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1 SUMMARY

- Eswatini formerly known as Swaziland is a landlocked country in Southern Africa bordering South Africa and Mozambique. It has a population size of 1.2 million people and a land area of 17,364 square kilometers.

- Eswatini has close economic ties to South Africa, which it depends on for approximately 85 percent of its imports and 60 percent of exports.

- Being a small and landlocked country, makes Eswatini vulnerable to international and regional developments.

- The country’s economy rebounded in 2021, despite the continued COVID-19 pandemic and the June 2021 political unrest. Real gross domestic product (GDP) growth is estimated at 2.1 percent in 2021 rising from a 1.9 percent contraction in 2020.

- Ranking 138th of 189 countries in the 2019 Human Development Index, Eswatini has the 10th highest income inequality in the world, at 49 percent.¹

- The proportion of people living in poverty remains very high, 58.9 percent of the rural population live below the national poverty line (living on less than US$1.9 a day).²

- A combination of civil unrest, climate change and COVID-19 have had major socio-economic impacts and exacerbated food insecurity in Eswatini.

- Frequent droughts attributed to climate change have led to a decline in Eswatini’s food production and COVID-19 led to an increase in market prices for food and fuel.

- Smallholder agriculture remains the backbone for rural livelihood in Eswatini. It is the main source of income for more than 70 percent of the population. The sector plays an important role in providing raw materials for the largely agro-based manufacturing industries.³

- Rural poverty is mainly a result of small landholdings and low productivity, compounded by frequent droughts, which lead to crop failure and loss of livestock.⁴

- Eswatini’s water resources are used in various sectors, including domestic supply, industry, forestry, hydropower, and irrigation. A growing population and increased economic development have led to higher water use and increased competition among water users.

- Since the enactment of the National Energy Policy in 2018, Eswatini’s energy sector has been undergoing rapid transformation with the liberalization of the electricity sector to encourage private sector investment. To enhance energy security and self-sufficiency, the Government of Eswatini has embarked on the development of additional generation capacity to meet the country’s energy demand.⁵

1.1 Current political and socio-economic conditions

- Eswatini's government system is a monarchy ruled by King Mswati III. The king exercises ultimate authority over all branches of the national government and effectively controls local governance through his influence over traditional chiefs.

- In 2018, the King announced that the country would be called The Kingdom of Eswatini; a move critics stated was made without sufficient public consultation.⁶
• In June 2021, pro-democracy protests began with clashes amongst authorities. These protests resulted in the loss of property, looting, and loss of lives. School attendance was disrupted, resulting in a suspension of school feeding programs and other social safety nets for vulnerable communities.

• While the Southern African Development Community (SADC) sent envoys to assess the state of the political unrest, no significant actions were made to support reform. Political analysts predict that without reforms, unrest will continue.\(^7\)

• The pro-democracy protests led to the destruction of businesses in urban and peri-urban areas. These businesses play a significant role in supplying food from the urban areas to the rural areas. While droughts are ordinarily identified as the main cause of food insecurity, these political protests were a rare and notable cause.\(^8\)

• The next elections are in 2023; no significant changes are expected in the political and governance landscape according to the African Development Bank.

• Eswatini’s economy is characterized by declining economic growth, high unemployment rates, increasingly large fiscal deficits, stagnant private sector activity, slow infrastructure development and poor public sector performance and service delivery.\(^9\)

• The National Development Plan (2019/20 - 2021/22) notes the socio-economic development challenges faced by the Kingdom; poverty rates remain high at 59 percent, with 20 percent of the population below the extreme poverty line. Further, despite rising incomes per capita, income inequality levels are one of the highest in the world, illustrated by a GINI coefficient of close to 0.50 in 2017. Unemployment levels also remain high at over 23 percent, and this is particularly affecting the increasing number of youths entering the workforce, with youth unemployment as high as 47.4 percent.\(^10\)

• Eswatini has a poor and dysfunctional health system with an increasing disease burden. It is listed as having one of the highest HIV prevalence rates in the world, with 26 percent of the adult population infected. Women are disproportionately affected, with 35 percent living with HIV compared to 19 percent of men.

1.2 Priorities and Resources for Innovators in the Water-Energy-Food ( WE F ) Nexus

• The Government’s development agenda is defined in the National Development Plan (NDP) 2019/20 to 2021/22. The NDP is currently under review to ensure a better alignment with the Sustainable Development Goals (SDGs). It currently guides short term planning articulated around the following pillars:
  o good governance, economic recovery and fiscal stability;
  o enhanced and dynamic private sector;
  o enhanced social and human capital development;
  o efficient public service delivery respecting human rights, justice, and the rule of law;
  o well managed natural resources and environmental sustainability and efficient economic infrastructure network.\(^11\)

• In Eswatini’s Strategic Roadmap (2019- 2022), the five key growth sectors are mining and energy, tourism, manufacturing and agro-processing, agriculture and education and ICT.\(^12\)
• The Ministry of Agriculture developed a Strategic Plan for Agriculture (2018-2023). The vision of the strategy is to optimize the use of agricultural resources to create wealth for Eswatini where the goals are to increase the sector’s contribution to economic development, poverty reduction and food security.13

• Eswatini’s National Water Policy (2018) aims to increase the level of monitoring of water use, due to increased number of users and the resultant potential for conflict. Over the years, water resource management has become more complex due to issues such as water quality problems, priority in water allocation, trans-boundary obligations, and development of infrastructure, stakeholder participation as well as the environment as a water-user.

