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KINGDOM OF ESWATINI

ECONOMIC UPDATE

Raising the Game with Efficient State-Owned Enterprises

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ACRONYMS & ABBREVIATIONS

AML/CFT	Anti-Money Laundering and Combatting Financing of Terrorism
e-GP	e-Government Procurement
EPE	Eswatini public enterprise
GDP	gross domestic product
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
iSOEF	Integrated State-Owned Enterprises Framework
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
SACU	Southern African Customs Union
SOE	state-owned enterprise

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EXECUTIVE SUMMARY

Eswatini's economy has been characterized by persistent low growth, high fiscal deficits, and unprofitable state-owned enterprises (SOEs). Without significant reform, the country is unlikely to achieve its socioeconomic aspirations, and poverty and unemployment are likely to remain high. These problems are exacerbated by the difficult external environment, with subdued global demand and volatile international prices. In this context, the Government of Eswatini recognizes that the country needs a series of policy reforms to unleash the potential of the private sector. It also needs to improve the efficiency of SOEs in strategic sectors, which deliver services to many businesses and households.

This report is divided into two parts. Part 1 discusses recent economic developments in the global and domestic economy and assesses Eswatini's short- and medium-term prospects. Part 2 reviews the role that SOEs can play in the government's efforts to enhance economic performance. It assesses both their contribution to the economy and their limitations to suggest directions for reform.

Eswatini's economy briefly improved after the pandemic, but growth is slowing.

Economic activity rebounded in 2021, but global challenges and structural weaknesses slowed economic growth. Real GDP declined from 7.9 percent to 3.6 percent in 2022. Government cash constraints led to a more severe decline in the construction sector, while the manufacturing sector was adversely affected by changes in the global economy. Before the COVID-19 pandemic, the economy grew at about 2.1 percent a year from 2015 to 2019. However, the economic base was narrow, the public sector large, government regulations cumbersome, and the sociopolitical and external environment constrained. Unsurprisingly, growth plunged during the pandemic, and the economy contracted by 1.6 percent in 2020.

Domestic factors continue to constrain growth in 2023. Sociopolitical uncertainty and slow reforms have undermined private investment and diversification. At only about 6 percent of GDP, private investment remains inadequate to generate growth and create enough jobs to reduce the 33 percent unemployment rate. The government has long compensated for low private investment by high public spending, but its unsustainable expansionary fiscal policy meant public debt soared to a record 43 percent of GDP by end-2022.

Rapidly rising prices have negatively affected household welfare and poverty.

External shocks, especially Russia's invasion of Ukraine, saw inflation rising from 3.7 percent in 2021 to 4.8 percent in 2022, although it remained low relative to other countries in SACU. Elevated global energy and food prices were soon transmitted to local prices. In June 2022 food inflation breached the Central Bank's upper threshold of 6 percent for the first time in five years, and by May 2023 it had accelerated to 15.7 percent. Poorer households were disproportionally affected, leading to a slight rise in the share of people living on less than US$2.15/day (2017 purchasing power parity [PPP]).

In response, the Central Bank tightened monetary policy, increasing its discount rate by 375 basis points to 7.75 percent (above pre-COVID rates) between early 2022 and May 2023. This is expected to lead to higher nonperforming loans, which stood at 7.2 percent of banks' portfolio at end of March 2023 from 6.6 percent at end-2022.

The current account slumped, and foreign reserves critical to cushion against fiscal and external shocks fell below international norms.

The external position weakened in 2022, with the current account moving into deficit for the first time since 2011 because of higher import prices and lower revenues from the Southern African Customs Union (SACU). Export growth was muted, and imports grew by 2 percent. The capital account failed to improve, as foreign direct investment and short-term capital flows declined. Foreign reserves fell to around 2.5 months of import cover in 2022 from 3.5 months in 2021, in part because of lower SACU revenues and the use in financing the current account deficit. At only 2.7 months in May 2023, reserves remain low, below international norm of 3 months of imports, and Eswatini is vulnerable to external shocks.

The fiscal situation is improving, but more reform is needed.

Eswatini needs to continue implementing its fiscal consolidation plan to sustain macroeconomic stability, reduce public debt, eliminate expenditure arrears, and increase external reserves. After a decade of expansionary fiscal policy (which worsened during the pandemic), the government began to implement the Fiscal Adjustment Plan, 2021/22–23/24. Initial efforts were promising, but by 2022 implementation had become uneven, and the overall fiscal deficit rose to 5.3 percent in 2022 from 4.6 percent in 2021. The public wage bill declined (due to a hiring freeze and conservative wage adjustments) and capital spending was contained, but most of these measures were not sustained. The plan's other measures, such as SOE reforms, containment of recurrent spending, and revenue enhancement, are yet to be fully implemented.

Public finances remain extremely exposed to the volatility of SACU revenues, which represented nearly a third of revenues in 2022. SACU receipts fluctuated between 55 and 31 percent of total revenue over the past decade and are expected to reach 42 percent in 2023. Any increase in SACU receipts should be carefully managed and used to smooth future negative shocks in revenue. To this end, the proposed SACU Revenue Stabilisation Fund is a step in the right direction.

The outlook is encouraging, but subject to multiple downside risks.

The medium-term economic outlook is promising, with growth expected to reach 3.0 and 2.9 percent in 2023 and 2024, respectively. The public sector is likely to drive the growth, buoyed by an almost doubling of SACU receipts, but without significant reform of the business environment, the private sector is likely to remain subdued.

Sustaining these gains will require the country to shift from a state-led to a private sector- and export-led growth model. Relying on state-led growth meant high government expenditure in the face of volatile SACU revenues, which led to persistent fiscal deficits, high expenditure arrears, low international reserves, and high debt levels. This has been exacerbated by heavy state involvement in the economy through SOEs (the focus of this report), all of which hampered the private sector. Unlocking private investment through a better investment climate will facilitate economic stability, create jobs, and promote sustained growth.

Moreover, there are several downside risks to the growth outlook. Domestically the economy faces sociopolitical and economic volatility, and civil tensions remain high. External risks include the war in Ukraine, tight global financial conditions, and weaknesses in major partners (especially South Africa). In a pessimistic scenario, the economy would grow by less than 2 percent in 2023 and 2024.

Without significant reform, Eswatini is unlikely to achieve its economic and social aspirations, especially in this uncertain external environment. The government recognizes the need for policy reform to unleash the private sector and improve the efficiency of the SOEs. Implementing macroeconomic, business, and SOE reforms could help Eswatini reach high-income status before 2050. Policy options are based on three pillars, which include specific policies for both the short term and the medium term:- address macroeconomic pressures, unlock private sector investment and enhance services delivery for inclusive growth. Figure E1 gives a few policy options examples. For the full proposals see Table 1.1.

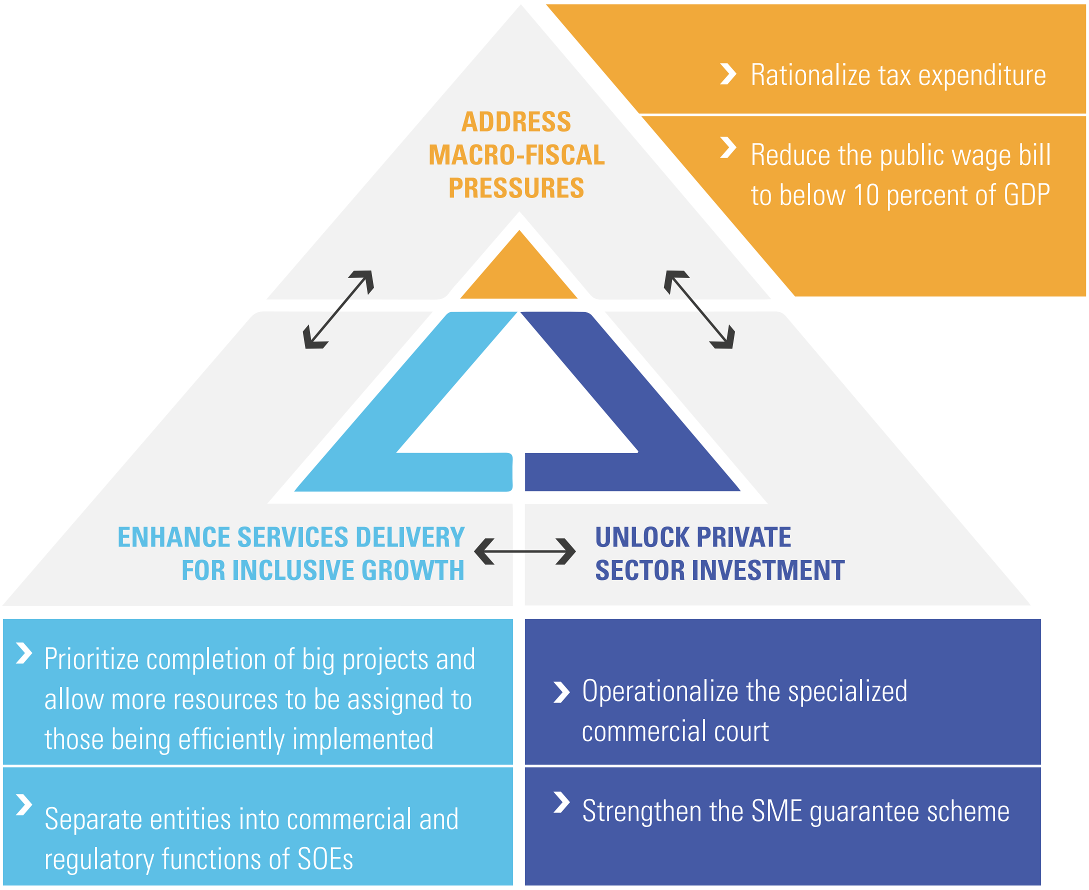
Restructuring key SOEs will create new opportunities for the private sector and accelerate economic growth. SOEs provide basic infrastructure services to businesses and households and improving their performance will support private sector activity. Also, more efficient SOEs require less fiscal assistance, freeing up public resources. Reforming SOEs could, therefore, boost growth by enhancing efficiency in private and public development. Policy options related to SOEs are discussed in more detail below.

The state plays multiple roles in the economy, which sometimes overlap.

As in many other countries, the Eswatini state acts as policy maker, owner of or shareholder in SOEs, regulator, and implementor or enforcer of public policy. These multiple roles can create conflicts of interest, especially where state-owned companies have both commercial and noncommercial objectives. Noncommercial objectives may include universal services (such as rural electrification), or services priced at below cost recovery levels. In these sectors, the state also frequently acts as a market regulator.

