESA in bulk and repackage it for supermarkets in portions of 1, 2, 3, 5, and 25 kilograms under their chosen brands. In line with the sugar industry's vertical integration, Mananga Sugar Packers is a 50-50 partnership between RESC and RCL Foods Sugar. The company specializes in prepacking sugar, castor, and icing in a state-of-the-art packaging facility in Mhlume inside the sugar mill premises. There also have been initial forays on a trial basis into producing low-glycemic sugar and demerara sugar.

Diversification into fuel ethanol could also be a viable opportunity, but it is unlikely in the short term. Currently, Eswatini's molasses is converted into potable and industrial ethanol, and millers are unlikely to pursue the fuel ethanol option in the short term. In any case, the government would need to introduce policy to support ethanol prices if cane juice is to be considered as a feed stock (such as fixed ethanol prices that reflect the opportunity cost of sugar otherwise produced). Finally, economies of scale in fuel ethanol production would only be achieved in the context of an SACU fuel ethanol market, which hinges on South Africa finally implementing a fuel ethanol blending program. While South Africa's regulation allows for the inclusion of ethanol into gasoline, policy uncertainty has prevented the sugar sector from investing in the biofuels value chain.¹³

Diversification into biogas does not seem an attractive proposition for the industry. Furfural is seen as a more likely diversification activity.¹⁴ The sugar mills have investigated using biodigesters to convert bagasse or distillery effluent to biogas, but there was little interest in pursuing this opportunity given a large initial capital investment, feedstock challenges, and the significant opportunity cost because bagasse is the fuel for cogenerated electricity (for own consumption and, in the case of Ubombo, for export to the national power grid). With regard to furfural, Ubombo had an advanced project under development in a joint venture with a German company. The onset of COVID-19 decreased international demand (particularly from China), and the projected was abandoned. Its parent company, Illovo, already produces furfural and its derivatives from bagasse at one of the most advanced biorefineries in the world in Sezela, South Africa. Importantly, furfural does not compete for bagasse with cogeneration because the fiber is still used to fire the mill's boilers after use in the furfural conversion process.

Other downstream diversification possibilities exist, but investor appetite to pursue them still needs to be established. Sugarcane production presents multiple value-added coproducts, which can be used in areas such as confectionery manufacturing and by the latest biotech firm in their patented conversion processes to use sugar, bagasse, or trash to make their chosen bioproducts (see box 3.1). Eswatini's competitive advantage for prospective investors is a significant sugarcane supply at relatively low cost. This is particularly true for options such as fuel ethanol, biochemicals, and plastics. Such biofuels and bioproducts can be used as inputs in domestic industries and could generate export earnings, serving to diversify the revenue base of cane and sugar producers. Meanwhile, the government has a strategy, still at concept stage, to develop agro-industrial parks close to the sugar mills. While more information on possible products to be manufactured at such agro-industrial parks is still needed, it is clear that the government will need to provide a supportive legislative framework to enable the success of such parks, including incentives to attract investors (most likely foreign ones).¹⁵ Potential investors would need competitive input costs and good access to local and regional markets in sufficient volume to justify an investment. Overall, diversification and value addition through the agro-industrial park concept is likely to be relatively complex and not feasible within three to five years. Moreover, value-adding initiatives need to be demand-led: only investors can ascertain commercial feasibility based on demand and competitively priced inputs.

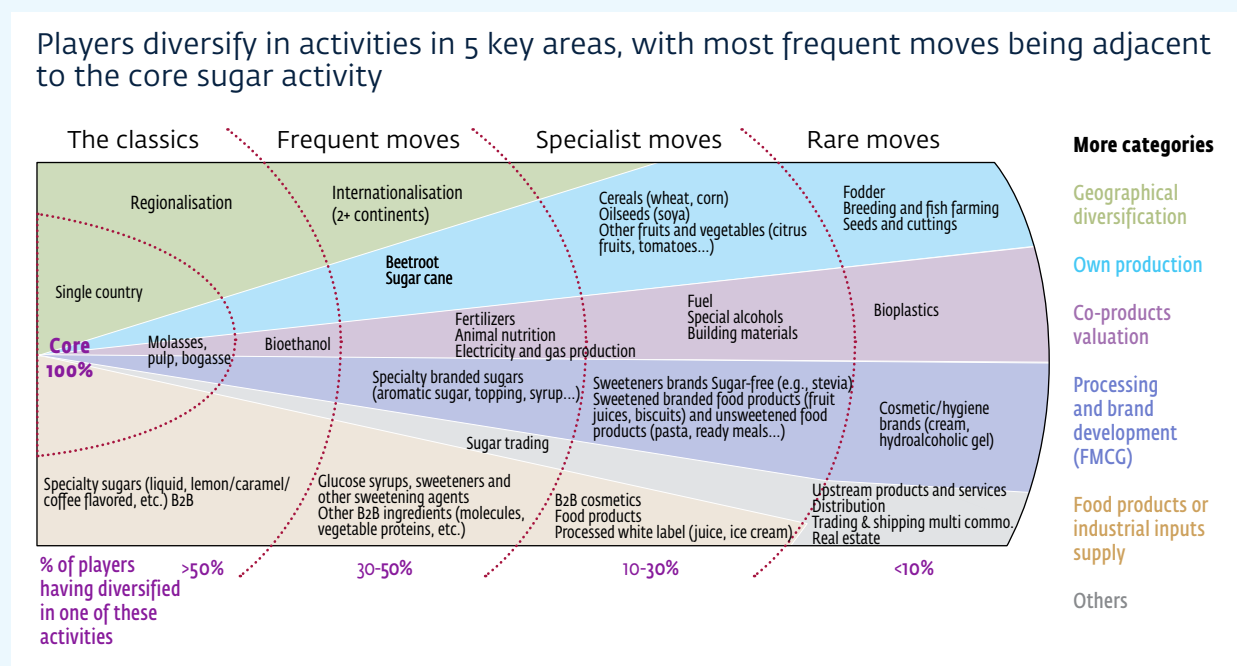
BOX 3.1 DIVERSIFICATION PATHWAYS FOR SUGARCANE

Diversification and value-adding opportunities for sugarcane are almost limitless, especially with the development of industrial biotechnology. The critical issue is essentially that choices are many and that decisions on which opportunity to pursue are difficult. Large sugar companies, particularly those that produce more than 1 million tonnes of sugar, are heavily diversified. According to the Boston Consulting Group,^a many of the large sugar companies have sought new pockets of growth by taking advantage of favorable regulations on adjacent products (for example, bioethanol), the further transformation of by-products into fertilizers, or the use of bagasse for building materials; anticipating changes in consumption trends (vegetable proteins, stevia sweeteners); or positioning on less “commoditized” products with higher added value (special sugars, food ingredients, and brand development). Several firms have leveraged technical

expertise to develop specific ingredients for industry such as fruit juices and concentrates, texture agents, or flavor enhancers. Others have acquired an existing fast-moving consumer good player to build capabilities in consumer goods or to a lesser extent to develop processed and branded (sugar-based) consumer products (figure B3.1.1).

The Eswatini sugar industry, via the ESA, commissioned two reports to assess if Eswatini could be competitive in such downstream segments. The first report identified possible value-added products in the context of an agribusiness park model adjacent to sugar mills. The second report, on new strategic directions, aims to identify the downstream products the sugar industry should look to pursue over the longer term in a diversification and value-add context. Neither report is currently available in the public domain.

FIGURE B3.1.1 SUGARCANE DIVERSIFICATION



Source: Sébastien Rexhausen, Boston Consulting Group, “Diversification: Rationale and Focus—A Sugar Industry Perspective” (presentation to the International Sugar Conference, Morocco, March, 2021).

Note: Statistics based on original sugar players (31); EPITDA margins are based on available information (11 players). Fast-moving consumer goods (FMCG)

1. Including agricultural cooperatives.

Source: World Bank staff.

a. Sébastien Rexhausen, Boston Consulting Group, “Diversification: Rationale and Focus—A Sugar Industry Perspective” (presentation to the International Sugar Conference, Morocco, March, 2021).

Key constraints to investment and growth

There are three key constraints to growth and investment in the sugar industry in Eswatini: (a) climate change and water availability and assurance, (b) rising production costs, and (c) renewable energy policy.

Climate change and water availability and assurance

Climate change is increasing the likelihood of droughts afflicting the industry (see box 3.2). Implementation of climate-smart agriculture is an opportunity to ensure sustainability. Water availability in the short to medium term will need to be assured by investment in water storage and water harvesting at the farm level, as well as continued exploration in the potential for drought-tolerant sugarcane and improved irrigation scheduling. Meanwhile, the sugar industry has adopted a seven-pronged climate change mitigation strategy to boost water assurance and ensure better water-use efficiency. The efficacy of the strategy and potential realizable gains in terms of water assurance and water-use efficiency are not yet quantified.

Scope remains for smallholders to improve irrigation scheduling and to adopt more efficient irrigation systems, but access to capital is a constraint. Water for irrigation is sourced via improved water use efficiencies in existing irrigation areas. Sizeable cane area remains under furrow irrigation, but conversion to more efficient methods such as drip is slow because of significant capital costs. The Eswatini Water and Agricultural Development Enterprise is progressing with the LUSIP Phase II project (the Lower Usuthu Small Holder Irrigation Project), under which the water delivery system is being extended by 36 kilometers and a tertiary distribution system to irrigate a further 5,000 hectares is being built. The industry expectation to moderately increase area under cane and increase sugar production by as much as 100,000 tonnes over the coming five years is driven by the LUSIP-II development and a RESC expansion project. Increased sugar production fueled by expanded cane area cannot progress past the above-identified 100,000 tonne level without the construction of new dams and associated irrigation infrastructure and a transition to more efficient irrigation systems.

BOX 3.2 CLIMATE CHANGE IN THE SUGAR SECTOR

Agriculture, including sugar, stands to be severely affected by climate change. Sugarcane production is responsible for most of the agricultural water use in Eswatini, as well as for increasing amounts of arable land. Sugar's dominance is a result of being profitable and having a strong supply chain, but this dominance presents significant climate risk to the economy through prolonged extreme droughts. Projections in the National Climate Change Policy indicate the streamflow of rivers in the country is projected to decrease by 40 percent by 2050, which will have drastic effects on agricultural production and irrigation. Similarly, dam capacity levels have also been adversely affected by climate change, presenting varying volumes in water capacity as a result of the overall declining rainfall and dry spells.

The irrigation of sugarcane depends on water stored in dams and from rivers. As a result of the El Niño–induced drought, cane production dropped by 14.8 percent from 5,836,553 tonnes in 2015/16 to 4,973,571 tonnes in 2016/17. Consequently, the yield plummeted from 101.2 tonnes of cane per hectare in 2015/16 to 89.5 tonnes of cane per hectare in 2016/2017. On the other hand, despite the weather changes sugar production reached 746,983 tonnes of sugar in 2018/2019, an increase over the previous years.

Adaptation to climate change is associated with the deployment of new technologies such as developing new drought-tolerant varieties and new soil management and irrigation techniques to

conserve water, among other innovations. In terms of mitigation, sugarcane industries are making advances, including diversification into cogeneration and fuel ethanol production to curb greenhouse gas emissions. The elimination of cane burning is another way to reduce emissions.

Eswatini's sugar industry has adopted a seven-pronged climate change mitigation strategy that includes increased water storage and supply assurance; water management at river basin level, improved water conveyance infrastructure, conversion to water-saving irrigation systems, and the adoption of energy-saving technologies (variable pump drives, for example); the adoption of solar photovoltaic energy; and improved irrigation scheduling. The industry has introduced river basin authorities (committees that are responsible for water use in each of the five water basins). These committees manage water issues, review water permits, enforce water metering, and facilitate water charges. High water conveyancing efficiency with minimal losses is achieved by lining canals with concrete to prevent water seepage and runoff.

Improved irrigation scheduling is being achieved using CanePro Cane management software. The industry is also looking to breed drought-tolerant sugarcane varieties. Cane burning is likely to continue in the medium term, given the lack of government legislation to phase out the practice and the difficulties of manually cutting green cane.

Source: World Bank.

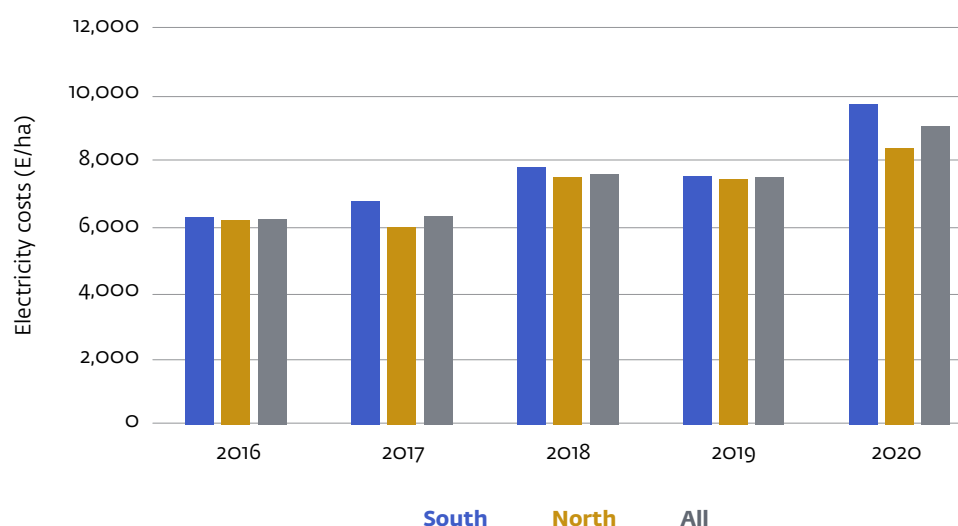
Rising smallholder production costs

Production costs have increased and are putting a squeeze on profitability for some small growers. In particular, electricity costs are high and rising, and this translates into escalating irrigation costs, hurting the profitability of small growers. According to the Eswatini Canegrowers Association (ECA), energy costs over the past six years have risen from 15 percent of total production costs per hectare to 26 percent (see figure 3.3). Production costs are also affected by operational factors such as the cost of land, wages, machinery, and the transportation of inputs. These factors vary across time and depend on the scale of production and the degree to which farms are well managed. Installation of on-farm solar power is seen as a potential solution, but supportive government policy would be needed to facilitate adoption and provide a viable opportunity for the export of excess solar power generated to the grid.

The efficiency of smallholder producers is constrained by several other factors.

These include the late application of inputs; remote farming (where overseers are not monitored by distant owners), succession issues on the death of quota holders resulting in disputes and farms lying idle, access to finance, depletion of water resulting from informal connections to irrigate other crops, late planting due to the unavailability of machinery for land preparation, pests and diseases, low profits resulting from yield decline, taxes and high haulage costs, corrupt practices and corporate governance omissions, and old irrigation infrastructure leading to lowered efficiency.

FIGURE 3.3 ELECTRICITY COSTS, 2016–2020 (E/HA)



Source: Eswatini Canegrowers Association, "Harvest in SADC: Eswatini" (presentation to the International Sugar Organization, London, April 6, 2021).

Notes: E = emalangen; ha = hectare.