• The Ministry of Natural Resources and Energy (MNRE) has established an Independent Power Producers (IPP) Policy that aims to increase the use of local renewable energy resources including biomass and solar. Eswatini has also developed an Energy Master Plan that presents further possible scenarios for new power generation capacity up to 2034.

2 MACROECONOMIC ENVIRONMENT

2.1 Gross Domestic Product (GDP)

• Eswatini meets much of its demand for agricultural products through imports from South Africa. The economy contracted by an estimated 3.2 percent in 2020 after growing by 2.2 percent in 2019.

• Gross public debt, which includes domestic arrears, rapidly rose to nearly 48 percent of GDP from 38 percent in 2019, well above the government’s threshold of 35 percent of GDP. Authorities are committed to clearing domestic arrears, which remain high at about 5 percent of GDP.14

• The economy was projected to grow by 1.4 percent in 2021, underpinned by a modest recovery in all sectors. Agriculture, manufacturing, and construction are expected to lend greater impetus to recovery, while an expected strengthening of domestic demand will reignite services growth.

• Eswatini’s main export destinations in 2019 were South Africa (66.6 percent), Kenya (6.3 percent) and Nigeria (5.0 percent).

• According to the World Bank, real GDP growth is projected at 2 percent in 2022 and to 1.8 percent in 2023, reflecting the implementation of the government’s three-year fiscal adjustment program.

• Eswatini’s agricultural sector accounted for 8.6 percent of the country’s GDP in 2020, increasing from a value of 5.3 percent in 2019.15

2.2 Labor Force and Unemployment

• Eswatini has one of the highest youth unemployment rates in Africa (45.87 percent), with youth in rural areas most affected. The lack of capital, high cost of business registration and unfavorable attitudes towards young entrepreneurs present serious obstacles to a youth-led SME sector.16

• Graduates are increasingly finding it difficult to obtain employment opportunities, forcing them to either leave the country or stay unemployed for long periods.
• Gender inequality is evident in various dimensions, including in the higher unemployment levels of young women (50 percent) compared to that of young men (45 percent).

• Eswatini’s agricultural sector employs 13 percent of the total labor force and accounted for 8.6 percent of the country’s GDP in 2018.17

• The NDP highlights the private sector as the engine for growth to create the needed jobs.

2.3 Doing Business in Eswatini
• Eswatini has been ranked 121 according to the World Bank’s Ease of Doing Business index 2020. This shows a regression from the country’s previous rankings where it was ranked 117 and 112 out of 190 respectively (see Figure 2).

• Scoring 60 points in the 2020 index, this shows that the country’s business environment needs improvements.

• Starting a business and paying taxes are the easiest processes for enterprises operating in Eswatini, each obtaining an index score of 77 points. On the other hand, protecting minority investors and enforcing contracts are the biggest challenges for firms. On average, registration and incorporation of companies takes 3 days and a foreign company shall be registered within 21 days after establishing a place of business and lodged with the office of the Registrar of Companies. Eswatini boasts of membership in two of the largest free trade regions on the continent: the Southern Africa Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA).

• Eswatini does not have a single overarching business facilitation policy. Policies that address business facilitation are spread across the spectrum of relevant ministries. The Investor Road Map Unit (IRMU) is the public entity responsible for the review and monitoring of business environment reforms.

• Recent developments in the business facilitation space include the online registration of companies. However, some of the steps (payment of statutory fees and registration fee) are still conducted manually.
- The main organization representing the private sector is Business Eswatini, which represents more than 80 percent of large businesses in Eswatini. It works on a wide range of issues of interest to the private sector and seeks to build partnerships with the government to promote commercial development. Through Business Eswatini, the private sector is represented in several national working committees, including the National Trade Negotiations Team (NTNT).

- The laws of the country are transparent, including laws to foster competition. The Eswatini Competition Act came into force in 2007, and the Competition Commission Regulations came into effect in 2011. The Eswatini Competition Commission (ECC – former Swaziland Competition Commission, SCC) is a statutory body charged with the administration and enforcement of the Competition Act of 2007. The legal and regulatory environment is underdeveloped, but currently growing as the country has recently established additional regulatory bodies in the financial, energy, communications, and construction procurement sectors.