There is no one-size-fits-all solution for balancing these roles, but Eswatini's policy makers can apply several principles. It is generally accepted that SOEs should deliver quality services at a reasonable cost in an inclusive manner. They should be financially responsible so as not to burden the national budget

Figure E1. Policy options


ADDRESS MACRO-FISCAL PRESSURES
Rationalize tax expenditure
Reduce the public wage bill to below 10 percent of GDP
ENHANCE SERVICES DELIVERY FOR INCLUSIVE GROWTH
UNLOCK PRIVATE SECTOR INVESTMENT
Prioritize completion of big projects and allow more resources to be assigned to those being efficiently implemented
Separate entities into commercial and regulatory functions of SOEs
Operationalize the specialized commercial court
Strengthen the SME guarantee scheme

Source: World Bank staff.

or crowd out other public expenditure. Competition from other operators is often linked with better performance. Implementing these principles requires a framework for good governance of SOEs.

Eswatini does not have many SOEs, but they retain a considerable presence …

There is a widespread misconception that Eswatini has over 70 SOEs. This is due to the country's very broad definition of SOEs —which does not conform to the internationally accepted definition— which includes traditional SOEs (commercial companies, utilities, and state-owned financial institutions) along with development agencies, universities, hospitals, the Eswatini Revenue Authority, regulatory agencies, the Central Bank, and some town councils. However, if only entities that carry out commercial activity are considered, the number is much smaller, but these companies operate in strategic sectors (such as energy, water, transport, and tourism) with significant direct and indirect effects on the economy.

Seven large, commercial SOEs operate in Eswatini—the Eswatini Electricity Company, the Eswatini Water Services Corporation, the Eswatini Post and Telecommunications Corporation, Eswatini Railways, the Royal Eswatini National Airways Corporation, the National Maize Corporation, and Pigg's Peak Hotel and Casino. In the last five years, they received about US$22 million (0.5 percent of GDP) from the budget every year. This figure comprises direct subsidies and equity injections of about US$31.5 million a year and net equity flows (taxes and dividends) from the SOEs back to the budget of about US$9 million a year. Some fiscal support to SOEs is to compensate them for tariffs that are set below cost recovery. For example, the government froze electricity tariffs from April 2019 to March 2021, just when a currency depreciation meant rising costs for the Eswatini Electricity Company; this negatively affected its profitability.

This study differentiates between the internationally accepted definition and the Eswatini legal definition of SOEs. SOEs in the internationally defined sense are referred to as "commercial SOEs". SOEs per the Eswatini legal definition are referred to as "Eswatini public enterprises" (EPEs).

… affecting service delivery and constraining private sector activity.

Although commercial SOEs do not currently impose an excessive fiscal burden, they should be closely monitored, as they remain vulnerable to changes in domestic and external conditions. Budget support to commercial SOEs uses public resources that could have been used for priority social or infrastructure investments. For example, annual budget transfers to commercial SOEs amount to almost 10 percent of the education budget.

An uneven playing field benefiting commercial SOEs discourages private competition and efficiency gains. Some commercial SOEs are subsidized to provide low-cost public services. The water, electricity, and airlines companies, for example, received almost 0.5 percent of GDP in subsidies from the state, which allowed them to set prices below their cost recovery levels. But subsidies do not always mean low tariffs. The water SOE's industrial tariffs are rising rapidly and substantially exceed those in peer countries. Tariffs for the lowest levels of industrial consumption (0–10 cubic meters) are between 7 and 33 times higher than in peer countries.

Even well-intentioned government interventions may undermine both SOE efficiency and the markets. Targeted subsidies may reward inefficient SOEs or, at least, discourage efforts to become more efficient. Further, some SOEs are assigned regulatory functions in the sectors in which they operate, which can create conflicts of interest and increase barriers to entry for other firms (Stockman, 2022). Monopoly positions in sectors such as energy, transport, and communications might have been justified by the small economy, but there is an urgent need for competition in sectors such as telecommunications. Moreover, SOEs that operate in sectors where the private sector is also active, such as agribusiness, can distort markets if the competition framework is ineffective. For example, although the Eswatini Electricity Company is the only company that provides transmission services to electricity generators, it also competes with independent power producers for the renewable energy market.

> **The government needs to reconsider the role of SOEs in the economy, with a more robust legal framework and stronger governance and oversight.**

The authorities recognize the importance of EPE reform. The EPE restructuring framework adopted by Cabinet in 2021 aims to improve their effectiveness and enhance the business environment. Its measures include privatizing the Pigg's Peak Hotel and Casino, Eswatini Bank, the airport operations of the Eswatini Civil Aviation Authority, Eswatini Railways, and the Royal Eswatini National Airways Corporation.

However, implementation of the EPE framework has been slow. One reason could be that the strategic role of each EPE needs to be evaluated more carefully against the backdrop of the political economy in the country and in each sector. Such an evaluation should also account for new technologies (renewable energy, desalinization, and smart water markets) and new demand from consumers who are becoming more ecologically aware. These changes will affect energy and water prices; they will also lead to more decentralized markets where new companies can challenge the dominant commercial SOEs, which benefited from natural monopolistic power (based on the economies of scale). The revolution in global infrastructure is both technological and financial. New investors are emerging, such as international and local pension and infrastructure funds, and blended instruments are increasingly used to de-risk projects.

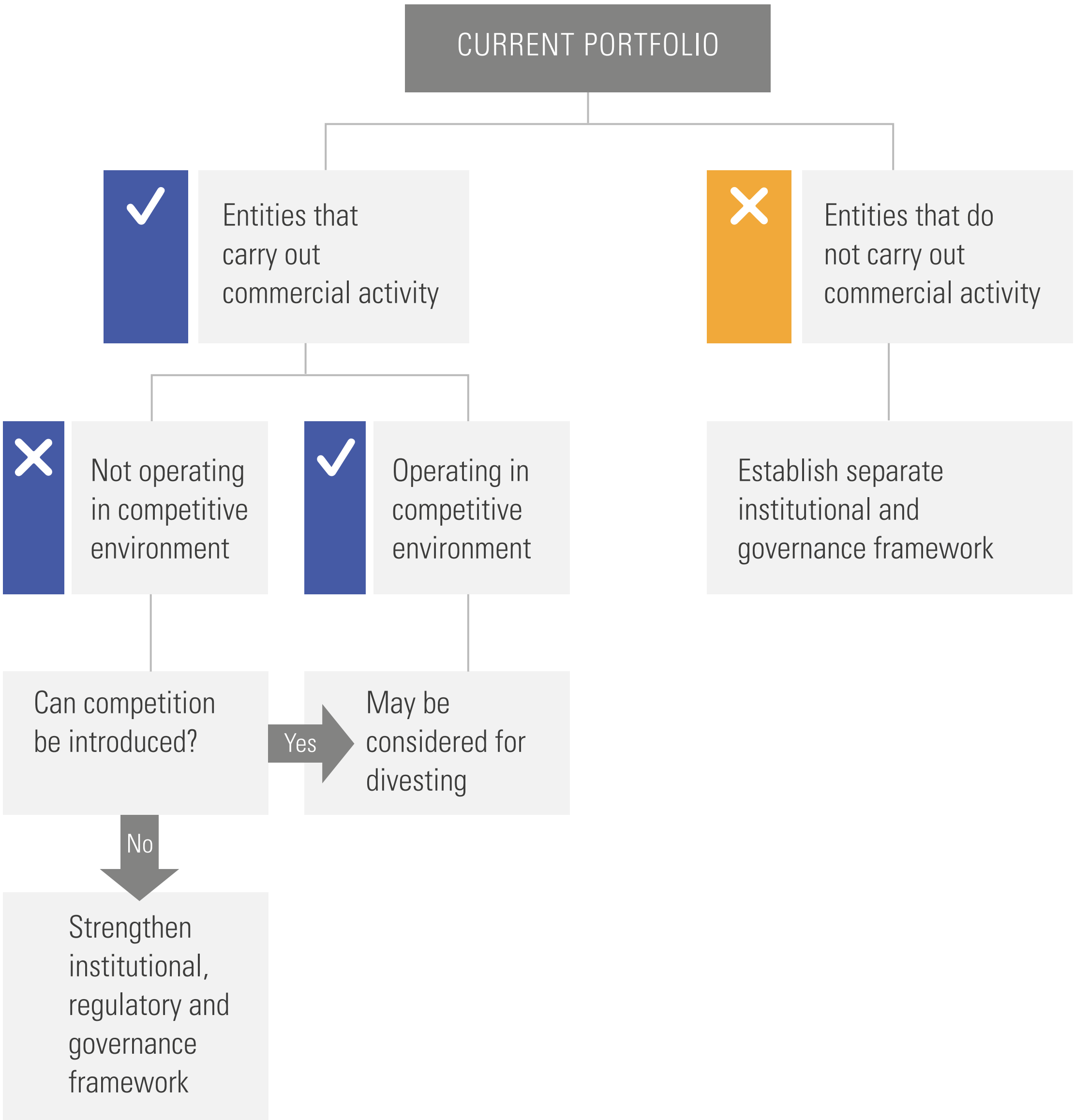
To help reconsider the role of commercial SOEs and EPEs in Eswatini's economy, this report proposes three directions, which should be seen as suggestions to promote dialogue in the country and support policy makers. These directions are illustrated in Figure E2 overleaf.

1. Rethinking the state's role in the economy: The government should consider an EPE/SOE ownership policy that explicitly includes a clear rationale for maintaining state shareholding in them. As a shareholder, the state would have to carefully evaluate the costs and benefits of public ownership. It could also revisit the opportunity cost of providing grants and equity to EPEs and SOEs, at the expense of other needed investments. Another strategic consideration could be opening markets to other operators, notably in energy generation and water distribution, which could promote competition and innovation and generate substantial benefits for end users.

2. Strengthening the legal framework to include a clearer definition of commercial SOEs, separate from regulatory agencies: Eswatini's broad definition of EPEs includes entities that are not enterprises; this could be revised in line with the internationally accepted definition of SOEs. Also, a separate law is needed to govern independent regulatory agencies, as their functions differ substantially from those of enterprises. The legal and institutional structure of SOEs does not provide the powers and independence needed to carry out these functions. Finally, the commercial and regulatory functions of commercial SOEs should be split into separate entities.

3. Strengthening EPE governance and oversight: Suggested actions in this regard include improving the monitoring and disclosure of equity stakes held by the state, instituting clear and merit-based guidelines for the appointment of board members, and requiring greater transparency of information to enhance accountability and oversight.

Figure E2. Three directions to reconsider the role of SOEs in Eswatini


CURRENT PORTFOLIO
✓ Entities that carry out commercial activity
✗ Entities that do not carry out commercial activity
✗ Not operating in competitive environment
✓ Operating in competitive environment
Establish separate institutional and governance framework
Can competition be introduced?
Yes
May be considered for divesting
No
Strengthen institutional, regulatory and governance framework

Source: World Bank staff.