Renewable energy policy

Renewable energy policy that would support diversification opportunities for the sugar industry has been lacking since Ubombo Sugar Limited successfully negotiated a power purchase agreement with the EEC in 2010/11 for cogenerated electricity projects. A major step forward is a recent tender for renewable biomass power being conducted by the Eswatini Energy Regulatory Authority, which has opened a window for the milling companies to competitively tender to supply to the grid (see box 2.1). Meanwhile, solar electricity has been identified by growers as a key solution to sharply escalating power costs. Existing renewable energy policy is not sufficiently supportive of solar power exports to the grid and does not afford the possibility of power wheeling (the transportation of electric power megawatts or megavolt amperes over transmission lines).

Recommendations

Short term

- **Implement the renewable energy policy to enable investments in cogeneration.** Implementation should be effective, as well as transparent and clear over future demand for biomass power from the sugar industry and other biomass sources. It should also give a credible commitment to ensuring that ESERA tender processes for renewable electricity can harness considerable additional biomass power generation from both sugar milling companies. Dialogue among millers and growers toward agreed solutions regarding grower payment for bagasse and grower desire for equity participation in value-added products will also be key.
- **Support off-grid and minigrid power generation.** The government can provide regulations and incentives, including support for access to finance, to encourage adoption of on-farm solar power for smallholders.
- **Maintain and enhance technical and extension support and training to small growers, farming companies, and grower associations.** The provision of extension and technical services would work to enhance productivity and help lower production costs to small growers. The support needs to focus on sugarcane husbandry, business management, corporate governance, water management, pest and disease control, fertilizer application, provision of seed cane, and irrigation scheduling.
- **Continue developing industry resilience to climate change through the ESA's seven-pronged strategy.** This should particularly focus on the drive to install on-farm water catchment, more efficient irrigation systems, and improved irrigation scheduling. Addressing access to finance and insurance issues to ensure that small-scale growers can transition to more efficient irrigation technology and manage climate risks will also be key.
- **Further investigate the likely demand for an agro-industrial park complex adjacent to any of the sugar mills.** It will be necessary to confirm commercial feasibility and demand-driven sugar coproduct opportunities, review relevant legislation, and identify those that may need to be amended. The government could also conduct research on potential markets for sugar by-products as well as value-addition products in the regional and global markets, including in the context of the proposed agro-industrial park concept.

Medium term

- **Ensure best management practices for sugarcane production according to international sustainability standards and encourage adoption of digital tools by smallholders.** Demonstrating full alignment with production standards of a key international sustainability marque such as Bonsucro would ensure that Eswatini can fully meet the demands of key buyers for sustainably produced sugar. RESC manages one of the largest drip-irrigated sugarcane farms in the world, with 14,500 hectares out of a total cultivated area of 20,000 hectares by using the technology. Between 2015 and 2020, the company reduced unit costs by 20 percent by expanding production, using digital tools, and by adopting new approaches. The company aims to decrease unit costs by an additional 20 percent by 2025. Moreover, the firm has used the internet of things to manage inbound logistics, which has shortened delivery times, optimized fleet requirements, and improved sugarcane delivery. The government could help small-scale growers adopt these kinds of digital tools and best management practices by investigating possible market failures and by supporting training.
- **Continue with advocacy efforts and optimize (in terms of total revenue) market access for sugar in SADC and COMESA, and in the medium term in the TFTA and the AfCFTA.** Optimizing market access will require an analysis of new market segments and research into consumer trends in regional markets. With regard to advocacy work, collaboration with the ESA will be crucial to unlock new targeted regional markets for sugar in the context of the SADC, COMESA, TFTA, and the AfCFTA.



3.2 FORESTRY

Sector overview and prospects

Forests cover approximately 33 percent of Eswatini's total land area, but commercial forestry is about 22.6 percent of total forests, and the sector contribution to the economy is below potential.¹⁶ The forestry sector accounts for about 1.3 percent of GDP, 5.9 percent of exports,¹⁷ and 4.2 percent of imports.¹⁸ The forestry and forest products (timber processing) sectors provide employment to approximately 8,000 people, equivalent to 14 percent of total formal employment.¹⁹ Forestry sector productivity is relatively high, about 15 to 20 cubic meters per hectare per annum for pine.²⁰ Overall annual yield is approximately 1.2 million cubic meters of wood with a total value of about E 650 million (around US\$750 million), which is largely exported as pulp, logs, and timber.²¹

The coniferous species account for 83 percent of total plantation, while the leaf species account for 17 percent, and most plantations are certified.²² Timber plantations are concentrated on the Highveld, where conditions are favorable for tree growth.²³ Approximately 91 percent of the plantations in Eswatini are certified by the Forest Stewardship Council/Forest Management. The vast majority of these certified plantations occur on title deed land (TDL).²⁴ The acquisition of land for commercial forestry on private land or TDL follows a prescribed process for the sale of title deeds.

There is scope for Eswatini to leverage rising global demand for forestry products. Global demand for wood products has been rising rapidly, with 2012 projections suggesting that the demand could triple by 2050, while other product-specific projections suggest increases ranging from 28 percent for sawnwood to 192 percent for recycled paper products for pulp by 2060.²⁵ The global forestry supply has nonetheless been under pressure as rising market opportunities for agricultural products (palm oil and rubber, for example) are precipitating the clearing of tropical forests, especially in Southeast Asia. Eswatini is the largest exporter of wood fuel, accounting for 9 percent of global export share in 2021,²⁶ along with Bosnia and Herzegovina and France, and the country has an opportunity for the private sector to tap the projected demand-supply imbalance.

While COVID-19 has disrupted markets and supply chains worldwide, including the timber sector, the outlook for the industry globally and for Eswatini is positive. First, the imminent ban on the Russian export of unprocessed or rough timber could create a global supply deficit and increase global prices for such timber.²⁷ Second, there is growing demand for quality packaging and sanitation products to meet the surge in e-commerce shopping and face masks, boosting prospects for the international woodchip market. Third, there is an ongoing shortage of saw log and timber in South Africa that is expected to continue in the medium term.²⁸

The private sector could also leverage the untapped value-addition opportunities in the forestry sector. Over the past decade, Eswatini's forestry export trade balance has been positive for primary products but negative for secondary and tertiary products, suggesting little value addition in forestry exports. Eswatini's primary forestry exports include roundwood and sawnwood, while the secondary forestry exports include wooden furniture and treated poles for electricity and telecommunications. Trade data for 2019 show that Eswatini's wood furniture exports went exclusively to South Africa,²⁹ suggesting that Eswatini may have an opportunity to expand its furniture value chain market into the rest of Africa. The export market for treated wood has been more diversified, covering most southern African countries. With electricity access at 48 percent in the Southern Africa region in 2016, most countries in the region have been rolling out plans to scale up energy investments to bridge the energy access gap.³⁰ This has increased the demand for treated poles for electricity transmission infrastructure that Eswatini's forestry firms can leverage. The tertiary forestry exports are carton board, case materials, printing and writing paper, and wrapping paper. Over the period 2010–19, the trade balance for all forestry products was a surplus of US\$21 million. While some raw forestry products such as timber have a high price, adding value to forestry products could help create opportunities for jobs and reduce the trade deficits on secondary and tertiary products.³¹ The large quantities of sawnwood and logs exported out of SADC in general could be processed into finished products for regional demand. The SADC's protocol on forestry provides a policy framework for forest management that embraces these development needs and could be promoted with a greater emphasis on local value addition within the region.

On the domestic front, biomass could be a source of opportunity for the forestry sector if reforms are taken to realize its attributes of being climate friendly and a low-cost source of energy. Biomass, geothermal energy, and hydropower are generally considered the most inexpensive sources of power in Africa, but their potential varies across countries.³² Biomass can also have positive implications for climate change because the conversion from biomass to electricity can be a low-carbon process as the resulting carbon dioxide is captured by plant regrowth.³³ In contrast with solar PV or wind power, biomass power technology can generate electricity on demand at any time as long as a sufficient supply of biomass stocks is assured. Many agricultural and forest product residues can provide feedstock for energy conversion without increasing land requirements. In addition, local farmers can generate additional income by providing biomass fuels for small local power plants.³⁴

Eswatini is endowed with conventional and renewable energy resources, including biomass residues from the sugar and forestry industries.³⁵ The use of wood chips in Eswatini has been rising because of the increased demand for cogeneration by the sugar companies.³⁶ In 2018, the average annual demand for woodchips by the sugar industry was approximately 206 tons.³⁷ The timber industry has the potential to increase the fuel supply to meet feedstock requirements for proposed biomass power generation. It is expected that sugarcane production will increase in the future, thus providing an opportunity to increase cogeneration capacity, which uses bagasse.³⁸ Some of the recent policy interventions in renewable energy, as discussed in the cross-cutting constraints chapter (chapter 2), could improve the institutional environment for the deployment of biomass energy in Eswatini.

Moreover, the private sector could leverage the global trends in carbon-sink initiatives by jointly working with rural communities to generate carbon credits for sale, through reducing emissions from deforestation and forest degradation (REDD+) mechanism or agriculture, forestry, or other land use credit schemes. In this regard, Eswatini could draw lessons from its neighbor, Mozambique, which has been the first country to receive payments from a World Bank trust fund for REDD+.³⁹ With strong carbon reduction commitment, such an initiative could bring quick payoff: the first payment for Mozambique was within three years.

Key constraints to investment and growth

Four key challenges affect private sector investment and value addition in Eswatini's forestry sector. Most of the challenges would need medium- to long-term interventions to unlock the potential of the private sector. The challenges can be broadly classified into (a) trade logistics and facilitation issues, (b) insecure land tenure, (c) factors related to climate change, and (d) institutional factors including poor public-private sector dialogue in the sector. Trade logistics, trade facilitation, and land tenure are discussed in the cross-cutting section. We briefly discuss the other challenges in the following sections.

Institutional challenges

The main regulation relating to industrial forestry is codified in an outdated piece of legislation. The Private Forest Act of 1951 regulates the protection of private forests in the country and does not reflect the latest developments in the sector. The more recent National Forest Policy of 2002 integrates the policy and legislative framework to regulate forestry and address issues of deforestation and environmental degradation.⁴⁰ The draft forest bill is being revised (with the UN Development Programme's support and in

consultation with the private sector) using the original 2013 version. In its current version, the bill deals with industrial forests regarding (a) permits for existing industrial forests, (b) the establishment of new industrial forests and outgrower schemes, (c) reports on industrial forests and outgrower schemes, (d) changes in the management plan, and (e) forest management plans for industrial forests.

Another bill that negatively affects the forestry sector is the Control of Tree Planting Act of 1972. It discourages the growing of plantations and forests on prime agricultural land. While this act exempts land that is already owned by timber companies, it could affect the expansion of planted forestry into some parts of Swazi Nation Land, thus constraining collaboration between communities and forestry companies.

Limited engagement between government and the private sector

The Forestry Department has little engagement with the forestry industry, but this may change with the introduction of the forestry bill. There is a need for an association (for example, structured like Forestry South Africa or the Eswatini Sugar Association) that could act as an advocacy agency as well as share research information. The lack of an association or organized body puts medium-sized producers at a disadvantage while further marginalizing and inhibiting the growth of small-scale operations. The promotion of commercial community forestry would likely require the presence of an effective association such as the Uganda Timber Growers Association, which was established by foresters to bring together professionals, commercial tree growers, and community organizations. An Eswatini Forestry Association would be able to collaborate formally with the Eswatini Sugar Association on issues of bioenergy, while it would also be better positioned to discuss and address the sector's constraints with government and identify business opportunities for members. Moreover, there are potential advantages in scale approaches for accessing better port facilities (for example in Maputo).⁴¹

Climate change

The forestry sector is an opportunity for climate adaptation and mitigation. In general, forest cover (and this includes planted forests) can help reduce the carbon footprint because it provides a critical carbon sink to slow climate change.⁴² In fact, planting forests and protecting existing forests are a critical pathway to limiting global warming to below 2°C. Nevertheless, deforestation and forest degradation continue to be a challenge globally (in Eswatini as well), and it contributes approximately 12 percent of the world's greenhouse gas emissions.⁴³ There is a need to strengthen legislation for fire management, as forest fire risks increase with climate change. Legislation regarding fire breaks and other tools remains weak, but more investment is being made in fire management, especially in efforts to develop better collaboration between plantations and neighboring communities.

Recommendations

Short term

- **Improve public-private dialogue.** There is room to improve the dialogue among the different stakeholders by creating a forestry sector association. The government should encourage greater collaboration within the industry to consolidate information, share research, and guide the industry. Private sector players could establish an industry association such as Forestry South Africa for facilitating dialogue and sharing information on markets and policies. The industry association could play a key role in collaboration and knowledge-sharing at a regional level (for instance, between Eswatini and Forestry South Africa or the Uganda Timber Growers Association).
- **Facilitate community participation.** Community participation in the forestry industry could foster value-added products within the plantations, which would support neighboring communities and landowners. Honey production, livestock grazing, fuelwood supply, and recreational facilities, for example, could be considered. This may first require the undertaking of land use mapping to establish suitable areas for afforestation as well as collaboration with the Forest Stewardship Council to investigate the avenues for community participation.

Medium term

- **Update the forestry policy.** The key objectives when updating the policy could include establishing standards for national certification and developing a 10-year strategy and rollout plan. It will be crucial to ensure that the policy is developed and implemented through a transparent and participatory process. In this regard, the proposed industry association could play a key role.
- **Implement production diversification models appropriate for Eswatini.** One different method for reviving productivity on degraded pastures is the integrated crop-livestock-forest system pioneered by the Brazilian agricultural research organization Embrapa in which rows of trees are combined with grazing and crops. Among the benefits of this approach are soil restoration, carbon sequestration, improvements to animal welfare, higher production levels in a smaller area, and improved incomes for farmers.
- **The private sector could explore opportunities for investments in forestry products diversification, and the government could create incentives to promote them.** The fact that Eswatini has a trade surplus on primary forestry exports and a deficit on secondary forestry exports suggests untapped diversification opportunities that, if developed, would scale up job creation and growth. The government could explore a tax credit on capital investment in forestry value addition. Also, the country could strengthen the “agro-forestry function” within the Forestry Department to explicitly manage issues related to the development of the sector’s value addition agenda.

- **Improve disaster management and preparedness.** The industry should collaborate with the National Disaster Management Agency, the Climate Change Unit, and the Department of Meteorology to identify avenues to improve early-warning systems and response, including for fire. Moreover, the government could consider updating the legislation related to fire management to foster responsibility and accountability among landowners and managers, including those that work communal land. Investment in fire management forestry and community training are needed to enhance fire mitigation. The establishment of fire protection associations to ensure that integrated fire management practices are embedded in the greater community could also be considered.
- **Explore global carbon sink initiatives to promote forestry expansion, including accessing results-based payment schemes for forest restoration and conservation.**⁴⁴ The government could consider incentives for planting trees and protecting the existing ones, as well as enact legislation to control deforestation. The private sector can leverage the global carbon credit initiatives to partner with rural communities to plan and preserve trees and claim credit for carbon reduction, drawing lessons from Mozambique's progress with the REDD+ initiative.⁴⁵ It is important to carry out a study on the availability of land for the carbon creation initiative. A study on the availability of communal land for such an initiative should be conducted and land use land cover maps should be updated. The study could also examine the tree breeding strategy to ensure that different tree types are planted in climatic regions where they are best suited. This is in light of evidence suggesting that some breeds of exotic planted forestry typically use more water than the native forestry.⁴⁷
- **Implement the Short-Term Generation Expansion Plan, which includes biomass.** The government plans a large biomass plant of 40 MW, but it is also considering small-scale participation by allowing smaller plants such as those with outputs of 5 MW. This would potentially encourage the use of biomass while minimizing transport costs and carbon emissions. There is also room to engage with communities to grow and supply biomass plants in the medium to long term by building skills and capacity in rural communities.