- The government of Eswatini encourages foreign and local enterprises to follow generally accepted responsible business conduct (RBC) principles. Multinational enterprises in the country have robust standards for RBC, and consumers often recognize their efforts; however, smaller domestic companies are less likely to have RBC programs. The Development Approval Order, which is part of the income tax law, allows a company to receive a tax rate discounted by up to 10 percent if it makes significant RBC investments. Government enforcement is sporadic, but generally does not vary based on whether a company is domestic or foreign. Requirements are not waived to attract foreign investment. The government does not have corporate governance, accounting, and executive compensation standards to protect shareholders; and there are no independent NGOs monitoring RBC. 16

*Figure 1: Ease of Doing Business, Eswatini (Source: World Bank, 2020)*
3 COVID-19 MITIGATION MEASURES AND RESPONSE

- The COVID-19 pandemic exacerbated food insecurity in Eswatini affecting 336,000 people (29 percent of the population in Eswatini). The pandemic resulted in a poor harvest, escalating food prices, limited income-earning opportunities, deepening poverty and civil unrest.

- Eswatini was among the sub-Saharan African countries hardest hit by COVID-19, as underscored by its high per-capita infection rates, which put more pressure on an already stretched healthcare system. The country was under lockdown for most of 2021, with restrictions on travel, gatherings, and business hours hurting the supply of and demand for goods and services.

- During the COVID-19 pandemic, 44 percent of rural households used crisis-based coping strategies, such as reducing spending on health and education to meet their food needs, resulting in increased child poverty.\(^19\)

- As part of its COVID-19 and 2020/21 lean season responses, the World Food Program partnered with the Ministry of Works and Transport to implement a public works program focusing on the generation of community assets, such as roads. The program included environmental protection dimensions, waste collection and community awareness raising.

- The government of Eswatini implemented the following responses to COVID-19:
  1) Declared COVID-19 a state of emergency
  2) Set up a National Emergency Task Force (NETF) to coordinate national efforts in the fight against covid-19
  3) Set up regional teams to implement decisions taken by the NETF
  4) Other strategies include the partial lockdown, mandatory wearing of a face mask and social distancing.

- The National Society collaborates with the Government of Eswatini Ministries of Health, Agriculture, and Education & Training, Security Forces, and the UN Agencies in the COVID-19 response plan.\(^20\)

4 TAXATION STRUCTURE

- Eswatini has a source-based tax system; both residents and non-residents are taxed on income from a source in Eswatini (see Annex 3 for details).

- A proposal to amend the tax system to a residence-based system has been made, but it has not come into effect yet.\(^21\)

- The tax-to-GDP ratio in Eswatini increased by 1.0 percent points from 17.4 percent in 2018 to 18.4 percent in 2019.\(^22\)

- Personal income tax contributed the highest share (30 percent) of tax revenues in Eswatini in 2019. The second-highest share of tax revenues in 2019 was derived from value added taxes (VAT) (25 percent). Non-revenue tax amounted to 12.8 percent of GDP.
5 SMES AND ENTREPRENEURSHIP

- SMEs are the backbone of Eswatini economy employing 70 percent of the country’s workforce. There are 59,283 SMEs in the country (10 percent of the adult population own SMEs); and the sector employs ~93 000 individuals (16 percent of the total working-age population).23

- The Government of Eswatini has made considerable efforts towards developing the SME sector since the early 2000s, having run programs ranging from capacity building to setting up developmental funding institutions providing financing to encourage the performance of the SMME sector.

- As in many other developing economies, these efforts have not resulted in expected growth in the sector. The Government is currently in the process of revising the SME Policy to drive initiatives towards the achievement of SME growth. The proposed amendments emphasize the critical importance of access to finance, access to business development support and a supportive conducive business environment and institutional framework to support such growth.24

- At the beginning of 2020, the government of Eswatini declared 2020 the year of the SMEs. The corporate tax rate was cut from 27 percent to 12 percent, a bold step on the part of government in creating employment through entrepreneurship and committing investment in the growth of SMEs. However, due to the COVID-19 pandemic, supportive policy interventions for SMEs were heavily affected.25

- Eswatini’s SMEs operate mainly in 12 sub-sectors, with wholesale/retail taking the lead with 39 percent of the total SMEs, followed by agriculture/farming at 23 percent.

- Major challenges for developing SMEs are access to credit/financing; access to markets; regulatory compliance requirements; and unclear policies and legislation.26

- Access to finance; lack of local, regional, and international markets for locally produced goods; and limited business skills are major constraints to SME growth.

- Financial institutions do not provide appropriate credit products to target SMEs, especially those in manufacturing and agriculture businesses.

- The SME sector remains highly undeveloped with low entrepreneurial skills and lack of collateral. Financial institutions view it as a high-risk sector, particularly start-up businesses with no performance track record.

- The banking sector, composed of four commercial banks (Nedbank, Standard Bank, First National Bank and Swazi Bank), with 43 branches across the country, is well capitalized. However, they find it too risky to credit rural SMEs, smallholders, and particularly the poorest strata of the population.

- The only operational Micro Finance Institution (MFI), with an explicit mandate to serve rural SMEs, is the Inhlanyelo Fund, a seed capital fund, promoting entrepreneurship at grassroots level.

- The Imbita Eswatini Women’s Finance Trust Fund and the Eswatini Women Economic Empowerment Trust also have potential to join the micro finance market.