PART ONE

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Eswatini is a small, open economy bordering South Africa and Mozambique. The country has a population of around 1.2 million, with a per capita GDP of US$3,958 in 2021. Slightly more than half the economy is concentrated in services, and industry (particularly manufacturing) comprises another third. South Africa continues to be Eswatini's main trading partner, accounting for about 65 percent of its exports and 75 percent of its imports. Recent projections based on the relationship between growth and poverty suggest that about 32.1 percent of the population lived below the international poverty line of US$2.15/day (2017 PPP) in 2022, and 55.2 percent lived below the poverty line for lower-middle-income countries ($3.65/day, 2017 PPP).

1.1 Domestic economic developments

1.1.1 Economic growth: Positive prospects but domestic and external headwinds continue to trap Eswatini in a low growth path, hindering development

Although the economy of Eswatini initially rebounded after COVID, several challenges remain. In 2021 real GDP growth reached 7.9 percent, driven by services and manufacturing. The easing of lockdown measures and stronger external demand supported an export-led expansion and a recovery in services, including tourism. In 2022 growth slowed to 3.6 percent, reflecting constrained demand and supply, partly because of external shocks. The global turmoil following Russia's invasion of Ukraine adversely affected exports, trade, and foreign investment. It also precipitated a sharp increase in global commodity prices (oil, fertilizer, and food), raising the cost of production. Within Eswatini, tighter economic policy further dampened economic activity. Both demand- and supply-side factors have contributed to low growth. The combination of slow growth and high inflation saw a slight increase in the estimated poverty rate in 2022. Quarterly real GDP growth slowed year-on-year to 1.1 percent in the first quarter of 2023, down from 8.1 percent a year earlier. This reflects growth of 3.4 percent in the primary sector, a 10.1 percent contraction of the secondary sector, and 8.6 percent growth in the tertiary sector.

Slack economic management, structural weaknesses, and an unfavorable investment climate have prevented the economy from reaching its full potential. Although Eswatini achieved the highest growth rate in SACU (after Botswana) from 2015 to 2022 (Figure 1.2), growth was low relative to other middle-income economies, until 2020 (Figure 1.1). Even before the pandemic, economic management had been characterized by an expansionary fiscal policy, which increased public debt and arrears and crowded out private sector activity. This was exacerbated by structural weaknesses, including underinvestment in human and physical capital. The investment climate for the private sector remains difficult, mainly because of excessive regulation and local politics (Box 1.1). The regulatory framework is challenging for businesses and has been cited among the top three challenges in the last three company surveys.[1] The challenging regulatory framework varies across sectors; for example, for the financial sector this relates to the enormous fines by regulators, and the overlap of scope between the Eswatini Competition Commission, the Financial Services Regulatory Authority, and the Eswatini Communication Commission. Companies also reported stringent and limiting regulations in sourcing of work permits for foreign skilled workers. Perceived corruption also increased; on the Corruption Perceptions Index, Eswatini's ranking deteriorated from 113 in 2019 to 130 in 2022 (Transparency International 2022).

Figure 1.1. Economic growth in Eswatini was below the lower-middle-income country average until 2020

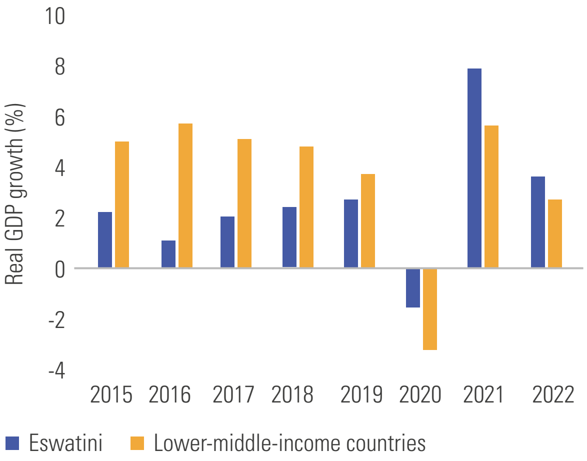
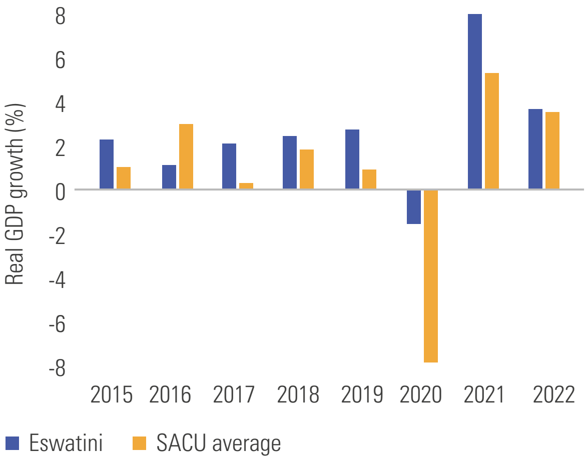


Figure 1.2. Although it outperformed other SACU countries, except Botswana, growth remains slow



Source: WDI database.

Figure 1.3. Private consumption declined in 2022

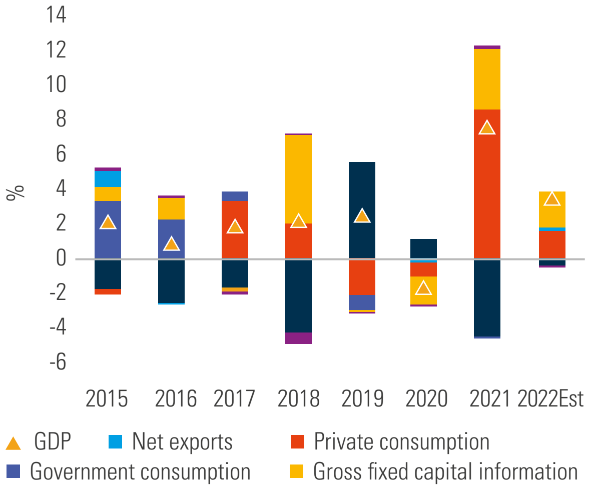
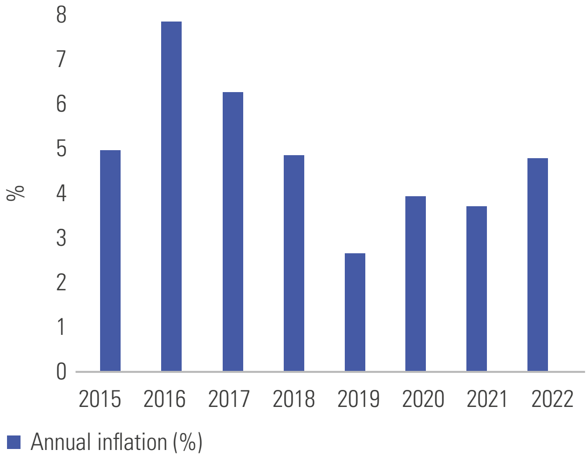


Figure 1.4. … reflecting high inflation



Sources: Eswatini Central Statistical Office and World Bank staff estimates.

[1] Eswatini Ministry of Economic Planning and Development & Central Bank of Eswatini 2022.

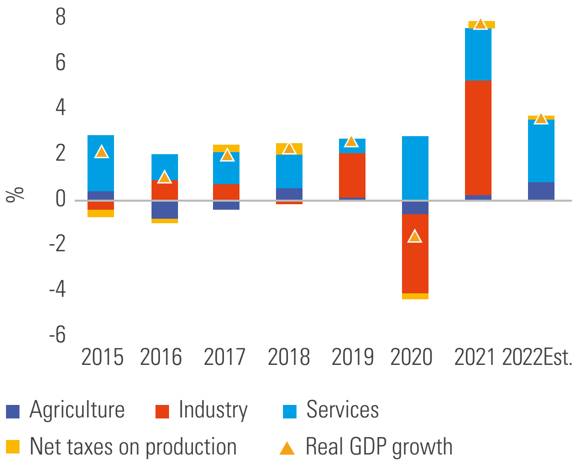
Consumption: Since 2020 economic activity has been driven by surging private consumption, especially after the pandemic (Figure 1.3). Together with public investment, private consumption drove GDP growth in 2021. However, consumption was dampened by inflationary pressures in 2022, and public consumption has slowed because of fiscal consolidation (Figure 1.4).

Net exports: The contribution of net exports has largely been negative, save for 2019, signaling the need to boost exports and limit imports. Exports are concentrated in few commodities (see Figure 1.17). Export competitiveness is affected by high labor and production input costs (such as telecommunications).[2] Eswatini needs to take advantage of trading opportunities if it is to expand beyond its small domestic market and reap economies of scale. But the combination of high consumption and high commodity prices have hampered net exports, which made a negative contribution to GDP growth in 2021 and 2022. Eswatini has not taken advantage of its trade potential, which limits the growth of trade and economic activity. The economy is overly reliant on key exports and, therefore, vulnerable to shocks. Box 1.1 summarizes the need for reforms to enable export-led private sector growth.

Investment: Public investment, which is volatile, constitutes the bulk of total investment, thus crowding out the private sector. Public investment management is sometimes not efficient, as some projects are not subject to rigorous formal appraisal before their inclusion in the budget, and explicit and transparent criteria for prioritizing projects are not in place. There is also a disconnect between cash flow forecasts, cash releases, commitment ceilings, and project implementation schedules, resulting in frequent disruption in project implementation because of cash flow constraints. This also contributes to an increase in expenditure arrears. At only about 6 percent of GDP, private investment remains insufficient to generate economic activity and jobs. SMEs typically face significant costs to enter new markets and maintain their businesses, and securing financing is often difficult. This has constrained competition and the growth of the private sector. Another constraint on the private sector has been the accumulation of government expenditure arrears. The volatility of SACU revenues means government investment is not easily sustained; for example, the slowing of its construction projects in 2022 resulted in a contraction of the construction sector.

Overall, a demand-side analysis shows that Eswatini needs to shift from a state-led to a private sector- and export-led growth model, as the contribution from exports and private investment is low. This will require sustained efforts to improve the business climate, which has constrained the development of the private sector and the creation of formal jobs. The country needs to find a new growth model that gradually shifts employment from low value-added activities (such as subsistence agriculture) and low-quality jobs to more productive ones.

Figure 1.5. Industry's contribution to growth fell in 2022, hampered by the invasion of Ukraine



Source: Eswatini Central Statistical Office and World Bank staff estimates.

[2] Unbundling Eswatini Post Telecommunications Company will not only help lower prices and increase access but will also increase competition and private sector participation in the digital sector (Stockman 2022).

Agriculture: Agriculture is recovering from the recent adverse weather conditions. Activity in the sector was supported by favorable rains in the 2022 planting season but hampered by the high cost of imported fertilizer and pesticides. Agriculture is dominated by the production of animals (about 47 percent) and crops (32) percent, followed by forestry (14 percent).