3.3 BEEF

Sector overview and prospects

With a contribution to GDP of 2.9 percent before COVID-19, the beef value chain has been identified as a fast-growing sector in Eswatini.⁴⁷ Most beef livestock (89 percent) is farmed on SNL, and 11 percent is kept under the TDL system (see table 3.2). The beef value chain employs over 60,000 people in the country, including farmers on communal and title deed land, feed-lotters, abattoirs, and distribution, retailing, and government services. The sector had a population of about 522,012 beef cattle, according to 2019 beef cattle statistics (see table 3.2), and approximately 43,412 beef cattle were slaughtered in 2019.

Eswatini predominantly has a traditional approach to cattle farming: the informal beef sector activities dominate the industry, as home consumption slaughter continue to be greater than commercial slaughters. Two groups of producers exist, traditional and commercial. Table C.1 summarizes the differences between traditional and commercial farming, while appendix C benchmarks the beef value chain in Eswatini through a comparison with some SADC peers. An estimated 57 percent of all animals processed are home-slaughtered, and this results in low levels of market participation. Informal slaughter slabs are also unhygienic and unregulated.⁴⁸ Eswatini Meat Industries Ltd. (EMI), is the only licensed exporter and therefore also the national price maker, and a majority of cattle farmers or traders consider EMI their primary option for the marketing of their cattle.⁴⁹ The current capacity utilization at EMI is 50 percent, and EMI represents only 20 percent of sales.⁵⁰ The remaining 80 percent of meat is sold in the domestic market, either informally or by small-scale slaughters.

TABLE 3.2 SUMMARY OF LIVESTOCK OWNERSHIP PER TENURE SYSTEM

Tenure system	Number of farmers	Number of cattle held in total	% of national herd	Cattle herd size/ farmer
SNL	47,669	467,780	89.6	9.81
TDL	670	54,232	10.4	80.94
Total	48,339	522,012	100	10.80

Source: Government of Eswatini, Ministry of Agriculture, Annual Livestock Census Summary" (Veterinary Epidemiology Unit, Department of Veterinary and Livestock Services, 2019).

Note: SNL = Swazi Nation Land; TDL = Title Deed Land.

Eswatini is a net importer of beef with imports coming mainly from South Africa and occasionally from Botswana, but several comparative advantages could be leveraged to boost exports. Import quantity for beef was 3,041 tons for 2019, and there has been a steady decline in recent years on the back of increasing national production.⁵¹ Figure 3.4 shows that mainly as a result of the 2016 drought, beef exports have been limited by supply leading to a marked decrease over the past five years. Comparative advantages of Eswatini include free-range beef (for export demand coming mostly from Europe) as well as an efficient Department of Veterinary and Livestock Services that controls animal disease outbreaks, movement control, and general herd health.⁵² Local beef sales are based on traditional cuts and value addition such as sausages (boerewors), mince, and patties processed by private business (see appendix C). Because of traceability requirements and EU regulations, only beef locally produced in Eswatini may be used for export.

The country has the opportunity to expand its export market to SACU member states, as well as through the AfCFTA, where it can export value-added meat products. This presents opportunities for private sector manufacturers to produce value-added meat products (as discussed previously) but will also require an economic inclusion of communal beef cattle production to integrated value chains such as feedlots that are directly linked to approved abattoirs. Given the small percentage of beef being exported, changes in farming systems (from ox to weaner) could have a positive impact on export volumes where opportunities for markets exist. Awareness of the current EU grading system could be boosted to incentivize farmers to become market-driven producers.

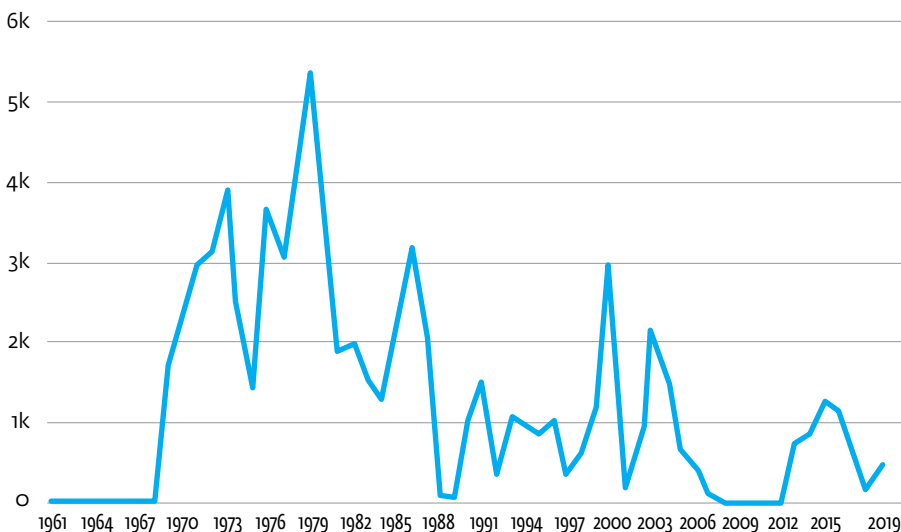
Eswatini beef has benefited from preferential tariff-free quota-based market entry into the European market through the Economic Partnership Agreement, but exports are falling well below the quota.⁵³ Exports to the European market are mainly boneless beef, and Eswatini receives a premium price on this.⁵⁴ As the sole certified exporter, the EMI sends its best-deboned cuts to the European market, particularly Norway (26 percent of its beef output), and the remainder is largely exported to Mozambique or sold domestically.⁵⁵ Surplus capacity exists for exports because current quotas to Norway of 1,000 tons cannot be met, and total beef exports in 2019 were less than half

the Norway quota (at 444 tons). The EMI is a price maker in the domestic market, and competitors must develop strategies to lower their overheads and operating costs.⁵⁶ EMI sources 13 percent of its animals from smallholder farmers, 31 percent from commercial farmers, and 56 percent from a feedlot scheme, which it organizes and supports.⁵⁷ EMI does not sufficiently incentivize smallholders to engage in business as producers because its procurement prices are deemed low, thus compelling smallholders to develop opportunistic and sometimes informal marketing approaches.⁵⁸

The domestic market gap and unmet preferential export market access present an opportunity to scale up private sector investment in the beef value chain. The country has a growing middle class and a higher number of lower-income earners who have relocated to urban areas, creating a gap for affordable food supplies in the market. The domestic demand gap has resulted in beef fetching a price above competing protein or meat products.⁵⁹ It is noteworthy that poultry and pork producers have been able to supply sufficient quantities of meat to the local market, which makes the market self-sufficient. The domestic market gap for beef is met by lower-grade beef imports, largely from Botswana, Mozambique, and South Africa.⁶⁰

FIGURE 3.4 EXPORT VOLUMES ESWATINI, 1960–2019

Eswatini bovine meat exports, tonnes



Date	Value	Change %
2019	444	153.71
2018	175	-72.13
2017	628	-45.63
2016	1,155	-7.53
2015	1,249	49.40
2014	836	1.76
2013	716	71,500.00
2012	1	0.00
2011	1	0.00

Source: Knoema, 2020, <https://knoema.com/atlas/Eswatini/topics/Agriculture/Trade>.

Key constraints to investment and growth

First, the current land tenure system in which 90 percent of cattle is produced in traditional land and only 10 percent on title deed land makes investment in infrastructure on traditional land risky.⁶¹ The country cannot compete with the large cattle ranches in southern Africa. Land tenure issues also apply to value-added sectors such as butcheries, feedlots, milling, and so on. Commercial feedlots exist but not on the scale of the rest of southern Africa. Although feedlots require only relatively small tracts of land, the limiting factor is the unavailability of feed due to Eswatini's focus on sugarcane as a cash crop and the resulting shortages of grain, legumes, and oilseed crops.⁶² Ultimately, the land tenure system dissuades investors from incurring capital expenditures. Lack of tenure also limits the size of farms and prohibits financing opportunities that can lead to expansion.

Second, beef supply from farmers in the SNL (which is free range) is constrained because their primary objective for rearing cattle is not selling. Traditionally, cattle raised on the SNL are often kept for ploughing farmland (especially the steer and oxen), calves and milk, and storing wealth.⁶³ Families typically sell cattle to meet urgent cash needs, and they prefer to sell older cattle, which are no longer as able to provide labor, milk, and calves.⁶⁴ There is still a large export market gap for younger free-range or organic cattle, especially in Europe.⁶⁵ Building capacity (both knowledge of the market and production capacity) among farmers in the SNL would help Eswatini leverage the rising demand for organic beef in Europe and globally,⁶⁶ helping to boost rural incomes and scale up the beef export value chain.

Third, Eswatini lacks a formal grading system for beef destined to the domestic market.⁶⁷ As a result, beef in the domestic market is rarely compensated according to grades. This limits incentives to produce superior grades and graduation into the export market. Instituting a grading system could be a key driver to change the breeding system by paying a higher price for young animals, which will incentivize farmers. The procurement of young animals (which is preferred in the EU) would also enable EMI to increase exports, but poultry and pork farming expansion seem to be more attractive for small-scale farmers as economies of scale can be obtained on smaller tracts of land closer to urban areas.

Fourth, the regulatory environment, while effective in enforcing standards, appears burdensome. Regulation helps enforce standards and control disease, but excessive processes counteract the supply of efficient productive bulls while regulation for new feedlots increases costs. The government has a bull loaning system for communal farmers for a period of about three months from ranches across the country.⁶⁸ The capacity and requirements of the bulls cannot satisfy the needs for the growing number of feedlots yet import controls of live animals make importation unreliable for business. Moreover, an environmental impact analysis is required before constructing new feedlots and abattoirs (small and large) and at a significant cost. Large penalties are applied for noncompliance.

Fifth, the potential impact of climate change (particularly drought) and the lack of adaptation strategies could inhibit private sector investment. Recent droughts and overgrazing have depleted the national herd, lowered slaughtering, encouraged bush encroachment, and caused a shortage of water.⁶⁹ Over 80,000 cattle deaths were reported in the 2015/16 drought. Current estimates show an average of 15 percent of livestock is exposed to drought events annually, and this could increase to 38 percent under future climate conditions.⁷⁰ Overgrazing also contributes to soil depletion and weakens natural defenses to climate impacts. The lack of commercial irrigation (currently not enough water for irrigation of fodder crops) is a barrier to entry for new business but would be a climate-smart investment.⁷¹ The recent development of the LUSIP II project is for smallholders and not sufficient for national grain and fodder production on a commercial scale.⁷² The beef sector also contributes to emissions, although these are relatively small, and mitigation strategies also need consideration.

Recommendations

There are ongoing projects to support the beef value chain, and reforms that are more friendly to the private sector could leverage these. The International Fund for Agricultural Development (IFAD) and the EU have been supporting the government, and some projects involve PPPs.⁷³ The following policy options could be considered to attract greater private sector investment in the beef value chain.

Short term

- **Conduct analysis on policies to safeguard the beef sector from climate risks.** Drought is the greatest climate threat to cattle survival and is likely to increase under existing climate scenarios.⁷⁴ Overall, climate change has a significant impact on pasture and rangeland management, feed and water availability, manure management, genetic improvement and pest and disease management, and ultimately food security and animal-based protein food. Consequently, climate-smart strategies need to be adopted and implemented soon. These include improving the understanding and impact of climate change on the industry and identifying avenues to protect the beef sector from this impact. The successful implementation of climate-smart strategies can have a positive impact on the future supply of beef and attract private sector investment. Possible policy areas for consideration include, for example, the possibility of switching to more drought-resilient breeds, promoting agro-forestry practices, implementing early-warning systems, and developing insurance mechanisms.
- **Implementing a formal, credible grading system of beef.** This is a public good that should be developed, implemented, and monitored by the government through objective inspection services. A system in which farmers of beef are also paid according to the grade of the carcass will assist in selling more beef locally and for export purposes to current and new markets. The required health and safety regulations regarding beef for export will also apply to the domestic market. By implementing these regulations, Eswatini can create a competitive advantage above other exporting countries in SADC.

- **Improve extension services to enhance animal health and disease control.** Extension services in Eswatini are mainly focused on SNL farmers, and animal health services provided by the Department of Veterinary and Livestock Services are offered only at the communal dipping tanks (850 tanks). The dipping system needs to be upgraded and digitized because it is not capturing data as required. There is an insufficient control of tag numbers, and more officials and improved extension services are required. Improvements further require a new structure, investment, and capital, with commercial farmers also benefiting and carrying costs. Through PPPs, this is also an opportunity for the private sector.
- **Consider use of mobile abattoirs for slaughtering.** Currently, the slab slaughtering of animals is part of the informal sector, and there is a shortage of quality abattoirs. The use of mobile abattoirs would alleviate logistical problems, although this would still require water, electricity, and meat inspection. The traceability scheme can also play a major role. Moreover, commercial forests could supply conservation areas for cattle farming under well-managed systems (breeding, genetics, nutrition, animal health, grazing, fencing, and water) and offer significant potential for exploration.
- **Enhance stakeholder cooperation through forming a red meat suppliers organization.** This will ensure the sector is well represented in advocating for policy reforms. Moreover, this would help create a platform for members to share knowledge, skills, technology transfers, and market information, among other benefits. This may in turn enhance innovation, entrepreneurship, and mindset change through research and education. Regional partnerships within SADC beef producers could also be explored.

Medium term

- **Scale up and commercialize production systems in SNL.** These farmers could take advantage of the growing organic beef market. Commercializing these farmers will not be easy, given that their view of livestock is culturally imbedded. The process of transformation thus requires strong and subtle intervention with the kingdom and the chiefs through negotiation and education. The implementation of this type of transformation can be supported through well-targeted individuals who can serve as role models of the transition toward commercialization through well-structured education plans that train farmers in areas like breeding, grazing management, stock health, marketing, and financial management, as well as clear and timebound performance targets. This should be complemented by development funding for upskilling individuals and should be done in conjunction with efforts to expand access to finance. The partnership between the Swaziland Agricultural Union and the Eswatini Bank, where pig farmers can access small-scale loan guarantees, for example, could be modified where necessary and extended to beef farmers. This initiative and process could be supported by initiating pilot projects in well-selected areas in collaboration with the government, the private sector, and development organizations that are already active in the sector such as IFAD and current successful commercial farmers who are willing to assist as mentors.
- **Introduce PPP models for projects in the beef value chain in light of land management constraints.** These partnerships can replicate the IFAD-Nedbank model, where the government provided a public asset or service (extension services, dipping tank services, an improved traceability model, the development of a grading system, for example), and the private parties may bear certain risks and management responsibilities. Possible projects may include organization of farmers into mini-feedlots, improving genetics and feed provision, assistance with dipping services, and establishing butcheries and retail outlets.