- A new MFI is currently surfacing, promoted by the Swazi Conference of Churches.27
• The micro business environment lacks policies and legislation that promote competitiveness and access to market linkages. Therefore, there is a need to improve the business environment, increase access to financial services, improve business skills and develop market linkages to enable growth of SMEs and meaningful contribution to the economy.

6 POLICIES AND TRENDS IN THE WATER-ENERGY-FOOD NEXUS

6.1 Agricultural Context
• Eswatini’s agricultural sector is the second largest contributor to the economy after the manufacturing sector.

• Sugar, canned fruit, and beef production for export dominate commercial agriculture.

• The most common agricultural practice is subsistence farming, primarily maize cultivation.

• The agricultural sector employs 13 percent of the total labor force and accounted for 8.6 percent of the country’s GDP in 2018. Sugar remains the largest foreign exchange earner, whilst maize remains the staple food, grown by most rural households.

• Eswatini depends on maize and wheat imports to meet domestic consumption needs.

• The country’s NDP (2019/20–2021/22) recognizes the need to maximize land productivity through diversifying cropping.

• Smallholder farmers and rural enterprises face several challenges including insufficient access to infrastructure, finance and markets, and improved agricultural technologies. They are also faced with limited water availability and vulnerability to climatic hazards.

• Land tenure is broadly of two types – Swazi National Land and Title Deed Land, which accounts for 54 percent and 46 percent of land area respectively. The country has been working on producing a Land Law for the past 20 years; and recent reports indicate that smallholder farmers in some areas might face forced evictions.

• The agricultural sector development is guided by the Swaziland National Agricultural Investment Plan (SNAIP), which identifies the following key areas for agricultural investment to address low productivity and food insecurity: natural resource management; market access; food security; research and extension; and knowledge management.

• Eswatini faces considerable challenges in addressing food security for poor and vulnerable households, the majority of which comprise women and youth. This challenge is compounded by the high HIV/AIDS rate, which has had a significant negative impact on agricultural productivity.

6.2 Water and Energy in Agriculture
• Eswatini’s total renewable water resources are 4.51 km3/year.
• Total withdrawals for agricultural, domestic, and industrial purposes are estimated at almost 1 km$^3$.

• The seven-river catchment or drainage systems in Eswatini are the Komati, Lomati, Mbuluzi, Usutu, Ngwavuma, Pongola and Lubombo. Several of these rivers rise in South Africa and all flow to Mozambique eventually.

• The country shares five major rivers with South Africa and Mozambique: The Mbuluzi River, the Usutu River, the Ngwavuma River, the Komati and Lomati rivers. The latter two in the north of the country are intensively used for agriculture and this has led to transborder tensions among the neighboring countries.\textsuperscript{32}

• About 95 percent of the country’s water-use is dedicated to commercial irrigated agriculture, notably the irrigation of sugarcane.

• Irrigated agriculture in Eswatini consumes the bulk of freshwater resources, of which 67 percent goes to the sugarcane industry.

• There are no major underground water aquifers in Eswatini. Groundwater sources are used mainly for drinking, especially in the drought prone areas.

• There are nine major dams with a height of more than 10 meters and total storage capacity of about 585 million m$^3$. Among these, seven are used for irrigation purposes, one for hydroelectric purposes and the other for water supply. An additional dam is currently under construction and its main purpose will be irrigation of sugarcane and other crops.

• The expansion of irrigated agriculture in an era of reduced rainfall and climate change impacts requires that the Eswatini Government adapt and improve its assessment of water availability in its National Water Policy (NWP) periodically.\textsuperscript{33}

• Eswatini has a great potential of being a net supplier of crucial stable food grains in the SADC Region, hence efforts to promote grain production shall be encouraged with due cognizance of economic efficiency. The dominance of mono-cropping of non-food crops, particularly sugarcane, when allocating water for the purposes of improving food security should be managed.

• The Eswatini Electricity Company (EEC), a state-owned power utility, owns and operates four hydro power plants that provide 60.4 MW of power and contribute 15 to 17 percent of the total energy consumed in Eswatini. These are Maguga (19.8 MW), Ezulwini (20 MW), Edwaleni (15 MW) and Maguduza (5.6 MW). There are currently five IPPs operating power plants in Eswatini with a total installed capacity of close to 110 MW made up of hydro, biomass, and solar PV plant technologies. The rest of the electricity required is imported from South Africa (Eskom) and occasionally Mozambique (EDM).

• Eswatini imports 80 percent of its power from the Southern African Power Pool. With both South Africa and Mozambique experiencing electricity shortages, Eswatini is working to increase its own energy generation using renewable sources. To that end, the country has launched a handful of new photovoltaic projects and has commissioned a 10 MW solar plant to reduce exports from South Africa.