Industrial sector: Output fell after a sharp post-pandemic recovery. The sector grew by 15.4 percent in 2021, with manufacturing buoyed by growing export demand and the easing of pandemic restrictions. However, industrial growth is estimated to have been negative in 2022 (Figure 1.5), because of sharply lower growth in manufacturing output and a contraction in the construction sector. The industrial sector is dominated by manufacturing (88 percent) and construction (8 percent).

Services sector: The relaxation of pandemic restrictions supported growth of the sector in 2021 and 2022, on the back of a recovery in both tourism and financial services. However, heightened inflationary pressures and growing expenditure arrears have constrained demand. Likewise, the pressure on real incomes has undermined the health and education subsectors. The services sector is dominated by wholesale and retail trade (24 percent); financial and insurance services (16 percent); education (13 percent), and public administration (11 percent), and information and communication (11 percent).

Box 1.1. Export-led private sector growth for inclusive and sustainable economic growth

Eswatini shifted from a private investment-led, higher-growth model to a public sector-driven, lower-growth model in the late 1990s, following a decline in foreign direct investment after the end of apartheid in South Africa. Weak investment in productive sectors constrained job creation. The private sector is unable to create enough jobs for the growing, young labor force. The public sector-driven growth model is unsustainable in the context of a constrained fiscal space and underperforming SOEs. Continuing the current growth model would trap Eswatini in a low-growth equilibrium and result in a rising public debt burden, which would further crowd out the private sector.

Eswatini needs to implement policies that enhance private sector activity and export competitiveness. These reforms may include targeted interventions to enhance SME capabilities and growth, advance regulatory reforms, and improve trade logistics, including through regional collaboration. The Country Private Sector Diagnostic proposes multiple cross-cutting reforms to streamline trade and business regulations; reduce the state's footprint in the economy, including through SOE reform; improve access to financial services and land; and enhance skills development to boost human capital. It recommends scaling up investments and reforms in four key sectors: sugar, beef, forestry, and textiles and apparel value chains. Eswatini has comparative advantages in these sectors and can leverage its preferential access to regional and global markets to increase exports, create jobs, and stimulate broad-based economic growth.

Figure B1.1.1. Average growth declined, as foreign and domestic investment fell after apartheid

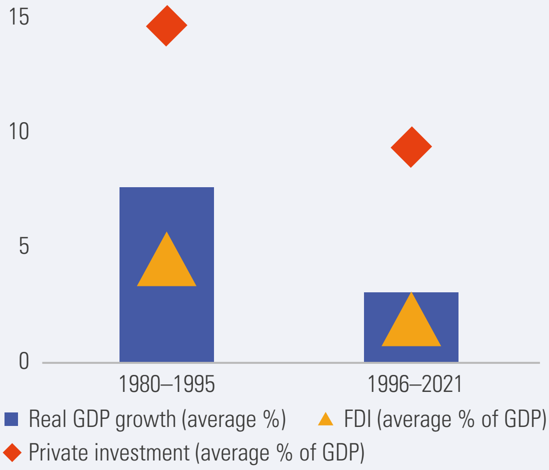
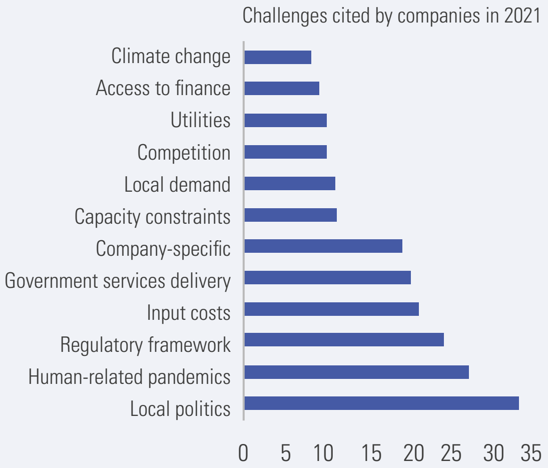


Figure B1.1.2. The regulatory burden is among the top three challenges facing companies in Eswatini



Sources: Eswatini Central Statistical Office, Ministry of Economic Planning, and Central Bank of Eswatini.

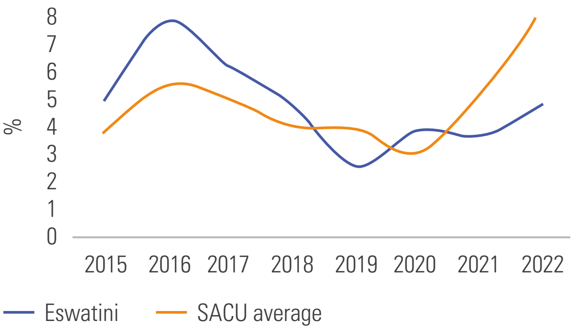
The Country Private Sector Diagnostic confirmed the broad findings of the 2020 Systematic Country Diagnostic, which identified five binding constraints and pathways to poverty reduction and shared prosperity. These are: weak macroeconomic management amid volatile SACU revenues and heavy state involvement in the economy, which increased fiscal strain and decreased space for the private sector (reduced private investment); a lack of economic diversification and slow job creation; inadequate human capital and inequitable service delivery; limited resilience against natural disasters and economic shocks; and weak governance, a lack of transparency, and limited accountability. Eswatini company surveys show that the regulatory framework is among the top three challenges affecting the private sector. Also, the World Bank's Enterprise Surveys reported a sharp increase in the share of firms identifying corruption as the single biggest obstacle to doing business between 2006 and 2016.

Sources: Stockman 2022; World Bank 2022.

1.1.2 Prices: Rising inflation in 2022 affected livelihoods and poverty, especially as food inflation breached the 6 percent upper threshold

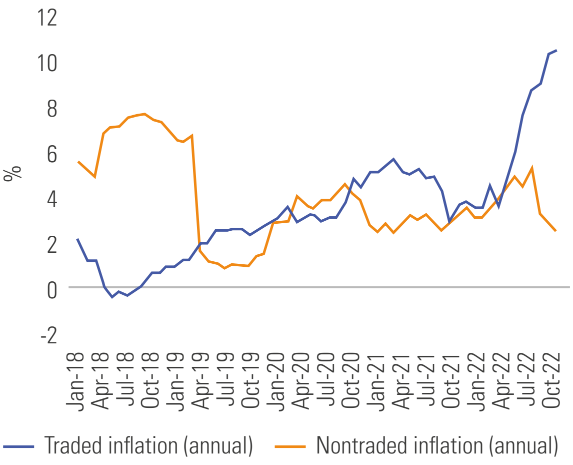
Driven by external shocks, inflation increased from 3.7 percent in 2021 to 4.8 percent in 2022, although it remained low relative to other SACU countries (Figure 1.6). Russia's invasion of Ukraine elevated global prices (particularly energy and food), which were transmitted to local prices. Food prices and traded inflation rose rapidly, but nontrade inflation declined (Figure 1.7).

Figure 1.6. Inflation rose in 2022 but remained low relative to other SACU countries and to previous peaks



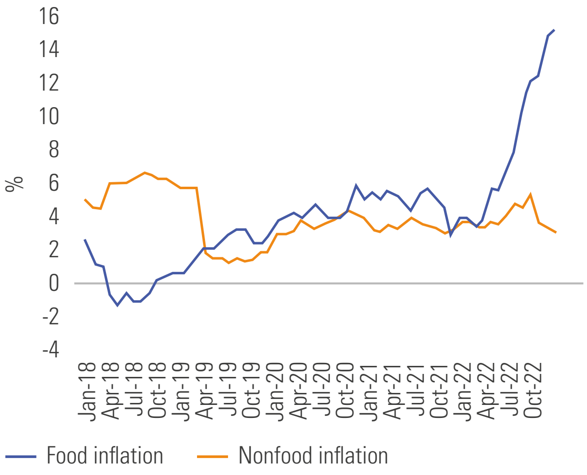
Source: Central Bank of Eswatini.

Figure 1.7. External shocks meant that traded inflation increased and nontraded inflation declined in 2022



Source: Central Bank of Eswatini.

Figure 1.8. The increase reflects higher food prices, which breached the 6 percent upper band



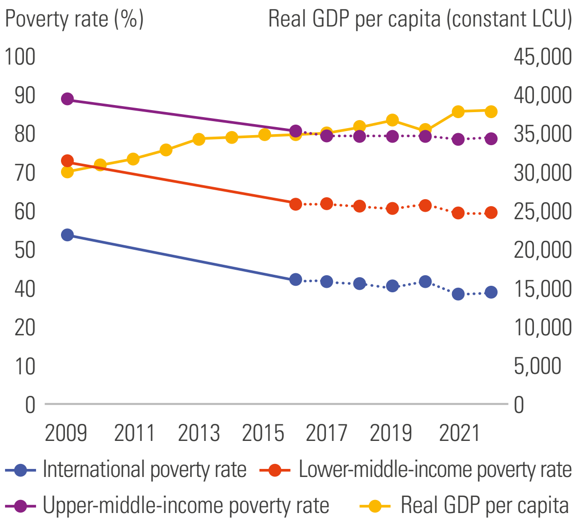
Source: Central Bank of Eswatini.

Inflationary pressures persisted in 2023, with annual inflation rising from 5.3 percent in January to 6.0 percent in May—reaching the upper threshold. Annual inflation breached the upper band threshold in September 2022 for the first time in five years. Inflation has been driven by higher food and transport prices, stemming largely from the war in Ukraine. Food inflation also breached the Central Bank's threshold for the first time in five years in June 2022; it has grown at double-digit levels since August 2022 and continued to increase to 15.7 percent in May 2023 (Figure 1.8). This has had a significant effect on poor households, as discussed below.

1.1.3 Poverty and inequality: Poverty remains high, and opportunities for young people are limited

Despite some progress, Eswatini continues to experience high and persistent poverty. The proportion of the population living below the national poverty line fell moderately from 63.0 percent in 2010 to 58.9 percent in 2017, driven by improvements in educational attainment, the coverage of social protection, and labor incomes.[3] However, most of the decline was in urban areas, thus widening the urban-rural poverty gap. Also, the COVID-19 pandemic and recent sociopolitical unrest reduced economic activity and negatively affected households. The level of poverty remains high, particularly for a lower-middle-income country. Projections for 2022 suggest that 55.2 percent of people fell below the poverty line for lower-middle-income countries ($3.65/person/day in 2017 PPP), up slightly from 55.0 percent in 2021. About 32.1 percent of people lived below the international poverty line of US$2.15/day (2017 PPP) in 2022, up from 31.9 percent in 2021 (Figure 1.9 above).

Figure 1.9. High food inflation led to a slight increase in the estimated poverty rate in 2022



Source: Central Bank of Eswatini.

[3] The 2017 Eswatini Household Income and Expenditure Survey (CSO 2017) is the most recent household survey to officially measure and track the evolution of poverty and inequality.