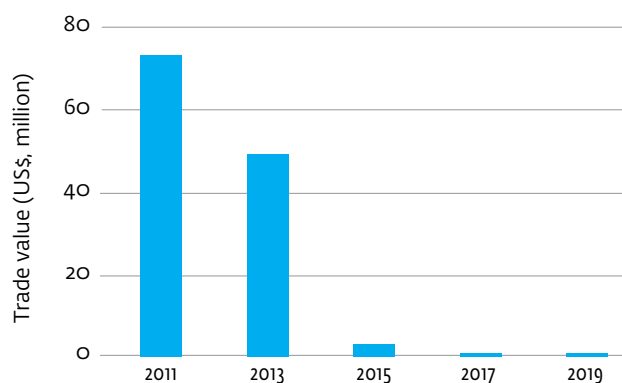
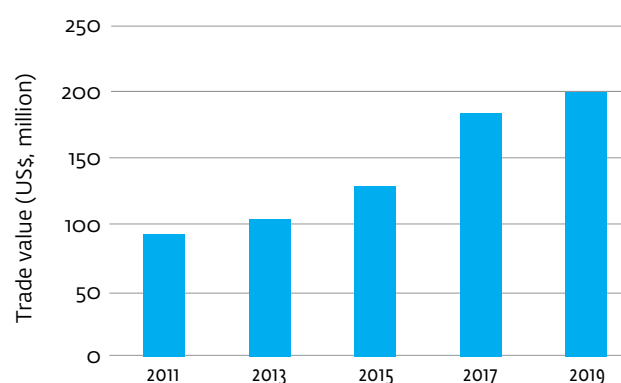


3.4 TEXTILE AND APPAREL

Sector overview and prospects

Growth in the textile and apparel sector followed Eswatini's eligibility for the AGOA in 2000 and the Multi-Fibre Agreement (MFA). Garment and clothing companies, mainly from Taiwan, China, specifically came to Eswatini to manufacture for the US market. Some of this competitive edge was lost in 2005 when the World Trade Organization's MFA expired, ending export quotas and increasing competition from China and other Asian garment producers. In June 2014, the United States withdrew Eswatini's eligibility for benefits under the AGOA, effective January 1, 2015. The United States informed Eswatini that it would need to amend three statutes (the Industrial Relations Act, the Suppression of Terrorism Act, and the Public Order Act) to allow the registration and free functioning of trade unions and the full recognition of freedoms of assembly, speech, and organization. In 2018, AGOA benefits were restored after the country met a series of benchmarks on political freedom.

The textile and apparel industry was the hardest hit by the suspension of AGOA, which resulted in the closure of companies that were partially or completely reliant on AGOA, as well as the loss of employment. Thirty factories were operating before AGOA was suspended, but after the US decision, many closed down operations or relocated to Lesotho. This resulted in a substantial loss of employment, from 32,000 workers to 17,000, a 46.9 percent decline.⁷⁵ Additionally, the value of textile and apparel exports from Eswatini to the United States declined from US\$72.8 million in 2011 to just US\$318,700 in 2017, less than 0.5 percent of presuspension levels (see figure 3.5).

FIGURE 3.5 TEXTILE AND APPAREL EXPORTS FROM ESWATINI TO THE UNITED STATES, 2011–19**FIGURE 3.6 TEXTILE AND APPAREL EXPORTS FROM ESWATINI TO SOUTH AFRICA, 2011–19**

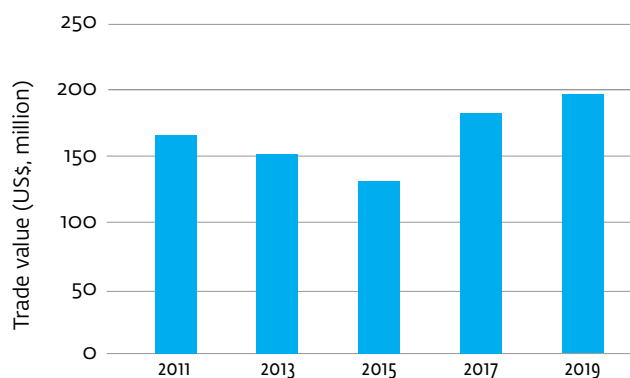
Source: World Bank, based on Comtrade data

Note: HS codes 61 (apparel and clothing accessories, knitted or crocheted) and 62 (apparel and clothing accessories, not knitted or crocheted).

The loss of AGOA forced remaining companies to diversify their export markets, mainly to South Africa, and Eswatini is the largest exporter in the Sub-Saharan Africa region. The value of textile and apparel exports from Eswatini to South Africa increased from US\$95 million in 2011 to US\$200.8 million in 2019, a 111.3 percent increase (see figure 3.6). Still, total textile and apparel exports from Eswatini to the rest of the world increased only from US\$169.5 million in 2011 to US\$202.8 million in 2019—a 19.6 percent increase—suggesting that the significant increase in exports to South Africa had a modest increase in total sectoral exports, given the sharp decline resulting from the loss of AGOA (figure 3.7). Still, in addition to being the largest apparel exporter in the Sub-Saharan Africa region, Eswatini experienced the largest growth in regional exports. In 2019, Eswatini accounted for 33 percent of all intraregional apparel exports in Sub-Saharan Africa, followed by Lesotho (26 percent), Mauritius (21 percent), and Madagascar (14 percent). The AfCFTA could open opportunities for Eswatini to further grow intraregional apparel exports.

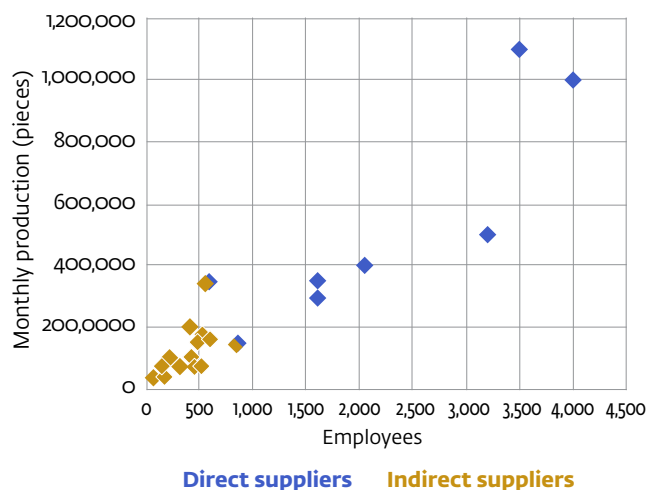
Eswatini developed a national AGOA utilization strategy and action plan with restoration of AGOA in January 2018. While there was a moderate uptick in textile and apparel exports to the United States—from US\$318,699 to US\$488,460 in 2019—several producers stated that they would continue focusing on exporting to South Africa amid uncertainty around the US market and the cautionary approach needed after the severe effect from the AGOA suspension during the 2014–17 period. One firm, for example, stated that although the firm came to Eswatini two decades ago to manufacture for the US market under AGOA, it turned to the South African market after the suspension. Even though AGOA has been reinstated, the firm still only exports 5 percent of its products to the United States and the other 95 percent to South Africa (65 percent of which is finished garments and another 35 percent that comes from fabric mills).

FIGURE 3.7 TEXTILE AND APPAREL EXPORTS FROM ESWATINI TO ALL TRADING PARTNERS, 2011-19



Source: World Bank, based on Comtrade data

FIGURE 3.8 ESWATINI APPAREL SUPPLIERS BY NUMBER OF EMPLOYEES AND MONTHLY CAPACITY, 2019



Source: Giovanni Pasquali and Shane Godfrey, “Apparel Regional Value Chains and COVID-19: Insights from Eswatini” (Policy brief, University of Manchester Global Development Institute, 2020).

Note: Half-colored dots indicate the two suppliers operating both through direct and indirect linkages.

Textile and apparel production is a crucial source of income for Eswatini’s economy, and given the nation’s deep employment challenges, the growth of the labor-intensive textile and apparel sector could become a bedrock for job creation. The sector currently employs over 22,000 people and accounts for 10.5 percent of the country’s 2019 exports. The sector has 20 firms, but most of the production and employment is with six companies (see figure 3.8). Approximately 95 percent of those employed in the sector are women. Apparel manufacturers in Eswatini produce jeans, workwear, protective wear, shirts, pajamas, men’s wear, and women’s wear. There are two types of firms in Eswatini’s textile and apparel sector: those that sell directly to retailers through direct contracts (direct suppliers) and those that operate through intermediaries known as design houses, which manage interactions between retailers and suppliers (indirect suppliers). Eswatini has an estimated 8 direct suppliers and 12 indirect suppliers.⁷⁶ Direct suppliers manufacturing for large apparel firms are more likely to get regular social audits, hold regular workers meetings, provide workers with basic health care facilities, and put gender discrimination policies in place.⁷⁷

Although the textile and apparel industry is both labor intensive and formal, wages in Eswatini are the lowest in the region. Almost all firms pay the legal minimum wage, which averages US\$115 per month for a trained machinist, but Eswatini’s wages in the apparel sector are among the lowest in the region. They are 60 percent lower than in South Africa and 10 percent less than in Lesotho.

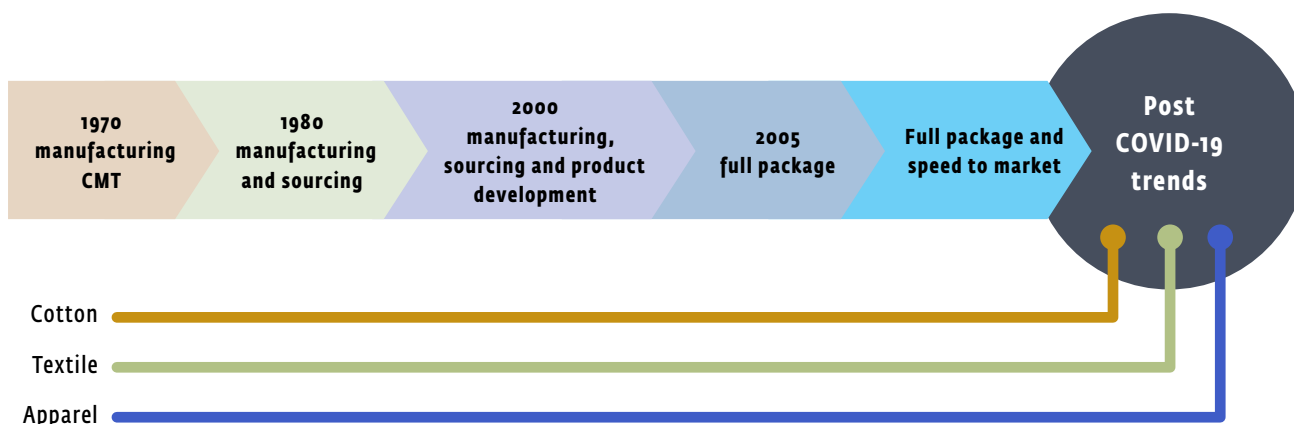
The COVID-19 pandemic had a severe impact on total production and exports.

When comparing the sector's total exports over the March–April period in 2020 to the average for the same timeframe in 2017, 2018, and 2019, Eswatini lost 45 percent of its seasonal incomes from around R 455 million (US\$30 million) to R 250 million (US\$16.5 million). Although the number of exporters in 2020 did not decline from previous years, the number of firms sourcing apparel from Eswatini dropped by 34 percent, and total transactions dropped by 26 percent. Indirect suppliers experienced a relatively less pronounced drop in total exports but faced a sharper drop in unit prices. Indirect suppliers were pushed to drop prices by 14 percent while direct suppliers reduced their total exports without reducing unit costs. Direct suppliers were also able to diversify their product basket more than indirect suppliers, and at least four firms shifted their operations to manufacture personal protective equipment for both domestic and export markets.⁷⁸

During the violent political protests in June 2021, the textile and apparel sector faced threats while suppliers were burned down. Some firms within the sector in the Matsapha area received a tip-off that their factories were targeted for burning by protesters. Firms reported these threats and were given protection by the Royal Eswatini Police Service. The police patrolled the factory area during the day and at night alongside the Umbutfo Eswatini Defense Force. During the protests, some firms lost buyers from Lesotho and Namibia. Some suppliers that manufacture inputs, such as one firm that produces cardboard boxes in Hlatikhulu, were vandalized.⁷⁹

The most significant opportunity for growth is transitioning from providing largely cut-make-and-trim (CMT) services to a “full package” offering.⁸⁰ The CMT model is a simple utilization of labor and for Eswatini, it is becoming increasingly uncompetitive. Textile and apparel manufacturing firms largely source inputs from East Asia (and some from Mauritius and South Africa), provide CMT services, then export to South Africa and the United States. To become competitive, Eswatini needs to offer more than labor and move toward a full package that includes the incorporation of other parts of the supply chain, including design, fabric development, yarn, fabric vertical integration, and so on. The full package would bring domestically produced inputs such as yarn and fabric together with the labor to deliver a finished garment to the market. With the CMT model, firms manufacturing in Eswatini are dependent on Asia-based fabric firms, which has resulted in a high dependency on imported materials for manufacturing. This also leaves firms manufacturing in Eswatini highly exposed to supply chain disruptions. Yarn and fabric account for just over half of all costs, and thus, with the CMT model, Eswatini does not have much control over this critical component in the supply chain. Eswatini needs to be able to source inputs domestically to ensure the affordability and availability of these inputs. This action would make Eswatini more competitive in the African market. Transitioning to a full package offering would be a medium-term objective and would require strong coordination and public-private dialogue (figure 3.9).

FIGURE 3.9 GLOBAL TEXTILE AND APPAREL SUPPLY CHAIN SHIFTS



Source: World Bank elaboration, 2021.

Note: CMT = cut, make, and trim

Major global buyers are looking for countries who have full package offerings.

An analysis by the World Bank shows that large US buyers such as Global Brands, PVH, G-III Apparel, Jockey, Puma, and others are looking to find more full-package producers in Africa using regional fabrics rather than only CMT services.⁸¹ The development of full-package production could also address critical challenges like speed to market to fulfill orders quickly. Global buyers are demanding that speed to market is improved, and reducing dependence on fabrics from East Asia can help make Eswatini a more attractive investment destination. Going forward, the challenge will be attracting investments across the supply chain to provide full-package offerings. In parallel with exploring greater value addition, the participation of domestic business could be explored (some firms in Eswatini are already outsourcing some work to rural enterprises, for example).

Key constraints to investment and growth

Several structural challenges are hindering the growth of Eswatini’s textile and apparel sector. This section addresses them in order of priority. Skills training poses one of the largest costs, while skills shortages have emerged as one of the greatest challenges for firms and a deterrent for potential investors. Trade (including tariff and nontariff barriers) has been identified as a second key constraint, adding costs and undermining competitiveness. Moreover, the availability and cost of water and electricity, access to finance, and environmental impact have been consistent challenges facing the sector.

Skills

Skills development remains one of the most pervasive challenges facing firms in the textile and apparel sector. Currently, 95 percent of new hires require training. Without government support, training is provided at the firm level. The shortage of trained workers also makes it difficult for firms to expand their businesses. November and

December, for example, are the busiest months for production, and it is difficult for skilled labor to meet the additional demand without a sufficient supply of skilled workers. For a potential investor looking at Eswatini, the skills shortage can be a deterrent. When new firms do enter the market, there is a tendency to poach workers and cause existing companies to restart the process of training workers. Firms have asked the government to assist with training responsibilities, but this challenge has not been addressed. The private sector proposed public-private collaboration to deliver training with industry-relevant curriculums. An adequate supply of skilled labor could also attract potential investors.