• Only a marginal proportion of energy in Eswatini is used across agriculture, including irrigation and agro-processing. Historically, there has been strong policy recommendations to the Eswatini Government by major development organizations,
such as UNDP, to work toward the promotion of productive use of electricity to accelerate agricultural and industrial development to address limited productive uses of electricity.\textsuperscript{34}

- The Government has prioritized the energy sector, particularly renewable energy, and developed a Grid Code and Renewable Energy and Independent Power Producer (RE&IPP) Policy to create a transparent regulatory regime and attract investment.

- The Eswatini Energy Regulator in 2019 and 2020 issued Requests for Qualification for two independent power producers to supply electricity from solar and biomass. In February 2021, King Mswati III further announced the development of a 300 MW thermal power plant at Lubhuku.

7 AGRICULTURE INVESTMENT POTENTIAL

- The agricultural sector’s development is guided by the Swaziland National Agricultural Investment Plan (SNAIP), which identifies the following key areas for agricultural investment,
  - to address low productivity and food insecurity;
  - natural resource management;
  - market access;
  - food security;
  - research and extension; and
  - knowledge management.

- SNAIP aims to increase growth of agricultural productivity and production and diversify agricultural production and overall consumption. This plan is based on agricultural investments for the period 2015-2025.\textsuperscript{35}

- Eswatini does not have a unified policy on investment. Instead, individual ministries have their own investment facilitation policies, which include policies on Small and Medium Enterprises (SME), agriculture, energy, transportation, mining, education, and telecommunications.

- Smallholder agriculture in Eswatini is likely to continue being underdevelopment until the constraints that are adversely affecting performance are overcome. This will require well-coordinated and appropriately sequenced interventions in several areas, with the objective of raising productivity and better integrating smallholder farmers into the market economy. Broadly speaking, these intervention options can be grouped into three main categories:
  1) Strengthening public capacity to deliver essential goods and services
  2) Improving productivity and competitiveness of smallholder value chains
  3) Improving design, implementation, and resourcing of agricultural policies and programs

- Eswatini’s domestic and export shortfalls in beef supply are indicative of the potential of the beef cattle agribusiness enterprise as a prospective avenue for rural and national economic growth. Beef imports for domestic consumption have been steadily increasing on an annual basis.

- Due to Eswatini’s proneness of and vulnerability to droughts and flooding, conservation agriculture and the promotion of drip and micro irrigation technologies offer good prospects. The cost of mechanized planters is too high, and this poses a barrier to
adoption of conservation agriculture technology, as farmers want to move away from manual to mechanized methods.

- Other opportunities for the private sector include conservation tillage, crop diversification, greenhouse farming, hydroponics, livestock selective breeding, micro irrigation and organic farming.

**7.1 Agri-businesses and Agro-processing**

- Eswatini's NDP notes that growth in agro-business and agro-processing will no doubt support vibrant entrepreneurial activities by the youth, as well as the expansion of micro, small and medium enterprises (MSMEs).

- Financial institutions lack awareness of the specifics of agribusinesses (except for the sugar industry), which they perceive as risky. Capacity building for financial institutions in rural MSME risk assessment and product development according to clients' needs is important for financial inclusion.

- Commercial agriculture is dominated by sugar, canned fruit, and beef production for export, whereas the top five import products are wheat, yellow maize, rice, whole maize, and fruits and vegetables.

- The agricultural sector features only a few value-adding initiatives, for example agro-processing, packaging, and promotion of value chains.

- Several constraining factors inhibit smallholder competitiveness, including, the lack of established producer-market linkages and partnerships; a sub-optimal environment for promoting local investment in agro-industry; weak producer organizations; limited technical, business and marketing management skills of rural entrepreneurs; lack of access to market information; and a scarcity of qualified service providers.
  - Eswatini's leading agricultural sub-sectors include:
    - Sugar manufacturing machinery
    - Citrus grains (maize, wheat, etc.)
    - Tractors, ploughs, harrows, planters
    - Harvesting machinery
    - Machinery for milling cereals
    - Milking machines and dairy machinery
    - Haymaking machinery
    - Poultry incubators and poultry preparations machinery
    - Irrigation equipment
    - Value-added fruit processing
    - Packaging
    - Start up for food-processing establishments
    - Supply of ingredients for value-added products
    - Supply of equipment and upgrade of technology
    - Supply of packaging

**8 GENDER AND SOCIAL INCLUSION IN THE WEF NEXUS**

- In 2021, global Gender Gap index for Eswatini was 0.729 index ranking 152 of 156 countries. The ranking increased from its 0.68 index in 2014, growing at an average annual rate of 1.25 percent.
• Gender inequality has been exacerbated by strong patriarchal traditions, values and norms, weak implementation of legislation and poor access to means of production, education, and health. The implementation of the laws and statutes that advance women’s rights will contribute to the elimination of all gender-based disparities.

• The Ministry of Agriculture’s Strategic Plan highlights that women are central to the household economy and to the welfare of their families. They also play a vital leadership role in their communities and nations.