Poverty persists in part because of the lack of quality jobs. According to the Integrated Labour Force Surveys, labor force participation among the working-age population fell from 50.6 percent in 2016 to 45.9 percent in 2021. Without sufficient formal job creation, employment is concentrated in low value-added activities, such as subsistence agriculture, and low-quality jobs—40.8 percent of employed people are in the informal sector.[4] Unemployment is high and rising, having increased from 23 percent in 2016 to 33.3 percent in 2021, the highest rate in over a decade (Figure 1.11). It is even higher among young people, with those between 15 and 24 facing an unemployment rate of 59.1 percent in 2021. Quality problems in education mean that young people lack the right skills to participate in the labor market; this undermines Eswatini's potential to benefit from its large, young population.[5]

Inequality in consumption per capita and access to public services remains high. Eswatini is among the most unequal countries in the world, with a Gini index of 54.6 in 2016. Disparities in access to basic public services across income groups and geographic locations persist, although access is being expanded. Factors beyond the control of individuals, including early education, parental education, place of birth, and place of residence explained 38.5 percent of consumption inequality in 2017.[6]

1.1.4 Monetary policy and financial sector: Rising interest rates in response to inflationary pressures could further increase nonperforming loans and limit private sector credit

Strong inflationary pressures prompted the Central Bank of Eswatini to tighten monetary policy, in step with South Africa (Figure 1.12). Eswatini has contained annual inflation within a band of 3–6 percent since 2018 (Figure 1.6 above). Moderate inflation of only 3.7 percent in 2021 allowed the Central Bank to keep interest rates low (after downward adjustments during the pandemic) and so support economic activity. With the discount rate at only 3.75 percent, banks could maintain lending rates at around 7.5 percent. By 2022 higher commodity prices caused inflation to rise to 4.8 percent. In response, the Central Bank increased its rate by 275 basis points to 6.5 percent by end-2022 and by a further 100 basis points to 7.75 percent, with

Figure 1.10. Poverty headcount rate declines as GDP increases

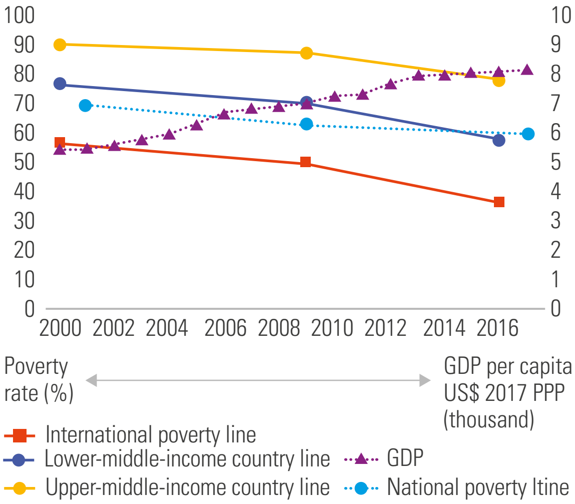
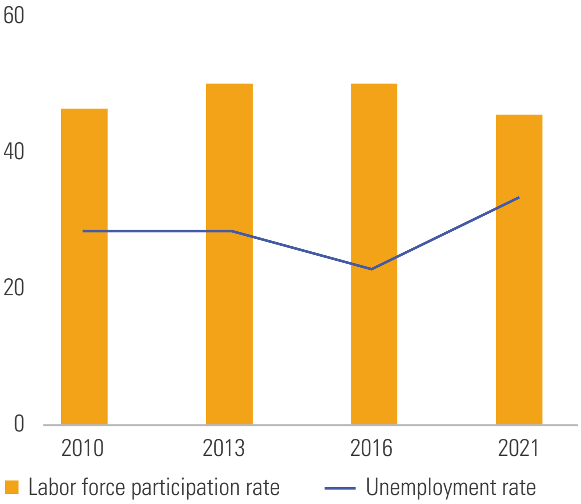


Figure 1.11. Even though fewer people are working or looking for jobs, unemployment is rising



Sources: World Bank staff calculation, using Eswatini Household Income and Expenditure Survey (EHIES), SSAPOV, and the Global Monitoring Database (GMD).

[4] Informal employment is defined as an employee who is not regulated or protected by the state and has no pension, no paid annual leave, no sick leave, and no maternity/paternity leave.

[5] Fifty-six percent of Swazis are under the age of 25.

[6] Based on an analysis of the 2017 Eswatini Household Income and Expenditure Survey (CSO 2017).

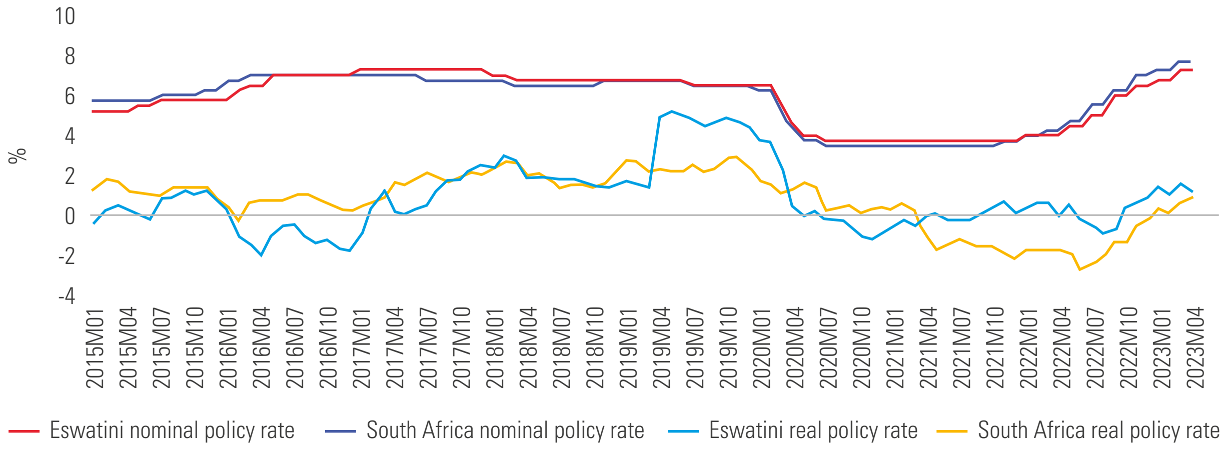
banks' prime lending rates increasing to 11.25 percent by May 2023. Tighter monetary policy is likely to adversely affect economic activity and growth.

Although tight monetary policy is necessary to contain inflation, it might constrain a recovery in credit extension and increase nonperforming loans (Figure 1.13). Most private sector credit is allocated to the distribution and tourism sectors, followed by real estate and agriculture. A recovery in private sector credit extension is critical for the overall growth of the private sector.

Nonperforming loans are rising, reaching 7.2 percent in March 2023, up from 6.6 percent in 2022 and 6.8 percent in 2021 (Figure 1.14).[7] The ratio of nonperforming loans remains above the Common Monetary Area threshold of 5 percent. Reasons behind the increase include the ending of COVID-19 Relief Measures in December 2021, the effect of inflation on households and businesses in 2022, and the disruption to economic activity arising from adverse global developments. Continued interest rate increases might further increase nonperforming loans in 2023.

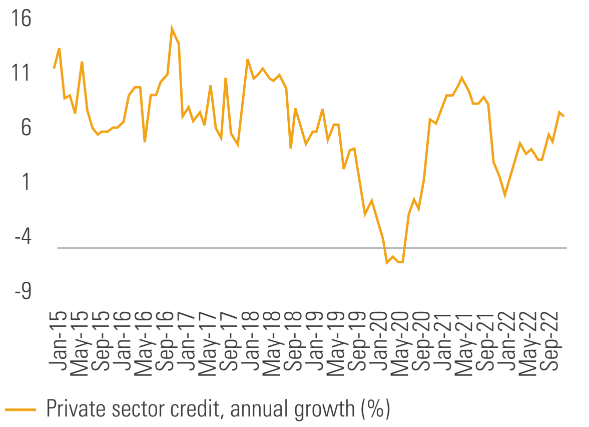
The financial sector remains resilient, although South African banks still account for nine-tenths of all lending. The banking sector is profitable and well capitalized—at 17 percent, the capital adequacy ratio is well above the statutory requirement of 8 percent.

Figure 1.12. Interest rates have surpassed pre-pandemic levels



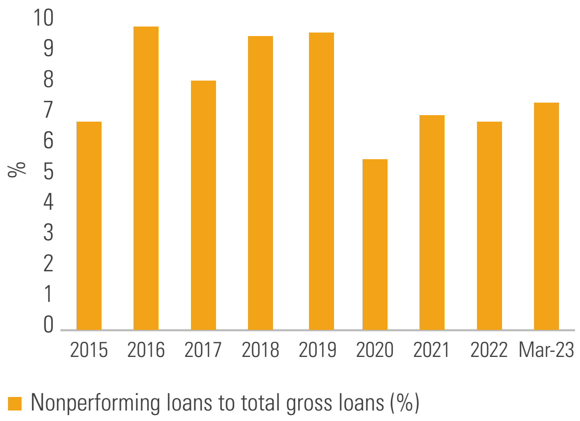
Source: Central Bank of Eswatini.

Figure 1.13. Credit to the private sector is recovering, though growth is still below pandemic levels



Source: Central Bank of Eswatini.

Figure 1.14. Nonperforming loans are rising again in 2023



Source: Central Bank of Eswatini.

[7] Central Bank of Eswatini 2022a, 2023b.

The government has taken steps to improve the stability of the financial sector. These include amending the Consumer Credit Act in 2021, submitting a National Payment Systems Bill to Parliament in 2022, and drafting an umbrella law on Anti-Money Laundering and Combatting Financing of Terrorism (AML/CFT). It also aims to consolidate the Financial Sector Regulatory Authority (the nonbank regulator) and the Centre for Financial Inclusion, which currently reports to the Ministry of Finance and the Central Bank.