There is a heavy reliance on expatriates for skilled labor and management jobs. Firms typically have 10–15 expatriates present at any given time, and they typically come from China, Myanmar, the Philippines, and Taiwan, China. They work in management functions to oversee quality control, cutting, and designing. Globally, the best practice is for expatriates to remain temporarily and to train locals as quickly as possible, but this is not the case in Eswatini, where expatriates receive a two-year contract that can be renewed without limitation. The discussion with sector firms revealed structural limitations to training locals for management roles. Some firms, for example, stated that it would be too difficult to train locals for management roles because firms are Taiwanese or Chinese and local managers would be unable to communicate with the head office, whose leaders would be speaking Mandarin.

Trade

Given Eswatini's landlocked location, transportation costs for both imports and exports are high and can increase the cost of goods by as much as 50 percent at the point of sale.⁸² Improving transport infrastructure is key to growing Eswatini's international and regional trade links for the textile and apparel sector. For goods going to the United States, exporting through Maputo in Mozambique would be the most economically sensible, but shipping by rail is expensive, and the infrastructure for such shipping is not sufficiently developed. The bulk of exports, then, go through Durban, which is over 500 kilometers away, making it a long and expensive journey. Additionally, the time taken at the border to clear goods through customs can be quite long and the customs documentation from South Africa can be onerous.

Some global companies are therefore considering relocation in order to source cheaper transport.⁸³ The completion of the long-planned Eswatini Rail Link that will move volume freight between Eswatini and South Africa could help reduce logistics costs. Eswatini is heavily dependent on South Africa for trade because it is the primary market for Eswatini exports. For the textile and apparel sector, the majority of imports come from South Africa or China via South Africa, and most of the exports go to South Africa.⁸⁴ As discussed earlier, Eswatini provides CMT services, using inputs to manufacture goods that are then exported back to South Africa. In 2019, 52.6 percent of inputs came from China, while 31.0 percent came from South Africa (see table 3.3). The same database revealed that 99 percent of exports went to South Africa while just 0.25 percent went to the United States (see table 3.4).⁸⁵ Exports include materials such as fibers, yarn, and fabric that are produced and processed into usable products at the sole fabric mill in Eswatini.

TABLE 3.3 TEXTILE AND APPAREL INPUT IMPORTS TO ESWATINI, 2019

Country	Trade value (US\$)	Percentage
China	62,290,028	52.64
South Africa	36,673,919	30.99
India	40,419	0.03

Source: World Bank, based on Comtrade data.

Note: HS codes 61 (apparel and clothing accessories, knitted or crocheted) and 62 (apparel and clothing accessories, not knitted or crocheted).

TABLE 3.4 TEXTILE AND APPAREL EXPORTS FROM ESWATINI, 2019

Country	Percentage of exports
China	0.00003
South Africa	98.9936
United States	0.24086

Source: World Bank, based on Comtrade data.

Note: HS codes 61 (apparel and clothing accessories, knitted or crocheted) and 62 (apparel and clothing accessories, not knitted or crocheted).

Given the reliance on South Africa for input imports and the export of finished products, strengthening trade relations could reduce costs. Extending border hours with South Africa to 24 hours as Eswatini has done with Mozambique and developing one-stop border posts would significantly alleviate delays and costs associated with crossing the border. Firms attract penalties for late deliveries, which also undermines competitiveness. Firms interviewed stated that trucks can get held at the border for up to three days and that the challenge is much more pervasive for trucks going from Eswatini to South Africa than the opposite direction.

Textile and apparel firms in Eswatini pay 15 percent of VAT, which should be refunded. Given that most exporting firms import their intermediate inputs from South Africa, they are required to pay VAT on these products and then claim it back once the goods are in Eswatini. There are substantial delays on refunds. For example, on machinery and heavy equipment, including motor vehicles, the period can be more than two months. This delay has created liquidity challenges for several exporting firms interviewed.

Eswatini's textile and apparel sector could also face increasing challenges as the government of South Africa prioritizes local manufacturing. In 2020, major South African retailers including TFG, Pepkor, Edcon, Mr Price, and Woolworths pledged to buy an additional 85 million units of South African-made clothes, shoes, and leather goods over the next decade. The government wants to increase locally manufactured items to 65 percent of clothing, textiles, footwear, and leather goods sales.⁸⁶

In 2021, the South African government promulgated Notice 93 of 2021, which will further undermine the competitiveness of Eswatini's exports. The regulations were developed by South Africa's Department of Trade and Industry and South Africa's International Trade Administration Commission. The provision offers a 100 percent rebate on a range of imported textiles and yarns for the manufacturing of apparel and clothing accessories classifiable in chapters 61 and 62.⁸⁷ Although the provision allows all SACU countries to qualify for the rebate, apparel and clothing accessories must be manufactured and sold by retailers in the country in which the rebate permit is issued.

This rule gives South African manufacturing firms a significant cost advantage over firms in Eswatini because most apparel retailers that sell in Eswatini (Truworhs, Jet, Ackerman, Mr Price, Sportscene, Edgars, Midladys) are South African. Thus, apparel manufactured in Eswatini is exported to South Africa and then imported back into Eswatini for retail, and as a result, it is not eligible for the rebate. Firms interviewed for the sector assessment expressed deep concern about how the policy undermines competitiveness with their primary trading partner.

Infrastructure

Manufacturing activity in the textile and apparel sector is both water- and energy-intensive. The fashion industry is the second-most water-intensive industry in the world, using approximately 79 billion cubic meters of water annually. It takes 2,700 liters of water to make a cotton T-shirt from start to finish, enough drinking water for one person for 900 days.⁸⁸ In Eswatini, the majority of textile and apparel firms are located in the Matsapha industrial area and three large firms are in the Nhlanguano industrial area. Water shortages in Nhlanguano continue to limit wash plants while firms in the Matsapha Industrial area rely on boreholes. The textile and apparel industry is also energy-intensive. Globally, approximately 34 percent of energy for the sector is consumed in spinning, 23 percent in weaving, 38 percent in chemical processing, and another 5 percent for miscellaneous purposes. Electrical power dominates consumption in spinning and weaving, while thermal energy is the major source for chemical processing.⁸⁹ If Eswatini wants to move from CMT to a full package, improving energy and water infrastructure is critical.

Although Eswatini ranks higher on quality of overall infrastructure in the Global Competitiveness Index than many other countries with a large manufacturing sector, it is still a constraint for the textile and apparel sector. The government has limited fiscal capacity to finance new infrastructure given accumulating domestic debts. The government is exploring the use of PPPs for infrastructure projects, but as explained in the cross-cutting issues section, existing PPP policy and regulations need strengthening.

Industrial water tariffs are rising rapidly in Eswatini and are substantially more expensive than in other textile and apparel manufacturing countries. The lowest rate of Eswatini's water tariffs—bands 3 and 4—are higher than in all other benchmarked countries (Bangladesh, Ethiopia, India, Kenya, Lesotho, Rwanda, Sri Lanka, Tanzania, and Uganda). Under the tiered approach highlighted in table 3.5, the lowest levels of industrial consumption—0 to 10 cubic meters—cost US\$14.10 per cubic meter. This rate is between 7 and 33 times more than water costs in all other countries. As consumption increases, prices decrease, although they are still higher than in other countries. The lack of a strong policy commitment has led to an unfinalized national water policy, poor interagency coordination, the lack of an asset database, and the absence of an infrastructure management plan to inform capital investment and maintenance.⁹⁰

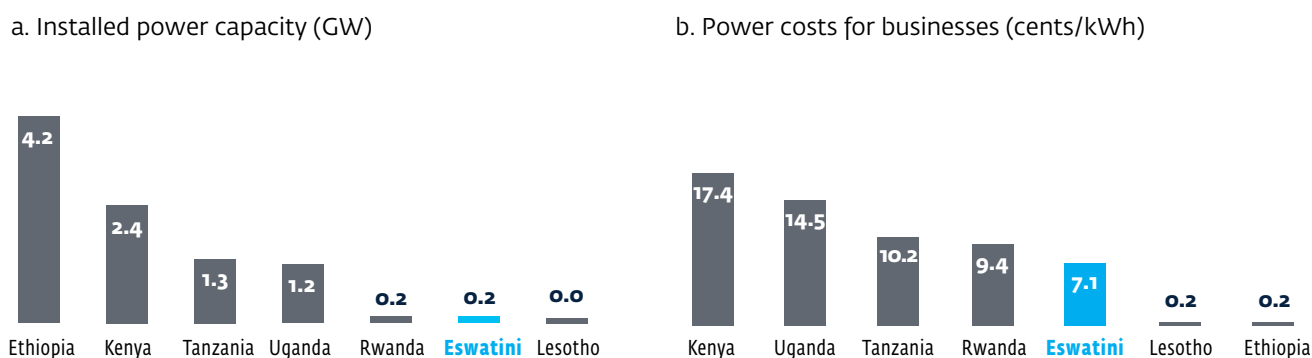
TABLE 3.5 INDUSTRIAL WATER COSTS IN KEY TEXTILE AND APPAREL MANUFACTURING DESTINATIONS

Country	Industrial water cost US\$/cubic meter
Eswatini	Band 1 (0–10 cubic meters): 14.10 Band 2 (11–25 cubic meters): 1.41 Band 3 (26–50 cubic meters): 2.42 Band 4 (>50 cubic meters): 2.42
Kenya	0–6 cubic meters: 2.00 7–20 cubic meters: 0.52 21–52 cubic meters: 0.63
Tanzania	0.47
Rwanda	0.77
Ethiopia	0.27
Uganda	0.6
India	0.17
Bangladesh	0.42
Sri Lanka	0.42
Lesotho	1.09

Source: Sources: World Bank based on data from firm interviews, government of Eswatini; and Msingi, "Sector Mapping –Textile and Apparel Industry in East Africa" (Country Benchmarking Report, Msingi East Africa Ltd., Nairobi, Kenya, 2019).

The composition of Eswatini’s energy sources leaves the country exposed to significant vulnerability. Eswatini is dependent on imports for both electricity and petroleum products, which raises security and supply cost concerns for the country. Electricity imports can be as high as 90 percent of national requirements. As described in section 2.1, hydrology variability compromises the security of the domestic hydropower supply while constraints in the transmission and distribution network constrain the reliability of supply.

Eswatini’s installed power capacity is higher than Lesotho’s, but its energy costs are higher. Eswatini’s installed domestic power capacity is 0.19 GW, which is less than 10 percent of Kenya’s and 5 percent of Ethiopia’s, but it remains higher than Lesotho’s power capacity, which has the lowest installed capacity of all the countries benchmarked in figure 3.10. When it comes to cost, Eswatini lags behind some of its regional competitors. Ethiopia and Lesotho have some of the lowest industrial electricity tariffs in the world, at just US\$0.019/kWh and US\$0.024/kWh, respectively, largely because of subsidies (Ethiopia) or tariffs set below cost recovery (Lesotho). Industrial electricity tariffs in Eswatini are US\$0.084/kWh, making it cheaper than in Kenya, Rwanda, and Tanzania but significantly more expensive than in Ethiopia and Lesotho.

FIGURE 3.10 INSTALLED POWER CAPACITY AND POWER COSTS OF KEY TEXTILE AND MANUFACTURING COUNTRIES

Source: World Bank compilation using data from Msingi, "Sector Mapping –Textile and Apparel Industry in East Africa" (Country Benchmarking Report, Msingi East Africa Ltd., Nairobi, Kenya, 2019); and Global Petrol Price Database, September 2021, https://www.globalpetrolprices.com/electricity_prices/.

Electricity in Eswatini is relatively unreliable and negatively affects profitability. The World Bank Enterprise Survey of 2016 revealed that 77 percent of firms experience electricity outages and that the typical number of outages per month is 3.7 and lasts an average of 3.7 hours. These outages can cost firms as much as 7 percent of annual sales.

Availability of factory shells remains one of the biggest challenges inhibiting growth of the textile and apparel sector in Eswatini. The sector can only grow as fast as the construction of factory shells does. The Eswatini Investment Promotion Authority (EIPA) has investor facilitation and aftercare services designed to provide a one-stop service facility for investment information and support to local and foreign investors who decide to establish business in Eswatini (this includes support to business registration and licensing, work and residence permits, factory shells and available factory sites). EIPA is not able, though, to deliver such support when it comes to securing factory shells, and there can be long delays to secure a suitable facility.

In 2019, the Ministry of Commerce, Industry and Trade noted that an investigation by EIPA unveiled the need to build 40 factory shells in the country. The government announced plans to construct 10 factory shells per year over a four-year period. Of the two factory shells commissioned in 2020, one was completed in April 2021 and the other one is expected by August 2022. The goal of 10 shells per year was revised as a result of the challenges posed by the COVID-19 pandemic. As of August 2021, the government announced that it would build two factory shells per year over a four-year period. The construction of the first two factory shells was commissioned in 2021 and located in the Shiselweni and Lubombo regions. It is expected that these two factory shells will be completed by mid-2022.

In comparison, neighboring Lesotho, where a number of firms migrated after Eswatini lost its AGOA provisions, is currently building a new industrial park that will have 51 shells. Lesotho also has a shortage of factory shells, but there is ongoing progress. The first 14 are under construction and will be completed by September 2021 with occupancy expected by the end of the calendar year. They are also currently building the water and energy infrastructure required to operate the park, with the former expected to be completed by July 2021 and the latter by August 2021. So far, the first 14 factory shells have been solely financed by the government. To finance the remaining 37 shells, the government is looking to do long-term land rentals of between 40 and 99 years to incentivize private investors to construct remaining shells and have time to make a return on their investment.

Neighboring Lesotho has some of the lowest factory shell rent prices, both in Africa and worldwide, which may also contribute to the investment going there. This is because subsidized rent is part of the incentive system offered by the government of Lesotho. The rent subsidy is available to domestic and foreign companies and across all manufacturing industries. Current factory space rental rates vary between M 7.50 and M 18 per square meter per month based on the age and condition of the building. This translates to a range of US\$0.54 to US\$1.30 per square meter per month. In comparison, industrial rental prices in neighboring South Africa are at least two to three times higher, ranging from US\$2.13 to US\$3.90, while Kenya sits at US\$2.25. This means that Lesotho has the cheapest factory shell rental rates by a factor of at least three (see table 3.6). Firms interviewed in Eswatini stated that factory shell rental prices have gone up recently, undermining competitiveness, and this was confirmed by the EIPA. Historically, concessionary rental rates have been offered by the authority over a period exceeding 10 years with minimal escalation rates. The EIPA then reviewed current rental rates (which reflected the concessionary rates established over 10 years ago to remain well below market rates and provide factory space as an investment incentive). The increase in rental rates was needed to be sustainable and maintain these structures.

TABLE 3.6 FACTORY SHELL RENTAL PRICES IN KEY TEXTILE AND APPAREL MANUFACTURING COUNTRIES

Factory rent (US\$ per square meter per month)					
Eswatini 0.50–1.00					
Kenya 2.25–3.0	Tanzania 3–5	Rwanda 3–7.5	Ethiopia Government owned: 2.75; Private owned: 4	Uganda 5–7	Lesotho 0.54–1.30

Sources: Data from World Bank; Msingi, “Sector Mapping—Textile and Apparel Industry in East Africa,” Country benchmarking report, Msingi, Nairobi, Kenya, 2019; Eswatini Investment Promotion Authority (for Eswatini data).