• The Constitution (2006) grants the same legal rights to men and women. Eswatini’s Sexual Offences and Domestic Violence Bill was assented by the King in 2018. However, civil and customary law still considers women as minors. Women are therefore denied access to resources (land, credit) in their own right, only allowing access through their fathers, husbands, or other male relatives.37

• The Government of Eswatini fully recognizes the need for equal and full participation of women and men at all levels of development. This also extends to water resources development and management within the water sector. Government is committed to ensuring that women, men, girls, and boys have equal opportunities to participate as equal partners in all spheres of life, including decision making, and have equal access to the development and management of productive resources.

• The establishment of the Gender Coordination Unit by the government has facilitated the improved participation of women and other disadvantaged groups in development programs and at all levels.

• An initiative funded by the European Union through the Common Market for Eastern and Southern Africa (COMESA) has introduced a Climate-Smart Market Oriented Agriculture Project (CSMA), which seeks to promote agro-forestry, using the CSA techniques; crops and trees are grown alongside the same field to improve soil health and food and nutrition security. The CSMA aims to support farmers to be climate-resilient, generating sustainable income, incorporating gender balance, and reducing poverty in Eswatini through the uptake of technology.

• The Imbita Eswatini Women's Finance Trust provides microloans for rural women with no collateral requirements and no requirement for a husband's approval. To date, the fund has distributed EU 15 million. 38
ANNEX 1: FIGURES

GDP growth (annual %)

Figure 1: Eswatini GDP Growth (Source: IMF, 2021)

Figure 2: Distribution of GDP and employment by sector, Eswatini (Source: FCDO Economics and Evaluation Directorate, 2021)
Breakdown of Economic Activity by Sector in 2021

<table>
<thead>
<tr>
<th>Employment By Sector (in % of Total Employment)</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Added (in % of GDP)</td>
<td>12.1</td>
<td>23.4</td>
<td>64.5</td>
</tr>
<tr>
<td>Value Added (Annual % Change)</td>
<td>9.1</td>
<td>31.4</td>
<td>53.8</td>
</tr>
<tr>
<td></td>
<td>3.6</td>
<td>-9.2</td>
<td>2.3</td>
</tr>
</tbody>
</table>

**Figure 3: Economic activity by sector in 2021, Eswatini (Source: World Bank, 2021)**

**ANNEX 2: TAXATION STRUCTURE**

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Descriptions</th>
</tr>
</thead>
</table>
| Corporate residence | - The Eswatini Income Tax Order does not provide a definition of the concept of residence, but defines the term “company” as:  
  o Any association incorporated by or under any law in force in Eswatini;  
  o Any association which, though incorporated outside Eswatini, carries on business, or has an office or place of business in Eswatini; or  
  o Any Individuals incorporated by any law in force in Eswatini or in any country outside Eswatini that carries on business in Eswatini. |
### Corporate tax rates
- Resident companies and permanent establishments of foreign companies are subject to corporate income tax at the rate of 27.5%.

### Capital gains tax ("CGT")
- Eswatini does not tax capital gains.
- Income from the disposal of assets in the normal course of a business activity and income from the non-occasional disposal of assets are included in gross income.

### Withholding tax ("WHT") rates

<table>
<thead>
<tr>
<th>Category</th>
<th>residents</th>
<th>non-residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch profits</td>
<td>N/A</td>
<td>• 15%, or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 12.5% (for head offices registered in</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Botswana, Lesotho, Namibia, or South</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Africa)</td>
</tr>
<tr>
<td>Dividends</td>
<td>N/A</td>
<td>• 15%, or</td>
</tr>
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<td></td>
<td></td>
<td>• 12.5% (for head offices registered in</td>
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<td></td>
<td></td>
<td>Botswana, Lesotho, Namibia, or South</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Africa)</td>
</tr>
<tr>
<td>Interest</td>
<td>N/A</td>
<td>10%</td>
</tr>
<tr>
<td>Royalties</td>
<td>N/A</td>
<td>15%</td>
</tr>
</tbody>
</table>

### Fringe Benefits Tax (FBT)
- Management, consulting, and technical service fees: N/A, 15%

### Double tax agreements ("DTAs")
- DTAs are in force with China, Mauritius, Seychelles, South Africa, Taiwan, and the United Kingdom.

### Losses
- Losses may be carried forward indefinitely

### Transfer pricing
- Eswatini does not have specific transfer pricing rules. However, in terms of the general anti-avoidance rules, transactions must be entered into on an arm's length basis. Transfer pricing rules are currently under discussion by the authorities.

### Limitations on interest deductibility
- There are no thin capitalization rules applicable in Eswatini.
- Interest payable on loans is generally deductible if the loan was employed in the production of income or for the purposes of the trade of the taxpayer. However, the Commissioner may, if the rate of interest is deemed excessive, limit the amount allowed as deduction to a reasonable interest rate.