1.1.5 External sector: Foreign exchange reserves, a critical cushion against fiscal and external shocks, fell below international norms, with the current account in deficit for the first time in over a decade

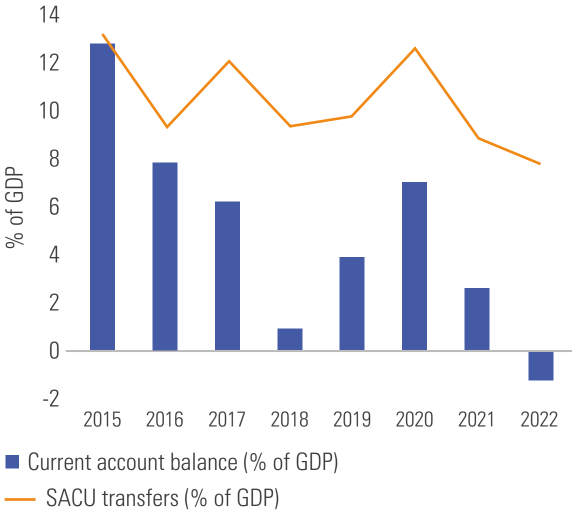
Despite a recovery in trade flows, the current account registered a deficit in 2022 for the first time since the 2010/11 crisis, primarily because of high cost of imports (due to the war in Ukraine) and a sharp decline in SACU revenues. Eswatini has long maintained a surplus on its current account, averaging about 6.4 percent of GDP from 2015 to 2021 (Figure 1.15). High SACU revenues and growing exports (albeit dominated by a few products) generated a moderate trade surplus in this period (Figure 1.16). However, in 2022 global turmoil brought a marked deterioration in the current account, with a deficit of 1.3 percent. A primary driver was the decline in the trade surplus: imports rose faster than exports, and the prices of major import baskets rose significantly, especially food and beverages, fuel, and electricity. The major exports—chemicals, sugar, food, and textiles—declined in 2022. These four sectors account for 90 percent of all exports, which highlights the lack of diversification of the export base and the vulnerability of the economy to external shocks (Figure 1.17).[8] This was exacerbated by a sharp decline in SACU revenues, coupled with an adverse shift in the terms of trade, as the lilangeni depreciated by 11 percent on average against the US dollar in 2022.

The financial account balance registered a net inflow, driven by other investments (loan disbursements from World Bank and the African Development Bank), which helped to finance the current account deficit in 2022. Financial account inflows from the three subaccounts, foreign direct investment, portfolio investment, and other investment, amounted to about 2 percent of GDP. Inflows of foreign direct investment were minimal, largely reflecting the activities of companies with foreign relations, through reduced assets and positive inflows of liabilities. Portfolio inflows, which were lower than in 2021, were also mainly depletions of assets. Other investment inflows, mainly from loan disbursements by the World Bank and the African Development Bank, were relatively large. In 2021 a reduction in private sector financing outflows enabled the economy to register a small surplus on the capital account. In the next year, likewise, limited outflows of private financing resulted in a small deficit on the capital account.

The pressure on the overall balance of payments saw foreign exchange reserves falling below international norms of three months of imports (Figure 1.18). Gross official reserves increased slightly to 3.1 months of imports of goods and services in 2021, supported by the inflow of Special Drawing Rights of the International Monetary Fund (IMF) and further mobilization of net foreign exchange inflows from local banks. However, the current account deficit, the decline in SACU revenues, and low foreign direct investment in 2022 resulted in reserves falling to 2.5 months of import cover, which is lower than the international norm. Concerted efforts will be needed to increase reserves above the threshold of three months of import cover.

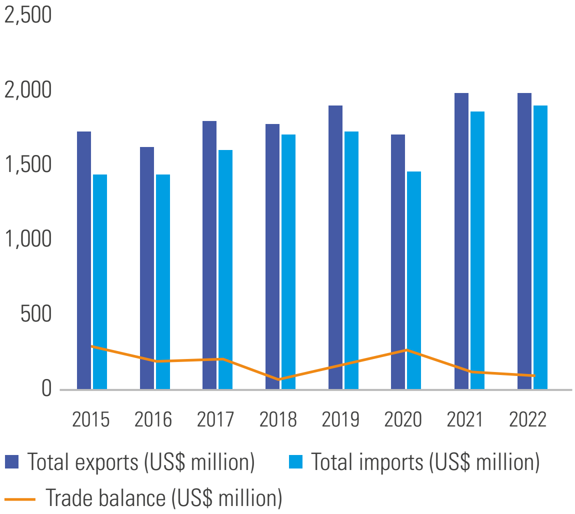
[8] Eswatini enjoys preferential trade agreements with the European Union, the United States, and regional bodies. However, it has been unable to fully harness these agreements to grow its export sector because of persistent economic weaknesses, such as the cost of services, challenges in doing business, insufficient credit, infrastructure constraints, and limited absorption of technology.

Figure 1.15. The current account balance turned negative for the first time in a decade



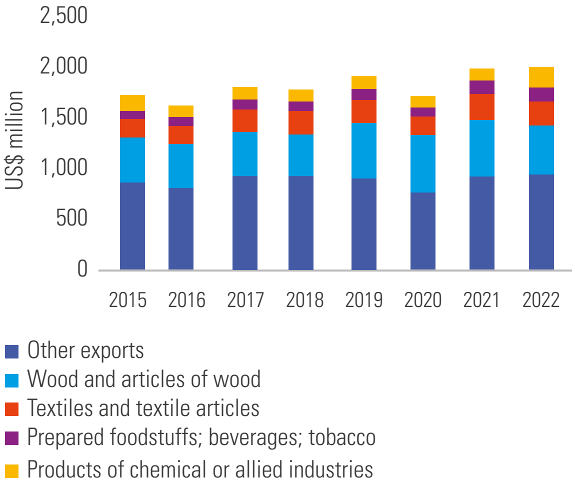
Source: Central Bank of Eswatini.

Figure 1.16. … with a narrowing of the trade surplus



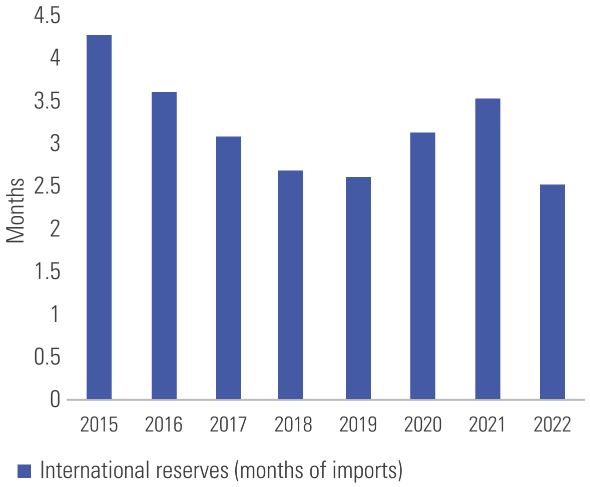
Source: Central Bank of Eswatini.

Figure 1.17. Exports are dominated by a few products



Source: Central Bank of Eswatini.

Figure 1.18. … and gross international reserves fell below international norms



Source: Central Bank of Eswatini.

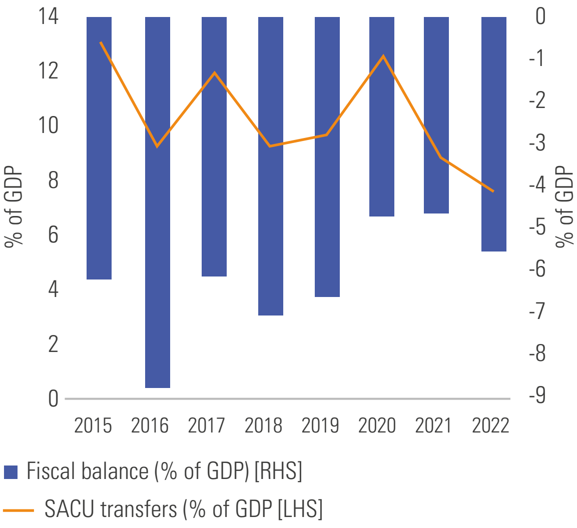
1.1.6 Fiscal developments: The fiscal situation needs to be improved and the fiscal consolidation plan implemented fully to ensure macro-fiscal sustainability

Over the years, large fiscal imbalances have meant a steady accumulation of debt and expenditure arrears, distorting economic management and growth potential. Fiscal deficits averaged 6.4 percent from 2015 to 2020. The deficit reached a peak in 2016, when the government awarded more than 17 percent salary increase to civil servants - well above inflation - after an increase in SACU revenues (Figure 1.19). The ongoing large fiscal deficits stem from rising expenditure amid declining revenues, especially SACU revenues. They resulted in a rising public debt burden, a large public financing requirement that crowded out credit to the private sector, and an increase in public expenditure arrears, which negatively affect private sector activity (Figure 1.20). Against this backdrop, the government implemented the Fiscal Adjustment Plan for fiscal 2021–23.

The recent deterioration in revenue highlights the country's exposure to volatile SACU receipts and the need to increase domestic revenue mobilization. Revenues fell sharply from 29 percent of GDP in 2020 to 24 percent in 2022, when SACU receipts declined from 12.6 percent of GDP to 7.1 percent (Figure 1.21). SACU receipts have fluctuated between 55 and 31 percent of total revenue in the past decade but are expected to almost double in 2023. The increase in SACU revenue is driven by the higher than projected outturn of the 2021/22 Common Revenue Pool, a 25 percent increase in the projected size of the Pool for 2023/24, and an increase in Eswatini's share of total intra-SACU imports.[9] Given that SACU revenues have historically been volatile, the authorities should prioritize the country's longer-term aspirations and avoid using the windfall revenue to increase short-term expenditure. Eswatini's response to higher SACU transfers has often been to increase public expenditure. As noted, in 2016 and 2017, higher SACU transfers were followed by high expenditure and hefty salary increases for civil servants, which led to a larger fiscal deficit, along with the accumulation of expenditure arrears, which undermined private sector activity. The sharp increase in SACU transfers in 2023 again seems to be leading to higher government spending. The authorities have, however, taken a vital step by establishing the SACU Revenue Stabilisation Fund, which might help to mitigate the inevitable shock when SACU transfers fall again. The higher SACU revenue in 2023 could help to moderate the fiscal deficit and improve gross official reserves.

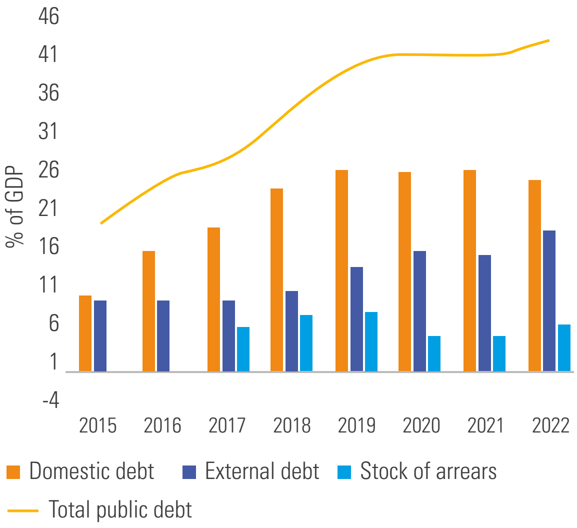
Notwithstanding efforts to lower public spending and improve efficiency, spending pressures remain. Central government spending decreased slightly from 29.7 percent of GDP in 2021 to 29.2 percent in 2022 (Figure 1.22), although it remains dominated by rigid public wages. Some progress has been made in adjusting expenditures (Box 1.2): the public wage bill was reduced by about 2 percent of GDP between 2020 and 2022 through a hiring freeze and below-inflation cost-of-living adjustments. Public investment was curbed, and spending on goods and services was rationed.

Figure 1.19. Fiscal deficits remained sizeable



Source: Ministry of Finance.