Access to finance

As discussed in the cross-cutting constraints chapter, access to finance remains a challenge in Eswatini. The challenge affects firms in the textile and apparel sector acutely. In 2019, the manufacturing sector accounted for 29.7 percent of GDP⁹¹ but only 5.5 percent of lending, indicating that the sector receives a disproportionately small share of loans (table C.3). Firms interviewed said they struggled with access to finance for operations, which constrained growing their businesses. During the COVID-19 pandemic, textile and apparel firms had trouble getting overdrafts to ease their liquidity challenges. In particular, the growth of SMEs in the textile and apparel sector is limited by access to finance.

Environment

There is significant information asymmetry when it comes to government and private sector understandings of environmental requirements. The Eswatini Environmental Authority (EEA) has a detailed process for minimizing the environmental impacts of textile manufacturing. Firms must submit a project brief for consideration. The EEA then categorizes the firm as level 1, 2, or 3. Textile and apparel firms generally end up in category 3 for heavy pollution.

The EEA reported that the lack of awareness around the process has been a significant challenge. EEA noted that firms come to the country focused on operations, not on environmental impact. Approximately 60–65 percent of textile and apparel firms are in violation of the Environmental Management Act, according to the agency. This can lead the EEA to stop manufacturing operations and apply punitive measures, typically a fine.

Pollution control is also a big challenge that faces the textile and apparel sector. Globally, textile production is the world's second-most polluting industry after the oil industry. The total global greenhouse gas emissions from textile production is approximately 1.2 billion tons annually, and the sector accounts for 10 percent of global emissions.⁹² Reducing emissions within Eswatini's textile and apparel sector (and the global sector) will become increasingly important. South Africa's Presidential Climate Commission (established in 2020) notes, for example, that many of the country's trading partners have adopted net-zero targets and will aim to lower their emissions and impose trade barriers on emissions-intensive products.

In Eswatini, the key environmental challenges associated with the textile apparel sector are wastewater discharge and clothing waste. The Water Pollution Control Act of 1999 requires that pollution levels stay under specified thresholds. The EEA undertakes a lab analysis of water samples and notifies the firms when their levels exceed standards. Once a firm becomes a second- or third-time offender, punitive measures—typically fines of up to E 250,000—are imposed. Firm operations are not halted. The wastewater discharge burden is fully on the firm as the government does not offer any support. When it comes to clothing waste, it is often disposed improperly around the manufacturing facility rather than in the landfills because the latter charges for disposal. The challenge is ongoing because the EEA is not on the ground and instead is reliant on municipal offices to report violations.

Interviewed firms did not cite any environmental requirements—the Environmental and Social Impact Assessment, government interventions—confirming the information asymmetry mentioned by the EEA. Instead, firms stated that they lack the financing or government support they would need to reduce their carbon footprint such as by modernizing electric meters, transitioning from fluorescent to LED lights, or procuring solar panels to improve energy efficiency. Individual firms are nonetheless undertaking measures to reduce their carbon footprint. One firm, for example, helped set up a locally owned firm to undertake a recycling program that uses what would have been wasted fabric to manufacture underwear, shredded fabric to manufacture blankets, and excess fabric to manufacture sanitary pads. These fabrics would likely have been otherwise disposed improperly around the plant. The manufacturing plants that focus on creating these recycled products are based in rural areas to generate local employment, a practice that could be multiplied, particularly in rural areas where unemployment is the highest. Several goods can be manufactured using recycled waste, including underwear and sanitary pads.

Recommendations

Most recommendations are of a medium-term nature, and steps to achieve them can be set in motion in the short term. Political stability is critical to not losing AGOA provisions for a second time, which could act as an extremely long-term deterrent to investment and new markets. To grow the textile and apparel manufacturing sector and expand both export-driven growth and employment, policy support to the sector, which has been scarce thus far, is critical. Recommendations related to trade are discussed in the cross-cutting constraints section. Other recommendations are presented as follows.

- **Develop a platform for public-private partnerships in developing skills for workers and promoting future investments.** All of the firms interviewed stated that government support to train workers would be the most important support function, because training is costly and inefficient in the short term. The government could provide short-term training incentives to firms to address underinvestment in skills development, helping reduce the share of firm expenditures spent on training new workers. In the medium to long term, the government could set up a centralized skills development center cofinanced by firms and the government and help alleviate the supply shortage. Firms stated their interest in providing curriculum support to ensure the adequate supply of workers that have the skills required for the industry. Ideally, the facility would also support management training to reduce the reliance on expatriate labor. With an adequate supply of trained managers, the government could consider limitations on the amount and duration of expatriate staff, as has been adopted in countries like Ethiopia.
- **Transition from CMT to a full-package supply chain.** Given the magnitude of this undertaking, a short-term approach could involve the Eswatini Investment and Trade Promotion Authority hosting private sector forums to understand the bottlenecks hindering investments in various parts of the supply chain. Using these findings, a suite of medium- and long-term incentives and strategies can be developed to attract investments in the missing parts of the supply chain.

- **Strengthen the PPP framework to crowd in funding toward water and electricity infrastructure.** As table 3.6 shows, the lowest levels of industrial consumption, 0 to 10 cubic meters, cost US\$14.10 per cubic meter. This is between 7 and 33 times more than water costs in all other countries, and the lowest tariff level for the highest volumetric consumption is still higher than the cost in all other benchmarked countries.
- **Enhance the sector’s access to finance. As discussed earlier, the manufacturing sector accounts for a small share of lending compared to its economic contribution.** To make this a more proportional share, a collaboration between the government, central bank, and private banking sector is important. Not all infrastructure needs to be jointly financed. Given that firm operations are polluting water, wastewater management should, for example, be wholly financed by firms, whereas renewable energy (solar, biomass, wind) could be cofinanced. To address these challenges, a task force could be established to explore short-term renewable energy investments for the sector.

-
1. CPSD consultations, for instance, identified some shifts from sugarcane production to macadamia, particularly in the Malkerns extension.
 2. See, for example, World Bank, “Eswatini Digital Economy Diagnostic Report” (World Bank, Washington, DC, forthcoming).
 3. Smallholders means less than 50 hectares per farmer, large-scale growers means more than 1,000 hectares, and medium-sized farms are defined as between 50 and 1,000 hectares.
 4. Mhlume and Siminuye mills are owned by the Royal Eswatini Sugar Corporation (RESC), and the Ubombo mill is owned by Ubombo Sugar.
 5. Research and Markets, “Manufactures of Sugar in Eswatini” (Research and Markets, New York, 2019), <https://www.researchandmarkets.com/reports/4852773/manufacture-of-sugar-in-eswatini-2019#src-pos-1>.
 6. RESC notes that 3,500 people are directly employed in their business, with 2,500 families involved in sugarcane farming. They note that 160,000 people are living in their cane estates and that the company provides all housing and infrastructure for its employees and their dependents. Illovo’s Ubombo mill and estate employs 2,300 people. Both mills provide school and health facilities.
 7. The era of high stable prices ended with reform of EU sugar policy. The abolition of production quotas in October 2017 moved the fundamental balance for the EU bloc to a surplus, and EU white sugar prices retreated from import parity to export parity.
 8. These are Bromor Foods, Kraft Foods (previously Cadbury), Ngwane Mills, Lactalis (formerly Parmalat), Eswatini Fruit Cannery/Swazican, Mondelez, Eswatini Beverages/ABInBev and Coca Cola. There are also two boutique companies that use sugar to produce limited quantities of rum, vodka, and craft gin in Eswatini.
 9. The impact of climate change on these functions of production is explored in the section below on key constraints to growth and investment.

10. Cogeneration is the simultaneous production of electricity and heat. All cane mills cogenerate power by burning bagasse in their boilers, but some mills have invested in high-pressure boilers that enables the generation of surplus electricity saleable to the national grid (see appendix A3.1).
11. RES Corp reportedly uses wood chips from the local forestry industry to supplement its own bagasse supplies.
12. Historically, electricity generation revenues typically accrue solely to the miller, but canegrowers are increasingly lobbying to include this value in revenue sharing systems.
13. The draft amendment for biofuel regulations was recently published for inputs and comments from stakeholders. The biggest challenge is that large investments are required for projects to be financially viable, and a subsidy mechanism to cover price differential is not yet available. While the South African canegrowers organization together with industry members are exploring the jet and aviation biofuel through the sugarcane value master plan, the South African industry as a whole is unlikely to invest in the fuel ethanol option in the future.
14. Furfural is one of the platform chemicals used as a starting reagent to produce other high-value-added products. It can be produced from a variety of agricultural by-products, including sugarcane bagasse, corncobs, oat, wheat bran, and sawdust.
15. A French consultancy firm has conducted an initial study identifying Ubombo Mill as the preferred site, as well as suggesting a suite of possible diversification and value-add opportunities.
16. Regional studies suggest that the forestry sector can contribute much more to the economy if countries implement farmer-managed agroforestry and farm forestry in the production landscape using decentralized approaches, enhance an enabling environment for small-holder and plantation forestry, enhance protected area management and ecotourism development, and integrate forestry into their countries' climate change agenda. World Bank, "Forests, Trees, and Woodlands in Africa: An Action Plan for World Bank Engagement" (World Bank, Washington DC, 2012), https://www.profor.info/sites/profor.info/files/Africa-Forests-Trees-ActionPlan_0_0.pdf.
17. Note that import and export statistics are based on wood products as recorded in the WITS database.
18. WITS (World Integrated Trade Solutions), "Eswatini Wood Exports, Imports, Tariffs, by country and region 2019," Trade Statistics for Eswatini, https://wits.worldbank.org/CountryProfile/en/Country/SWZ/Year/2019/TradeFlow/EXPIMP/Partner/All/Product/44-49_Wood.
19. FAO (Food and Agriculture Organization of the United Nations), Global Forest Resources Assessment 2015, Country Report Swaziland.
20. FSC (Forest Stewardship Council), "FSC National Risk Assessment for the Kingdom of Eswatini" (Forest Stewardship Council, Bonn, Germany, 2018).
21. FSC, "FSC National Risk Assessment for the Kingdom of Eswatini."
22. FSC, "FSC National Risk Assessment for the Kingdom of Eswatini."
23. FSC, "FSC National Risk Assessment for the Kingdom of Eswatini."
24. FSC, "FSC National Risk Assessment for the Kingdom of Eswatini."
25. P. Elias and D. Boucher, *Planting for the Future: How Demand for Wood Products Could Be Friendly to Tropical Forests* (Cambridge, MA: Union of Concerned Scientists, 2014); WWF (World Wildlife Fund), "Living Forest Report" (WWF, Washington, DC, 2012), https://wwf.panda.org/our_work/forests/forest_publications_news_and_reports/living_forests_report/.
26. FAO (Food and Agriculture Organization of the United Nations), "Forest Product Statistics" (online fact sheet), 2021, <https://www.fao.org/forestry/statistics/80938@180724/en/>.
27. Russia is currently the world's second-largest exporter of raw timber, accounting for around 11 percent of global exports in 2020 according to our calculations using ITC trade data (HS code 4407).
28. VEDP (Virginia Economic Development Partnership), "South Africa: Opportunities for Virginia Wood Exports in a Leading African Market" (VEDP, Richmond, VA, 2020), https://exportvirginia.org/sites/default/files/2020-11/South_Africa_Wood_Industry_Report_1020.pdf.
29. WITS, "Eswatini Wood Exports, Imports, Tariffs, by country and region 2019."
30. C. M. Muñoz et al., "Expanding Renewable Energy for Access and Development: the Role of Development Finance Institutions in Southern Africa" (Boston University, Global Development Policy Center, Boston, MA, 2020).
31. The aggregate trade balance for primary forestry exports recorded a surplus of US\$383 million, while the trade balance for secondary and tertiary processed wood products were in deficits of US\$187 million and US\$175 million, respectively.
32. G. Schwerhoff and M. Sy, "Where the Sun Shines" (International Monetary Fund, Washington, DC, 2018), <https://www.imf.org/external/pubs/ft/fandd/2020/03/pdf/powering-Africa-with-solar-energy-sy.pdf>.
33. European Biofuel Technology Platform, "Biomass with CO2 Capture and Storage (Bio-CCS). The Way Forward for Europe," 2021,
34. E. Dimpi, "Small-Scale Electricity Generation from Biomass" (GIZ HERA, 2011).
35. Government of Eswatini, "Sustainable Energy for All Country Action Plan," 2014, https://www.seforall.org/sites/default/files/Swaziland_RAGA_EN_Released.pdf.
36. Government of Eswatini, "Sustainable Energy for All Country Action Plan."