### Employee taxes
- The income tax rates applicable to resident individuals are:
  - up to SZL 100,000 (annual chargeable income): 20%,
  - SZL 100,001 – 150,000: SZL 20,000 + 25% of the excess over SZL 100,000
  - SZL 150,001 – 200,000: SZL 32,500 + 30% of the excess over SZL 150,000
  - Over SZL 200,000: SZL 47,500 + 33% of the excess over SZL 200,000.
### Social security contributions
- Both employers and employees must make monthly social security contributions to the ENPF.
- Both the employer and employee contribution rates are SZL145 per employee if the employee earns at least SZL3100 per month and 5% of the monthly earnings of an employee earning less than SZL3100 per month.
- Expatriates are not obliged to contribute to the ENPF.

### Payroll taxes
- There is no payroll tax in Eswatini.

### Stamp duty
- Stamp duty is levied on a number of instruments under the Stamp Duties Act, 1970, including agreements and contracts, bills of exchange, bonds, leases, insurance policies, debentures and shares.
- Stamp duty at the rate of 2% is generally payable on the registration of transfer of marketable securities.
- Transfer duty at a rate of between 2 and 8% is levied on the transfer of immovable property, depending on the value of the property, under the Transfer Duty Act, 1902.

### Value Added Tax (“VAT”)
- Taxable supplies: VAT is levied on the supply of goods and services in Eswatini and on the importation of goods and services.
- VAT rate: 15%
- Registration threshold: person who supplies taxable goods or services in Eswatini and has an annual taxable turnover exceeding SZL500,000 must register for VAT purposes. Businesses whose turnover is below the threshold may voluntarily apply for registration, provided other registration requirements are met.
- Reverse VAT on imported services to the extent that imported services will be utilized or consumed in Eswatini other than for making taxable supplies, the recipient of such services is required to declare and pay output VAT on the services in terms of a reverse VAT mechanism. Such reverse VAT is not available as an input credit.

### ANNEX 3: OPPORTUNITIES AND CHALLENGES IN THE WEF NEXUS

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Challenges</th>
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<tbody>
<tr>
<td><strong>Skills shortage advancement:</strong> Companies must often either go without the skills required or bear high costs of training, while many graduates from local institutions cannot get employed for years, with numbers increasing yearly.</td>
<td>A wide range of skills-mismatch in the labor market and companies consistently highlight this as a major challenge. Associated with this is the rather large services’ imports deficit, as foreign specialists need to be brought in. Addressing this skills’ mismatch is critical in reducing unemployment levels and in making businesses more competitive.</td>
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<td><strong>Revitalize public institutions:</strong> Strengthening of public institutions is needed to increase their ability to prepare and implement strategic plans, regularly collect accurate and up-to-date data,</td>
<td>Institutional weaknesses: Many of the public institutions responsible for promoting the development of smallholder agriculture in Eswatini suffer from weak capacity, which constrains their ability to deliver quality services to clients. Factors contributing to the poor</td>
</tr>
<tr>
<td>Opportunities</td>
<td>Challenges</td>
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<td>prepare reports and analysis to inform policy making, promote knowledge</td>
<td>performance of the public institutions include ineffective administrative systems, poor inter-</td>
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<td>sharing, and establish and implement results-oriented monitoring and evaluation systems. Strengthened and better coordinated public institutions is key to success.</td>
<td>departmental linkages, under-qualified staff, inadequate performance incentives, high rates of</td>
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<td>staff turnover, limited capacity for information and knowledge management, and scarce capacity to plan and monitor activities and evaluate agriculture outputs.</td>
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<td><strong>Supporting progress of agricultural research:</strong> to be achieved through</td>
<td><strong>Declining effectiveness of public agricultural research:</strong> Chronically underfunded, it has been</td>
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<td>partnerships with key research development institutions like IFAD or universities.</td>
<td>difficult to attract and maintain high quality researchers. Linkages between national, regional, and international agricultural research institutions are poorly developed, and the information management system is not sufficient for well-structured effective dissemination of research results. Research priorities are decided centrally, with limited participation of targeted end-users.</td>
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<td><strong>Modernize public agricultural research:</strong> Future productivity growth in the smallholder sector will be driven by technical innovation. Technical innovation is unlikely to happen unless the public agricultural research system is not modernized. The Ministry of Agriculture is already involved in reform efforts, wherein resources have been allocated to support initial reforms, yet it is likely that additional financing will be needed as the reforms proceed.</td>
<td><strong>Poor linkages between research and extension:</strong> Most farmers have very limited contact with extension services. Also, the extension agents offer only limited services. The poor performance of the extension services is owed both to their lack of capacity, and to the poor linkage between extension services and agricultural research institutions and programs. Prescriptive “technical packages” offered by the extension system are not updated to keep up with the modern global of agriculture.</td>
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<td><strong>Better policy implementation:</strong> The government of Eswatini has been successful in designing a broad set of policies conducive to agricultural growth. It has been less successful in implementing those policies. Important policies such as the land policy remain in draft form, while others await legislative approval. Achievement of the government’s agricultural development goals will not be possible until MOAs become better at providing strategic guidance, leadership, and coordination in the implementation of existing policies.</td>
<td><strong>Lack of reliable data needed for decision making:</strong> Decision-making—both public and private—is made difficult by the lack of reliable data about what is happening in the agricultural sector. This lack of data prevents key actors from making prompt, informed decisions, whether these are policy decisions (in the case of the public sector) or investment decisions (in the case of the private sector). As a result, many actors are unable to respond promptly to changing market circumstances and are prevented from making incremental adjustments designed to improve performance of the system.</td>
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<td><strong>Expanding knowledge of new technologies:</strong> and strengthening the capacity of smallholders to manage those technologies will be crucial for</td>
<td><strong>Outdated technology:</strong> In recent years, adoption of new technologies by smallholder farmers has been negligible. As a result, crop productivity and production have declined, and the area</td>
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</table>
Opportunities | Challenges
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modernizing smallholder agriculture in Eswatini. | planted to crops has decreased. With international oil prices on the rise, current levels of fertilizer use seem increasingly unsustainable unless the efficiency of fertilizer use can be increased. The carrying capacity of many communal grazing areas has also declined, with visible signs of soil erosion and degradation.