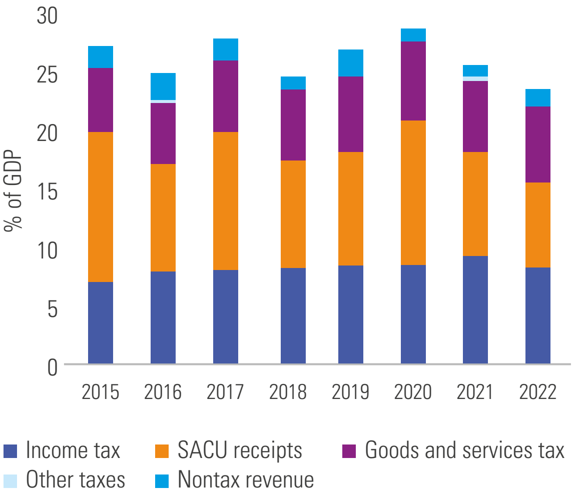
Figure 1.20. … contributing to rising public debt and interest payments



Source: Ministry of Finance.

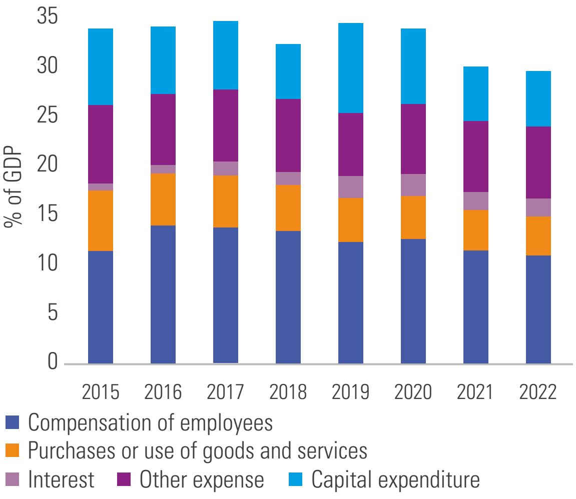
[9] The distribution of SACU revenue is determined by a formula, which consists of external trade and excise duties on imported goods, as well as a development component derived from excise taxes. The revenues depend mainly on South Africa's projected customs and excise revenues and are shared across countries based on a formula that considers a country's level of imports and GDP levels. The formula includes an adjustment mechanism where any over/underpayment from past forecasting errors is recouped two years later.

Figure 1.21. Revenues fell, as SACU receipts declined



Source: Ministry of Finance.

Figure 1.22. Spending fell but is still dominated by a large, rigid public wage bill



Source: Ministry of Finance.

Expenditure reform has been hindered by pervasive inefficiencies in the large SOE sector. Annual transfers to SOEs constituted 3.1 percent of GDP in 2021. Many SOEs are inefficient, for reasons such as ineffective governance, inadequate financing, political and social objectives, and unfunded (or partly funded) public service obligations. Resource constraints have meant that SOEs tend to underinvest in labor and capital (see part 2). Institutionally, they are often weak and their internal processes poor, leading to weak management and suboptimal outcomes. A World Bank study that estimated efficiency scores for education, health, and infrastructure spending in Sub-Saharan Africa in 2007–15 pointed to marked inefficiencies in all three these sectors, particularly health, in Eswatini.[10]

Public debt more than doubled between 2015 and 2022. Public debt peaked at 43 percent of GDP in 2022, up from 41 percent in 2021, due in part to borrowing during the pandemic (Figure 1.20). External debt comprises about 40 percent of the total, with domestic debt (including treasury bills, bonds, and infrastructure bonds) accounting for the remainder. Eswatini's public debt remains low relative to the region.[11] Despite its debt being low, Eswatini is at high risk of debt distress because of its short-term debt, which accounts for 31 percent of the debt stock, and its vulnerability to exchange rate fluctuations.[12] The 2021 debt sustainability assessment by the authorities show that although the country's debt level is still low by international and regional standards, the recent increase in central government debt and the high gross financing needs raise both sustainability and liquidity concerns.[13] Successful implementation of the Fiscal Adjustment Plan and the updated Medium-Term Debt Management Strategy of 2021 should help reduce Eswatini's fiscal deficit, expenditure arrears, and public debt in the medium term.

Although some progress was made in tightening public finances, the measures set out in the Fiscal Adjustment Plan were unevenly implemented, especially on the revenue side (Box 1.2). Initial reforms saw the fiscal deficit falling to 4.6 percent in 2021, but it rose again to 5.5 percent in 2022 as revenues declined and spending controls were

[10] Kwaramba and others 2019.

[11] For instance, Namibia's debt exceeds 70 percent of GDP, and Lesotho's exceeds 60 percent.

[12] IMF 2013.

[13] Government of Eswatini 2021.

relaxed. The authorities implemented an arrears clearance strategy in 2021, which led to a reduction in public arrears from around 7.8 percent of GDP in 2019 to 4.6 percent in 2021. However, arrears increased again to 6.0 percent of GDP in 2022, reflecting financing gaps and lax controls on procurement and cash management. Most arrears are toward suppliers of essential and critical supplies, such as drugs or medical equipment, and contractors for major infrastructure projects. They arise mostly because of cash flow challenges. The government must continue its attempts to reduce arrears by implementing a treasury single account[14] and an arrears clearance strategy.

Box 1.2. Eswatini's fiscal adjustment plan has not been fully implemented

Over the last decade, rising public spending and weak revenues have adversely affected Eswatini's public finances. Sizeable investment programs, large transfers to SOEs, and the burgeoning public sector wage bill have caused public spending to soar. On the revenue side, mobilization efforts have been largely ineffective; revenues have been volatile and remain reliant on SACU receipts. The public financing requirement has risen sharply, with the fiscal deficit hitting 9 percent in 2016. Consequently, the public debt burden increased from 21.9 percent in 2018 to 43 percent in 2022, and liquidity shortages led to rising arrears. The economy is trapped in a low-growth, high-inequality, high-poverty equilibrium.

To improve the sustainability and efficiency of public finances, the government produced the Fiscal Adjustment Plan for the fiscal years 2021–23. The fiscal consolidation plan approved by Cabinet in 2020 was changed in line with economic conditions. The initial aim was to save 6.5 percent of GDP over three years, starting with a 1.7 percent adjustment in 2021, followed by adjustments of 2.3 percent in 2022 and 2.5 percent in 2023. Given delays in implementing revenue measures during the pandemic, in 2022 the government revised the planned adjustment of 6.5 percent down to 4.8 percent of GDP. But indications are that even the lower adjustment will be delayed further, as spending increased in 2023.

The proposed reforms include reducing four elements of spending: the public sector wage bill, transfers to SOEs, capital spending, and spending on goods and services. The authorities have made progress on the public wage bill by implementing a hiring freeze, abolishing redundant posts, and keeping cost-of-living adjustments below inflation. Progress on cutting transfers to SOEs (by restructuring, privatizing, and bringing some to the point of sale) has been limited (see part 2). The public investment program was rationalized to some extent, with an emphasis on completing existing projects. Finally, to achieve efficiency savings in spending on goods and services, some measures, such as terminating trading accounts, were implemented in part.

Revenue reforms entail enhancing the stability of revenues and increasing their share in the economy. Measures to enhance revenues, such as expanding the basket of value-added tax products to include eggs and dairy products, applying a standard rating of electricity, improving the administrative efficiency of some taxes, and raising fuel taxes, have not been fully implemented.

With spending reforms only partly implemented, the projected increases in SACU receipts in 2023 are expected to lead to higher spending. To accelerate economic growth, the government needs to implement policies to improve public finances and ensure their sustainability. This includes reviewing the Fiscal Adjustment Plan and fully implementing its measures to restore fiscal sustainability.

[14] Setting up a treasury single account is part of the reforms under Development Policy Operations (DPO) II, which aims to reduce expenditure arrears in total government expenditure from 26 percent in May 2020 to below 15 percent by June 2023.

1.2 Economic outlook

1.2.1 Outlook

Global economic prospects: The global economy is expected to slow even further in 2023, limiting Eswatini's growth potential.

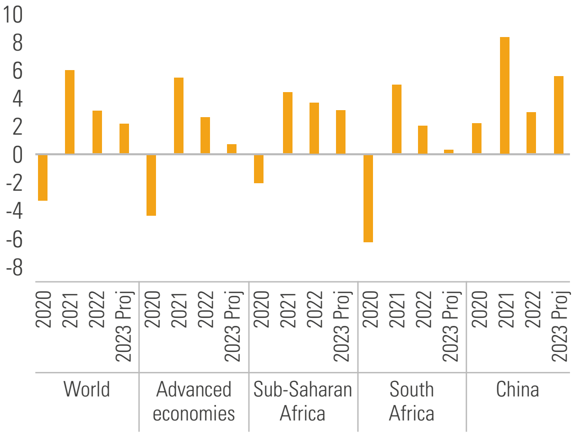
Global economic prospects remain precarious, with GDP growth projected to reach 2.1 percent in 2023, down from 3.1 percent in 2022 (Figure 1.23).[15] Eswatini's small, open economy is particularly vulnerable to global developments and shocks. It relies heavily on external trade and financing, its economic base is narrow, debt is high, and the economy is susceptible to natural disasters. Global trade and supply chains, already disrupted by the pandemic, have been further affected by Russia's invasion of Ukraine, which also dramatically raised commodity prices (particularly oil, agricultural inputs, and food). These growing inflationary pressures, combined with high levels of global public debt, led to tighter monetary and fiscal policy and weaker economic performance in the United States, Europe, and other emerging economies. Among the major economies, China did see a recovery in early 2023.

Although global inflation is slowing, it is still above target in many economies (Figure 1.24). The sharp rise in the prices of imported fuel, food, and fertilizers in 2022 severely affected Sub-Saharan Africa, a net importer of these goods. The high cost of fertilizer, coupled with recent climate shocks, undermined agricultural output, and increased food insecurity in the region. On the positive side, energy prices have eased considerably from their peak in the third quarter of 2022.

Depressed global demand adversely affects the tradeable sector. Global trade is expected to slow in 2023, with goods trade particularly weak. Sub-Saharan Africa relies heavily on trade as a driver of growth, and the weak global conditions reduce the demand for its exports, keep the prices of its vital metal exports low, and reduce much-needed foreign investment. However, now that the World Health Organization no longer sees COVID-19 as a "global health emergency", trade in services is recovering. A welcome consequence is that international tourist arrivals in the region are returning to pre-pandemic levels.