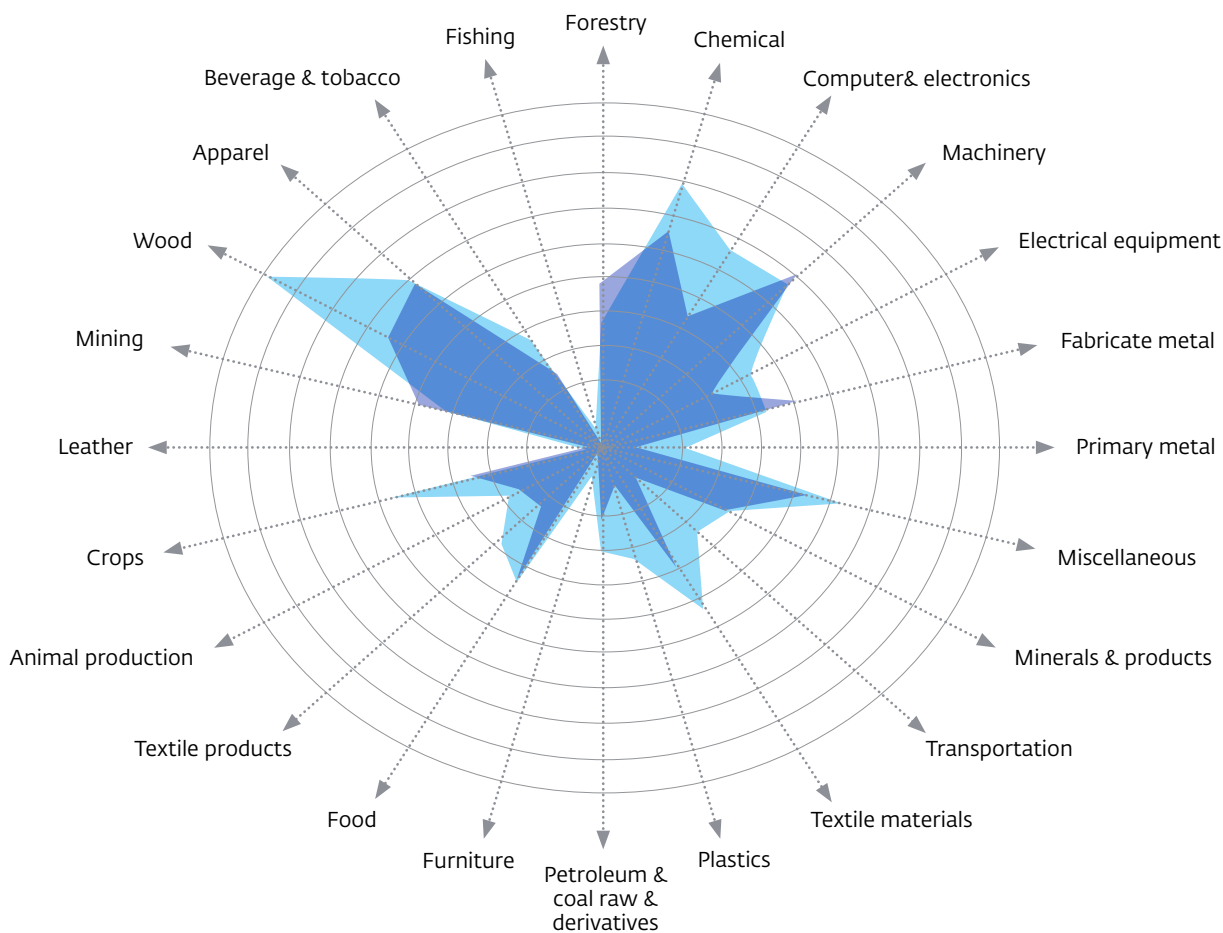
37. Government of Eswatini, Swaziland Energy Policy, Laws and Regulations. Handbook Volume 1: Strategic Information, Regulations, Opportunities (Mbabane, Eswatini, 2018).
38. Government of Eswatini, Swaziland Energy Policy, Laws and Regulations.
39. World Bank, “Mozambique Becomes First Country To Receive Emission Reductions Payments From Forest Carbon Partnership Facility,” (World Bank, Washington DC, 2021) <https://www.worldbank.org/en/news/press-release/2021/10/15/mozambique-becomes-first-country-to-receive-emission-reductions-payments-from-forest-carbon-partnership-facility>.
40. Government of Eswatini, “Swaziland Forest Policy,” 2002.
41. At present, most timber is exported to South Africa. Exports to the international market are constrained by transport costs, making future use of Maputo a necessity.
42. J. Durkay and J. Schultz, “The Role of Forests in Carbon Sequestration and Storage,” LegisBrief 24, no. 3 (2016), National Conference of State Legislatures, Washington, DC, <https://www.ncsl.org/research/environment-and-natural-resources/the-role-of-forests-in-carbon-sequestration-and-storage.aspx>.
43. World Bank, “Forests for People, the Planet and Climate.” (Washington DC, World Bank, 2029). <https://www.worldbank.org/en/news/feature/2020/03/19/forests-for-people-the-planet-and-climate>
44. The World Bank, for example, supports global forestry carbon sink initiatives such as the Forest Carbon Partnership Facility and BioCarbon Fund Initiative for Sustainable Forest Landscapes, while the African Development Bank has a forest investment program. See World Bank, Eswatini Systemic Country Diagnostic, and African Development Bank, “Climate Investment Funds” (online information sheet), 2020, <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/climate-investment-funds-cif>.
45. World Bank, “Mozambique Becomes First Country to Receive Emission Reductions Payments from Forest Carbon Partnership Facility,” (press release, World Bank, Washington, DC, 2021), <https://www.worldbank.org/en/news/press-release/2021/10/15/mozambique-becomes-first-country-to-receive-emission-reductions-payments-from-forest-carbon-partnership-facility>.
46. Government of South Africa, “Full Technical Report on the Implications of Climate Change for the Agriculture Sector of South Africa,” Department of Agriculture, Pretoria, South Africa, undated unpublished report.
47. European Commission, “Beef Value Chain Analysis in eSwatini” (Brief 13, European Commission, Brussels, Belgium, 2019).
48. European Commission, “Beef Value Chain Analysis in eSwatini.”
49. A. Wane, et al. “Beef Value Chain Analysis in Eswatini” (European Union, Maastricht, the Netherlands, 2018).
50. CPSD staff consultations.
51. European Commission, “Beef Value Chain Analysis in eSwatini.”
52. An important caveat to add with regards to hormone-free beef is that carcass growth is slow and takes longer to reach 150 to 170 kilograms live weight in comparison to Southern Africa, which has a weaning weight of between 180 and 215 kilograms. This is largely due to the ban on growth hormones, while the high cost of feed compounds the problem of low weight. All feed must be procured locally to ensure that growth stimulants have not been added. This constrains competition in the feed supply market and increases costs of production.
53. European Commission, “Beef Value Chain Analysis in eSwatini” (VCA4D brief no.13, European Commission, Brussels, Belgium, 2019).
54. European Commission, “Beef Value Chain Analysis.”
55. European Commission, “Beef Value Chain Analysis.”
56. European Commission, “Beef Value Chain Analysis.”
57. European Commission, “Beef Value Chain Analysis.”
58. European Commission, “Beef Value Chain Analysis.”
59. The current farmgate price per kilogram of beef is E 68 and competing meat (broiler chicken and pork) are E 32 and E 38, respectively. Imports will continue unless prices in South Africa increase substantially.
60. European Commission, “Beef Value Chain Analysis in eSwatini.”
61. European Commission, “Beef Value Chain Analysis in eSwatini.”
62. The largest volume of feed components that are imported into Eswatini are (a) fodder, 58,635 tons, (b) soybean cake, 33,979 tons, (c) maize, 149,968 tons, of which approximately 76,000 tons is yellow maize destined for the feed industry, (d) sunflower seeds, 10,000 tons (National Agricultural Marketing Board, “Reports—NAMBoard,” 2018).
63. A. M. Dlamini, “Welfare and Use of Livestock for Draught in Swaziland,” Proceedings of ATNESA workshop, September 20–24, 1999, Mpumalanga, South Africa, 1999, <https://www.atnesa.org/Empowering99/Empowering99-Dhalimi-SZ-www.pdf>.
64. Dlamini, “Welfare and Use of Livestock for Draught in Swaziland.”
65. European Commission, “Beef Value Chain Analysis in eSwatini.”
66. Globally, organic beef is projected to grow by a compounded annual growth rate of 6.4 percent. See Future Markets Insights “Demand for Organic Beef Meat to Remain High in Developed Regions during 2017–2027,” PR Newswire, August 3, 2017.

67. S. Dlamini and W. Huang, “A Double-Hurdle Estimation of Sales Decisions,” *Sustainability* 11, no. 19 (2019): 5185
68. Government of Eswatini, “Annual Livestock Census Summary” (Veterinary Epidemiology Unit, Department of Veterinary and Livestock Services, Ministry of Agriculture, 2019).
69. CCARDESA (Centre for Coordination of Agricultural Research and Development for Southern Africa), “Best Bet Climate-Smart Agriculture Options for Livestock in SADC” (CCARDESA, Gaborone, Botswana, 2020).
70. World Bank, “Drought Resilience Profile: Eswatini. Southern Africa Drought Resilience Initiative (SADRI)” (World Bank, Washington, DC, 2021).
71. World Bank, “Drought Resilience Profile: Eswatini.”
72. World Bank, “Enterprise Surveys: Eswatini 2016” (Report, World Bank, Washington, DC, 2016), <https://microdata.worldbank.org/index.php/catalog/2811>.
73. Examples of PPPs could include (a) Nedbank, IFAD, government, and small-scale farmers; (b) the company—TWK Agri—government, and small-scale farmers; and (c) animal health companies, government, and small-scale farmers.
74. World Bank, “Drought Resilience Profile: Eswatini” (Southern Africa Drought Resilience Initiative [SADRI], World Bank, Washington, DC, 2021).
75. Economist Intelligence Unit, “Swaziland Loses its AGOA Status.” July 3, 2014, <http://country.eiu.com/article.aspx?articleid=71980391&Country=Swaziland&to>.
76. G. Pasqual and S. Godfrey, “Apparel Regional Value Chains and COVID-19: Insights from Eswatini” (Research briefing, University of Manchester, Global Development Institute, Manchester, UK, 2020).
77. Pasqual and Godfrey, “Apparel Regional Value Chains and COVID-19: Insights from Eswatini.”
78. Pasqual and Godfrey, “Apparel Regional Value Chains and COVID-19: Insights from Eswatini.”
79. S. Zwane, “Fears Textile Factories Targeted, under Police Guard,” *Times of Eswatini*, July 13, 2021, <https://www.pressreader.com/eswatini/times-of-eswatini/20210713/281818581835145>.
80. CMT manufacturing is a service in which factories cut, make, and trim a brand’s designs. The factory will require specifications, tech packs, fabrics, patterns, and stitching requirements to undertake the services, essentially just providing labor. With full-package manufacturing, the factory develops products from initial consultation to garment completion, which includes additional production processes and value addition, design, apparel and fabric development, and textile vertical integration.
81. World Bank, “Scoping Study to identify markets and investment opportunities for textile and apparel in Lesotho” (World Bank, Washington DC, unpublished manuscript).
82. AGOA (Africa Growth and Opportunity Act), AGOA Utilization Strategy and Implementation Plan for the Kingdom of Eswatini (Southern Africa Trade and Investment Hub for US Department of International Development and Eswatini Ministry of Commerce, Industry and Trade, Mbabane, Eswatini, 2021. <https://agoa.info/images/documents/15843/eswatini-agoa-strategy-2021.pdf>).
83. AGOA, AGOA Utilization Strategy and Implementation Plan for the Kingdom of Eswatini .”
84. Evidenced by Comtrade data.
85. Inputs include the following HS codes: 50 (silk); 51 (wool, fine or coarse animal hair, horsehair yarn, and woven fabrics); 52 (cotton); 53 (vegetable textiles, fibers, paper yarn, and woven factors of paper yarn); 54 (manmade filaments, strip, and manmade textile materials); 55 (man-made staple fibers); 56 (wadding, felt and nonwovens, special yarns, twine, cordate, ropes and cables and articles thereof); 58 (fabrics, special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, and embroiders); 59 (textile fabrics, impregnated, coated, covered or laminated; textile articles of a kind suitable for industrial use); and 60 (fabrics, knitted or crocheted).
86. Leonie Barrie, “South Africa Buy Local Campaign Gets Duty-Free Textile Boost,” *Just Style*, February 26, 2021.
87. HS codes 61 (apparel and clothing accessories, knitted or crocheted) and 62 (apparel and clothing accessories, not knitted or crocheted).
88. T. Mogavero, “Clothed in Conservation: Fashion and Water,” *Sustainable Campus* (blog), April 16, 2020, <https://sustainablecampus.fsu.edu/blog/clothed-conservation-fashion-water>.
89. A. Prince, “Energy Conservation in Textile Industries and Savings,” *Fibre2Fashion*, June 2008, <https://www.fibre2fashion.com/industry-article/3377/energy-conservation-in-textile-industries-savings>.
90. World Bank, Eswatini Systemic Country Diagnostic.
91. World Bank national accounts data.
92. The Conscious Challenge, “Clothing & Energy,” June 8, 2019, <https://www.theconsciouschallenge.org/ecologicalfootprintbibleoverview/clothing-energy>.

APPENDICES

APPENDIX A ESWATINI SECTOR FITNESS

FIGURE A.1 ESWATINI SECTOR FITNESS



Complexity Ordered: Forestry (Simplest) to Chemicals (Complex), Five Years Earlier and Latest (dark blue)

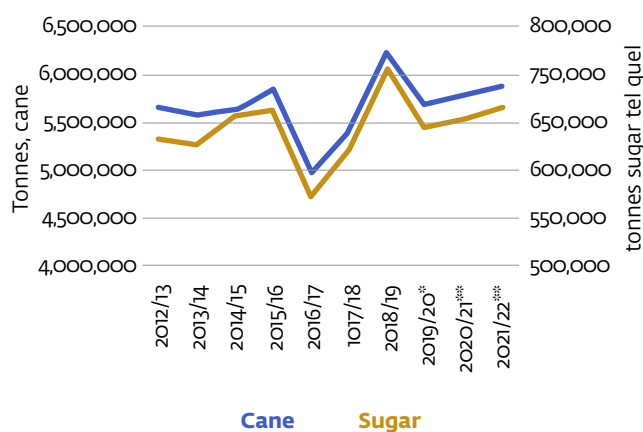
Sources: Andrea Tacchella and Masud Cader, "Sector Fitness Country Update 2019 Edition" (internal report, IFC and La Sapienza, University of Rome, unpublished).

APPENDIX B SUGAR VALUE CHAIN

Production

Production of cane and sugar has increased, but the impact of a multiyear drought that created serious water resource constraints in 2016/17 is clearly evident (figure B.1). Figure B.2 shows how area under cane cultivation increased considerably during the first half of the 2010s, while productivity has been maintained at a level of around 12–13 tons sugar per hectare. This productivity indicator is high by international standards. Development of the LUSIP I project in the early 2010s saw the cane cultivation area rise from around 52,000 hectares to 60,000 hectares today. An earlier surge in the area under cane cultivation between 2000/01 and 2004/05 occurred with the Komati Downstream Development Project under the Swaziland Komati Project Enterprise, later changed to the Eswatini Water and Agricultural Development Enterprise to develop LUSIP 1. Development funding from the EU was crucial in the progression of these irrigation areas and Ubombo Sugar Limited has also directly supported the development of the LUSIP with an E 1.3 billion expansion project.

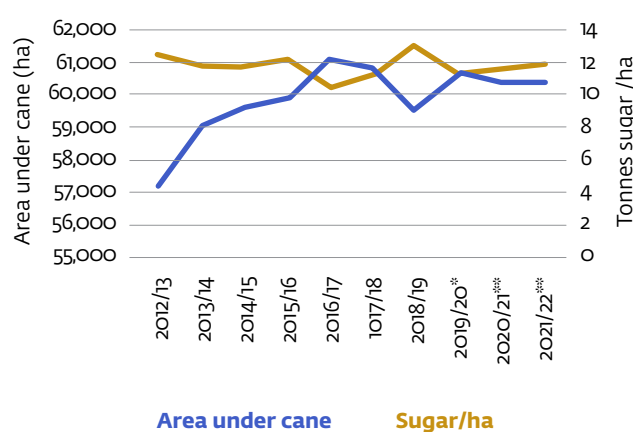
FIGURE B.1 CANE AND SUGAR PRODUCTION IN ESWATINI, 2012–22



Source: ESA (Eswatini Sugar Association), “Focus on Eswatini” (presentation to the International Sugar Organization, 2020).

Note: tel quel refers to the weight of sugar regardless of polarisation.

FIGURE B.2 CANE AREA AND YIELDS IN ESWATINI, 2012–22



Source: ESA (Eswatini Sugar Association), “Focus on Eswatini” (presentation to the International Sugar Organization, 2020).

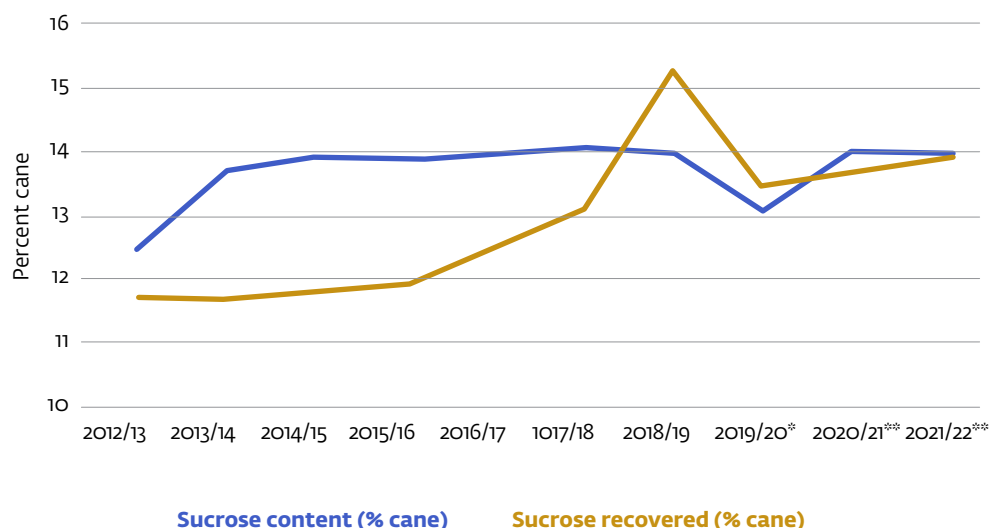
Note: ha = hectares.