**Agricultural marketing strategies:** Many Swazi producers, especially smallholders, struggle to market their agricultural products. Domestic markets are frequently flooded with imported products, which are frequently low priced, and which sometimes enter the country without any quality control. Local farmers are not able to compete in terms of price. Institutions that have been established to support farmers in the marketing of their produce, such as the NAMBoard, NMC, SDB, and SCB, are working to improve their linkages with local farmers.

**Absence of value-adding activities:** The agricultural sector features few value-adding initiatives, for example agro-processing, packaging, and promotion of value chains. Several constraining factors inhibit smallholder competitiveness. These include the lack of established producer-market linkages and partnerships; a sub-optimal environment for promoting local investment in the agro-industry; weak producer organizations; limited technical, business and marketing management skills of rural entrepreneurs; lack of access to market information; and a scarcity of qualified service providers.

**Low availability and high cost of inputs:** Agricultural inputs are mostly supplied by a small number of private companies, most of which are linked to parent companies in South Africa. While inputs are generally available in the market, the competitiveness of the sector is very limited, in part because producers cannot import inputs directly from South Africa but must rely instead on firms established in Eswatini. The use of fertilizer and other inputs in Swaziland is further constrained by smallholder farmers’ limited access to credit.

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**ANNEX 4: LOCAL ENABLING ENVIRONMENT ACTORS AND STAKEHOLDER IN THE NEXUS**

- **Eswatini Water and Agriculture Development Enterprise (ESWADE):** The purpose of the project is to provide support to agriculture to eradicate food insecurity while contributing to sustainable economic growth. Also, ESWADE is responsible for improving smallholder productivity, with a more inclusive management of assets at community/household levels.

- **UNDP Eswatini Accelerator:** The Lab partnered with major retail outlets to implement a five days per week plastic bag partial ban. The Lab has also been working on supporting informal businesses in agro-processing and access to formal markets. It does this by experimenting with a portfolio of solutions targeting technical barriers to trade that inhibit such businesses from accessing formal market linkages. The Lab partners with various government institutions with a mandate of supporting Micro, Small and Medium Enterprises (MSMEs) as well as retail outlets who have an enterprise development program.

- **Women’s Farmers Foundation:** This is a non-profit organization which empowers and develops women and youth farmers from a subsistence to commercial level. It identifies and develops a group of model women and youth farmers who inspire and capacitate their communities. It also supports women and youth farmers to advance agribusiness practice, lead and mentor others, and share best practices.
• **Royal Science and Technology Park**: supports new and start-up businesses in the IT sector by providing services such as office space and capacity building through its Business Incubation style.

• **National Agriculture Marketing Board (NAMBOARD)**: facilitates markets of farmers in Eswatini and further assists them with the production, processing and storage. Farmers benefit a great deal from NAMBOARD, because their effort is committed towards the growth and maintenance of the produce while NAMBOARD focuses on marketing these products through their Farmer Support and Development Unit. It also has the incentive that local farmers can purchase farm inputs at a reduced rate, as well as purchasing produce from farmers based on agreements signed by both parties.

• **Central Bank of Eswatini (CBE)**: administers the Small-Scale Enterprise Loan Guarantee Scheme. This encourages financial institutions to extend loans to small-scale businesses that are viable and fully licensed with majority shareholders being Swazi. The shareholders must contribute 5 percent security of the required loan for start-ups and 15 percent for existing entities. Moreover, CBE administers the Export Credit Guarantee Scheme, which further helps local businesses with export costs like purchasing of raw materials and transporting the goods. This loan is offered at a maximum of EU 2.5 million.

• **IDCE** is a development finance company which mobilizes resources locally and internationally to finance projects in the private sector. Certain private sector projects inherently have supplementary services which are outsourced to SME’s. These SME’s can also access funding from IDCE; they invest in projects that will contribute to the development of the country.

• **Regional Development Fund**: This is funding that Government has made available to the constituencies of Eswatini. Recently, this budget has been stretched to EU 88 million. It has now become cooperative driven to ensure that the funding assists a larger group of people at once. These funds are administered by the Ministry of Tinkhundla Administration & Development

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