Miller-planters and independent canegrowers achieve 100 tons or more of cane per hectare (chiefly because the entire crop is irrigated), an amount that is high by international standards. Productivity is enhanced at the independent grower level by (a) the selection of superior cane varieties (mainly sourced from South African Sugarcane Research Institute in South Africa), (b) the implementation of best management practices, (c) integrated pest management, (d) the incorporation of pest and disease regulations, and, most importantly, (e) extension support provided by the ESA. Support includes water management, pest disease control, soil analysis, fertilizer recommendations, variety provision, data and advice on climate conditions, and irrigation scheduling. Small growers also receive training in sugarcane husbandry, business management, and corporate governance. Even so, some smallholder farmers still lack access to the technical and financial tools necessary to improve yields. Growers (who are allocated a sucrose quota by the miller) harvest cane throughout the season (as scheduled by miller-grower groups) and receive cane payment within two weeks of delivery to the mill based on the volume of sucrose delivered. Cane is harvested manually by contracted laborers and transported at grower expense to the mills by contract haulers. Cane prices are not in the public domain, but pricing is based on a legislated revenue-sharing arrangement under which growers receive 68.2 percent of income generated from sugar and molasses sales. An important issue affecting smallholder income is corporate taxation policy. Smallholder farms grouped under farmer companies designed to achieve economies of scale are subject to business tax at 27.5 percent and more than 10 percent on dividends. This significant tax burden reduces the income of smallholders.

Market Structure

Sugar milling is dominated by a few players. Royal Eswatini Sugar Corporation (RESC) owns two mills, Simunye and Mhlume, and has 22,000 hectares under cane cultivation. South African sugar company RCL Sugar Company co-owns the company with a 29.1 percent share. Tibiyo Taka Ngwane (Tibiyo) is the major shareholder at 53.1 percent, while others include the Nigerian government (10 percent), the Eswatini government (6.5 percent), and individuals (1.3 percent).

Millers are large and efficient by regional standards. Harvesting and milling is normally conducted over 30–35 weeks between April and December. As illustrated in figure B.3, sucrose content is consistently around 14 percent, but more importantly, sucrose recovery has increased, indicating the achievement of milling and recovery efficiencies by the three millers. Similarly, tons of cane per ton of sugar—a key technical efficiency indicator—is falling over time, easing from around 8.6 to 8.4 over the past decade. Millers conduct extensive off-crop work programs to maintain and enhance mill performance. Sugar prices are not in the public domain, but the ESA issues a sugar price index. This shows no rising or falling trend over the past decade in nominal terms, but considerable volatility. This volatility is driven by variations in the shares of differently priced markets in Eswatini’s export mix, as well as price variations in those markets driven by local supply and demand conditions.

FIGURE B.3 CANE AND SUGAR PRODUCTION IN ESWATINI, 2012–22

Source: Eswatini Sugar Association and Eswatini Canegrowers Association post forecasts, 2021.

Note: * estimate; ** forecast.

Cogeneration

Cogeneration is the simultaneous production of electricity and heat. All cane mills cogenerate power by burning bagasse in their boilers, but some mills have invested in high-pressure boilers that enable the generation of surplus electricity saleable to the national grid. These investments have been driving the growing demand for electricity and attractive electricity prices. More importantly, the desire of some governments to promote sustainable energy sources means that national electricity utilities have been willing to pay preferential prices for electricity generated from bagasse because of its renewable status (biopower). In short, energy policy has been a key factor behind investment, particularly for those sugar industries that receive preferential tariffs for cogenerated electricity. Countries where producers have benefited from favorable policy for IPPs include Brazil, India, Mauritius, Pakistan, the Philippines, and Thailand. Because cogeneration relies on the availability of bagasse, sugar industries with a long crushing season benefit more from investment in electricity export. Eswatini falls into this grouping. A final factor influencing investment is how the revenues from cogeneration are shared. Historically, electricity revenues typically accrue solely to the miller, but cane growers are increasingly lobbying to include this value in revenue-sharing systems. A key issue going forward is how to incorporate electricity into revenue-sharing formulas while still ensuring that the mill (the investor) can make a sufficient return to justify the required investment.

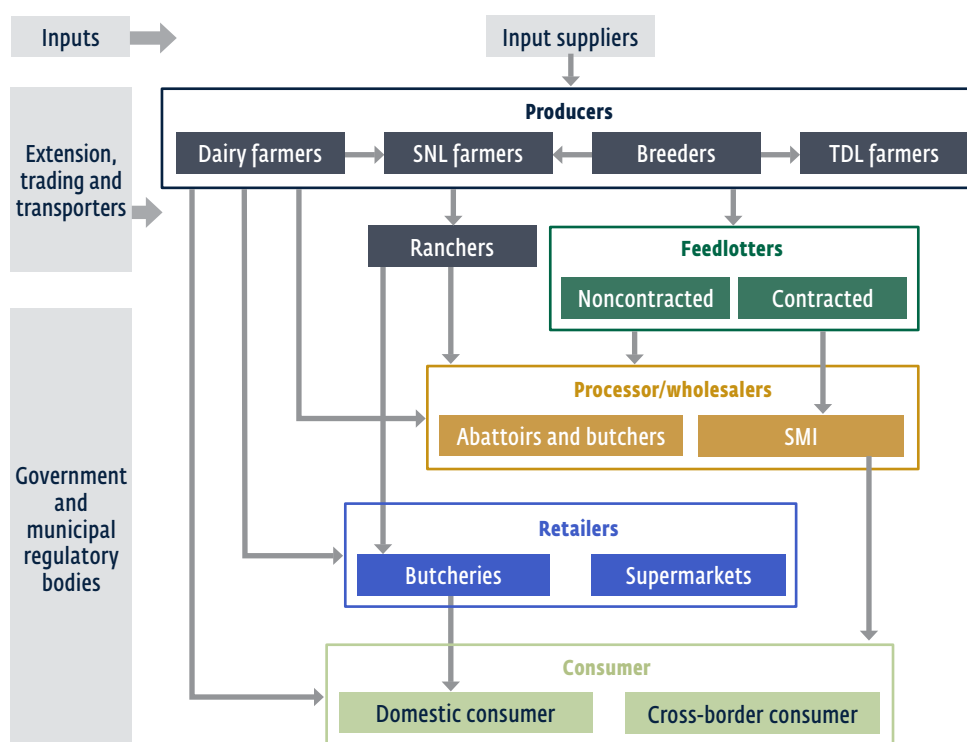
APPENDIX C

BEEF VALUE CHAIN

Eswatini’s beef chain value can be divided into four stages (see figure C.1). The primary stage for cattle production is characterized by nonmarket and market-oriented small producers and ranches on SNL and TDL. The second stage consists of fattening operations on feedlots and state-owned or private ranches. In the third stage, slaughtering and processing operations (abattoirs, butchers) takes place, while the fourth stage is focused on dealing with distribution operations (retailers, supermarkets, butchers, meat shops, and so on).

Cattle farmers can market their animals through any of the channels whether informal, formal, export, or for breeding. The only prerequisite for export is that animals conform to the grading system. No formal agreements between small farmers and value chain participants exist, and value chain financing is therefore not done. Linkages exist between (a) feedlots and butcheries (and specifically formal, approved butcheries), (b) feedlots and the export abattoir Eswatini Meat Industries Limited (EMI), (c) feed manufacturers and feedlots, (d) EMI and dipping tank–participating farmers that have formal agreement for delivering animals, and (e) an informal conglomerate of farmers for sale to feedlots and abattoirs.

FIGURE C.1 FLOW CHART OF THE ESWATINI BEEF VALUE CHAIN



Source: World Bank staff.

Note: SDL = Swazi Nation Land; TDL = title deed land





TABLE C.1 CHARACTERISTICS OF TRADITIONAL VERSUS COMMERCIAL FARMING





Characteristics of traditional farming	Characteristics of commercial farming and feedlots
Farmers see cattle as an indicator of wealth and sources of manure, food, milk, financial security, and draft power (pulling of plows, wagons, water carts).	Better access to feed (roughage and pastures) due to TDL tenure. Sound pasture management is applied, whereas in communal grazing, it is impossible.
Knowledge of consumer preferences in marketing is poor, and the general knowledge regarding the grading of beef carcasses (pricing for quality) is nonexistent at the primary and SME levels.	Availability of sugarcane tops as feed, as farmers are mostly involved in sugar farming. They do not have traditional communal grazing as in SNL tenure systems and have to supply their own feed.
The perception of producers that larger and older animals are of greater value than high-grade young animals is detrimental to the profitability of the farming enterprise.	Weaner-type breeding systems for feedlots have lower animal loading on available land resources as fewer animals are kept (only breeders and replacements instead of old nonproductive stock such as oxen).
As animals are only sold in times of need, there is a low off-take rate of approximately 8.7 percent of cattle in comparison to South Africa (between 15 and 25 percent). ^a Animals are kept to build numbers rather than selling for an income, which is attributed to traditional beliefs.	There is less of a danger of encroachment of urbanization because property is owned.
The current average age of farmers is 57 years. Resistance to change is definitely an issue, and incentives to attract youth and women will be required to ensure the sustainability of the sector.	Economy of scale applies as herds are larger, which improves market access.
The quality of meat is fair, despite the lack of a formal grading system for domestic purposes, but local stakeholders are not benefiting from it in terms of increased income or jobs in the absence of effective grading systems, pricing information, trust among different actors, and so on.	Skill levels are higher and the awareness of market demand for younger animals at higher prices is present.
Smallholders, people living below the poverty line, women, and youth face additional barriers to markets and are often not leading in farmer businesses or cooperatives. Traditionally, it is the father of the household that owns the cattle in a patriarchal system.	
The honoring of contracts is a problem because side-selling is done using on-the-spot pricing of animals whether contracts exist or not. The Eswatini government is in the process of setting up a small claims court to address this issue, but no timelines could be given regarding the implementation date for this court.	
No formal carcass grading system exists for nationally marketed beef. Grading is restricted to export only and in accordance with the system at the SG1 slaughterhouse.	

SME = small and medium enterprise; SNL = Swazi Nation Land; TDL = title deed land.

a. Government of Eswatini, "Ministry of Agriculture Strategic Plan, 2018–23" (Eswatini Dairy Board, Manzini, Eswatini, 2018), http://www.dairyboard.co.sz/images/MOA%20STRATEGIC%20PLAN_WP_2020.pdf.

TABLE C.2 BENCHMARKING THE BEEF VALUE CHAIN IN SELECTED SADC COUNTRIES

	Eswatini	Botswana	Namibia	Zambia	South Africa
 Access to harbors	<p>Eswatini has no direct access to any harbors</p> <p>Exportation does take place through Durban</p>	<p>Botswana has no direct access to harbors</p> <p>Exportation does take place through Cape Town</p>	<p>Namibia has access to only one harbor, Walvis Bay</p>	<p>No access to any harbors. Nearest harbor is through Mozambique</p>	<p>South Africa has access to many harbors such as Cape Town, Port Elizabeth, East London, and Durban</p>
 Maize	<p>Eswatini produces limited amounts of maize</p> <p>Maize is imported from South Africa</p>	<p>Botswana produces limited amounts of maize</p> <p>Maize is imported most of the time from Zambia.</p>	<p>Namibia has only three areas that produce maize</p>	<p>Zambia has access to large quantities of maize</p>	<p>South Africa has access to large quantities of maize</p>
 Production systems	<p>Steer and ox production system</p> <p>Feedlots are changing to weaner-type</p> <p>Commercial farmers on a weaner system</p>	<p>Slaughter ox production system</p> <p>In the process to change to a weaner system</p>	<p>Slaughter ox production system</p> <p>In the process to change to a weaner system</p>	<p>Slaughter ox production system</p>	<p>Weaner system for commercial farmers</p> <p>Steer and ox system for subsistence farmers</p>
 Agents and auction houses	<p>No formal auctioneers</p> <p>Dip tank sites are used as congregation for the sale of animals</p>	<p>Botswana has no official livestock auction houses</p> <p>Both Botswana Meat Commission (BMC), local abattoirs, and feedlot owners have agents in the field</p>	<p>Namibia has a few livestock auction houses available</p> <p>Meatco has livestock agents in the field</p> <p>Local abattoir and feedlot owners have agents</p>	<p>Small-scale beef traders</p> <p>Feedlot agents</p> <p>Abattoir agents</p>	<p>South Africa has numerous auction houses available</p> <p>Both abattoir and feedlot owners have livestock agents available</p>

	Eswatini	Botswana	Namibia	Zambia	South Africa
 <p>Feedlots</p>	Feedlotting is a rather new concept in Eswatini. Large number of small feed lots (5–10 animals)	Feedlotting is a rather new concept in Botswana	Feedlotting does take place, but only on a limited scale	Feedlotting does take place, but only on a limited scale	Eighty percent of all cattle slaughtered in South Africa went through feedlots
 <p>Abattoirs</p>	One export abattoir (EMI) Small abattoirs with informal slaughter slabs	Independently owned abattoirs Municipality-owned abattoir BMC abattoirs Slaughter slabs	Independently owned abattoirs Meatco-owned abattoirs	Informal slaughtering Slaughtering slabs Zambeef abattoirs Privately owned abattoirs	Independent, privately owned abattoirs Government-owned abattoirs
 <p>Meat grading system</p>	Dentition and age	Carcass weight Dentition Fat cover Conformation Carcass bruising	Carcass weight Dentition Gender Fat cover Conformation Carcass bruising	Meat with a good covering of white fat is choice grade Meat with a good covering of yellow fat is commercial grade Meat with minimal fat covering is standard grade	Carcass weight Dentition Gender Fat cover Conformation Carcass bruising
 <p>Traceability systems</p>	Compulsory (administered by DVS)	BMC compulsory	Meatco compulsory	Traceability system still needs to be implemented	Voluntary

Note: BMC = Botswana Meat Commission; DVS = Department of Veterinary Services; EMI = Eswatini Meat Industries Limited; SADC = South African Development Community.

TABLE C.3 SECTORAL STRUCTURE OF LENDING, PERCENT

	June -19	Sep-19	Dec-19	Mar-20	June-20
Business loans	55.2	58.0	55.3	52.2	52.5
Agriculture and forestry	10.7	10.8	12.0	8.2	9.4
Mining and quarrying	0.1	0.0	0.0	0.0	0.0
Manufacturing	4.7	5.5	5.5	5.2	4.4
Construction	2.7	3.2	3.1	3.9	3.8
Distribution and tourism	15.0	14.4	12.6	8.8	10.6
Transport and communications	6.0	5.9	6.2	6.4	6.6
Community social and personal services	4.9	4.9	4.7	4.2	4.4
Real estate	4.2	4.4	4.7	6.7	6.4
Other businesses (not elsewhere included)	6.9	8.9	6.4	8.8	6.8

Source: Central Bank of Eswatini.

IFC

2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

CONTACTS

Zenaida Hernandez Uriz
zhernandez@worldbank.org

Zivanemoyo Chinzara
zchinzara@ifc.org

ifc.org



WORLD BANK GROUP

THE WORLD BANK
1818 • L.A.



International
Finance Corporation