Additional shocks could push the global and regional economies into recession. Higher inflation, tighter economic policy, growing weaknesses in major economies, financial turmoil, or rising geopolitical tensions could all cause a recession in Sub-Saharan

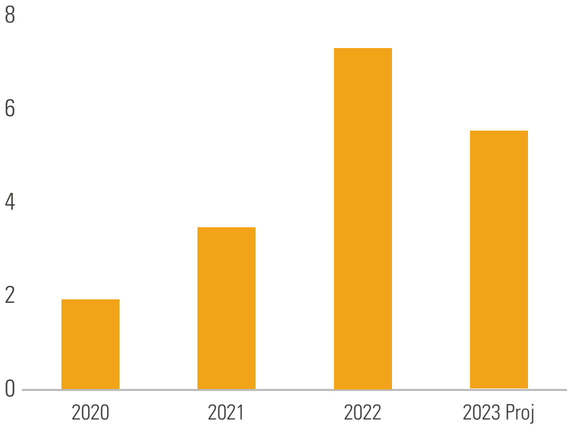
Figure 1.23. Real GDP has been slowing since 2022



■ Real GDP growth (%)

Source: World Bank 2023.

Figure 1.24. Inflation remains elevated, above target in many countries



■ Global inflation (%

Source: World Bank 2023.

[15] World Bank 2023.

Africa. South Africa's growth is slowing; as it is a major export and import destination for the other SACU countries, this slowdown will negatively affect the growth potential of Eswatini.

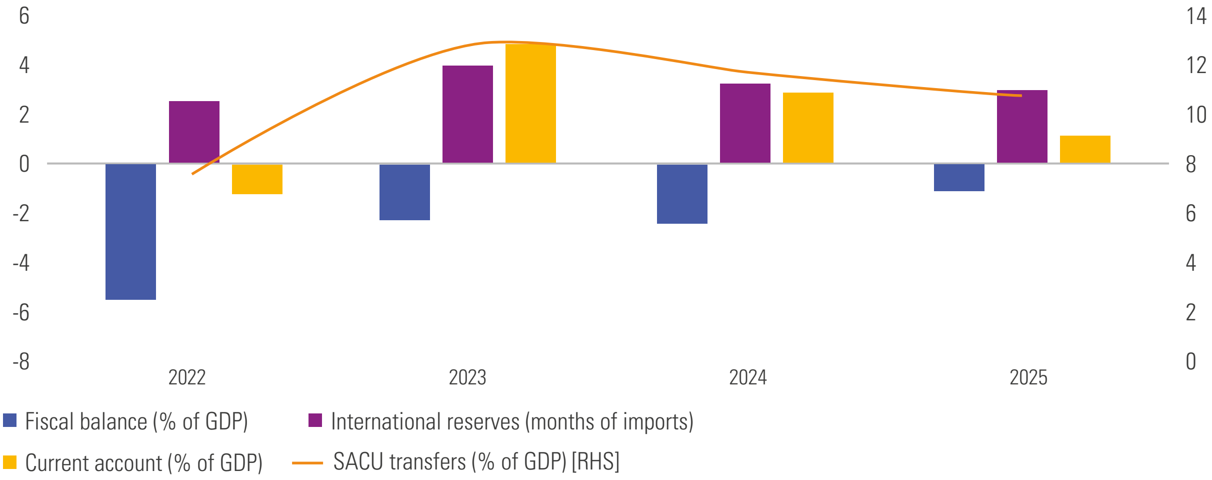
Eswatini's economic outlook: Promising, but reforms are needed if the country is to achieve its economic aspirations.

Eswatini's economic prospects for 2023 and 2024 are favorable, partly because of higher SACU revenues (Figure 1.25). The government budget proposes an expenditure increase, as SACU revenues are expected to double in 2023. The projected increase in government expenditure will support economic activity, and external funding of major capital projects such as the Mkhondvo-Ngwavuma dam will boost both demand and supply. The wholesale and retail, construction, and public administration sectors are all expected to benefit from higher public spending. The tourism sector is expected to continue its recovery, and remittances are picking up.

However, difficulties in the external and domestic environments constrain the country's growth potential. Although real GDP growth is expected to reach 3.0 percent in 2023 and 2.9 percent in 2024, global turmoil is likely to dampen economic activity. With Ukraine and Russia together accounting for over 30 percent of the global supply of food and commodities (grains, oils, fertilizers, and energy), the ongoing war in Ukraine will continue to affect global output, disrupt supply chains, and raise commodity prices. Economic activity in Eswatini will be further constrained by tighter economic policy, both to contain inflation and to manage public finances through the implementation of the Fiscal Adjustment Plan. Finally, the socio-political environment remains tense and difficult after unrest in 2021. The social unrest resulted in property damage, with an associated economic loss estimated at US$210 million.

High SACU receipts should help reduce the fiscal deficit to manageable levels. Despite higher election spending, the near doubling in SACU revenues will see the deficit falling to 2.1 percent of GDP in 2023 and increasing slightly to 2.4 percent in 2024. However, more progress needs to be made in implementing the Fiscal Adjustment Plan; should the authorities succeed in this, the deficit is projected to decline further to about 1.1 percent of GDP in 2025. The growing public wage bill might pose risks in future should SACU receipts decline. However, to manage the volatility of SACU receipts and enhance macroeconomic management, the government has committed to putting about E1.5 billion (1.8 percent of GDP) into the new SACU Revenue Stabilisation Fund. Full implementation of the Fiscal Adjustment Plan would undermine growth in the short run but bring much-needed budget credibility and macroeconomic stability in the long run. Debt is

Figure 1.25. The economic outlook depends heavily on SACU revenue trends



Source: World Bank staff estimates.

projected to stabilize in the medium term, falling to about 41 percent of GDP in 2023 and 2024.

Prudent fiscal policy will help support the external position. The current account is projected to move back into surplus in 2023 and 2024, on the back of higher SACU receipts and remittances and expected fiscal consolidation from 2024 onwards. The trade account is also expected to improve, with exports growing faster than imports. This would mean gross official reserves recovering to above the international benchmark of three months of import cover.

Monetary policy is expected to remain tight to contain inflation. Inflationary pressures are likely to remain significant over the medium-term, in part because of the war in Ukraine. Inflation is projected to exceed 5 percent in 2023 and 2024. Annual inflation has already increased from 5.3 percent in January 2023 to 6.0 percent in May 2023, reaching the upper band for the first time in eight months. The Central Bank is expected to increase the discount rate slightly to restrain further price increases.

Current growth projections suggest Eswatini will not reach high-income status before 2050. The gross national income per capita is expected to grow by only 0.5 percent between 2022 and 2025. This modest expansion will be insufficient to dent high levels of poverty and inequality. Higher food and energy prices will continue to constrain budgets and livelihoods, particularly for lower-income households. Poverty is projected to decline slightly from 55.2 percent in 2022 to 53.2 percent in 2025 in terms of the poverty line for lower-middle-income countries (US$3.65/day, 2017 PPP).

1.2.2 Risks

Given the current global challenges, Eswatini's growth outlook faces many external risks and heightened uncertainty in the medium term. Both adverse climate events and ongoing political and economic volatility from the war in Ukraine could introduce additional demand and supply shocks. Such shocks could lead to substantial increases in food, fuel, and fertilizer prices and even a sudden disruption in the supply of staple foods. Likewise, financial stresses, the global tightening of economic policy, and weaknesses in major economies can negatively affect Eswatini, including through higher debt financing costs. Another concern is low growth in South Africa—the country's main trading partner—because of ongoing power supply constraints. All these risks could create pressure to increase public spending.

Domestic downside risks are also significant. Local climate shocks could well damage agriculture and the agri-processing industry. Also, in the absence of public finance reforms and with elections on the horizon, public financing requirements could rise. This could increase public debt, crowd out private sector activity, and even undermine economic stability. Finally, rising living costs coupled with high unemployment could spur further civil unrest, possibly disrupting economic activity and resulting in infrastructure damage.

Under the pessimistic scenario, significant global headwinds would mean stagnant economic growth of less than 2 percent in 2023 and 2024. Although the scenario assumed no major escalation in the war in Ukraine or higher volatility in commodity prices, significant inflation in the advanced economies would prompt further tightening of economic policy. Under this scenario, Eswatini's financing costs would increase, leading to additional public expenditure. This could increase the fiscal deficit and expenditure arrears to unsustainable levels.

By contrast, under an optimistic scenario, improvements in the external environment coupled with domestic economic reforms would support economic growth. A substantial reduction in global volatility would reduce both commodity prices and financing costs. The resulting recovery in worldwide demand would stimulate exports and increase foreign investment in Eswatini. Meanwhile, government efforts to eliminate arrears and reduce the fiscal deficit to sustainable levels would promote stability and crowd in private sector economic activity.

1.3 Policy options: In search of the drivers of growth

To improve Eswatini's growth prospects, the authorities will have to strengthen macro-fiscal management and reduce structural and governance rigidities. This section proposes a reform agenda in support of faster economic growth, based on three key pillars: (i) address macro-fiscal pressures through prudent macroeconomic management, (ii) unlock private sector investment through structural and governance reforms and (iii) enhance service delivery for inclusive growth through an improvement in public spending and SOEs reforms. The proposed agenda is summarized in Table 1.1.

I. Address macro-fiscal pressures

Conservative economic policy will rest primarily on the continued reform of public finances. Two elements of fiscal policy are vital here: first, measures to consolidate public finances, including streamlining expenditure and reducing the volatility of revenues, and second, measures to eliminate public expenditure arrears. These should be underpinned by prudent monetary policy supporting the currency peg between the lilangeni and the South African rand.

Fiscal consolidation

The decline in the fiscal deficit in 2023 owes more to high SACU revenues than to continued fiscal consolidation. Historically, the increase in rigid expenditure lines when SACU revenues were high has led to large fiscal deficits, expenditure arrears, public debt, and lower external official reserves, constraining potential growth. Even when SACU revenues increase, the authorities should prioritize the country's long-term aspirations rather than focus on short-term needs. The fiscal deficit must be reduced to avoid crowding out private sector activity and ensure the sustainability of public debt. To this end, the implementation of the Fiscal Adjustment Plan should continue, both to reduce expenditure and to enhance revenue. The plan should be revised in line with the changes in the macroeconomic environment. Focus areas include ongoing reductions in the public sector wage bill relative to GDP, by retaining the hiring freeze, abolishing redundant posts, and ensuring that cost-of-living adjustments remain below inflation. Savings can be made in capital spending by prioritizing key programs and restructuring SOEs will help reduce public expenditure. The creation of the SACU Revenue Stabilisation Fund is also a positive, forward-looking step. When SACU receipts exceed an agreed threshold, the excess will be paid into the fund, and when receipts fall below a defined threshold, the fund will disburse earlier receipts. This should help stabilize revenue flows and promote macroeconomic stability. Domestic revenue mobilization needs to be intensified. Individual tax, value added tax, fuel tax, and the alcohol and tobacco levies need to be adjusted as envisaged in the Fiscal Adjustment Plan. Tax expenditure also needs to be revisited, including in special economic zones. Also, rather than increasing rigid expenditure lines, the authorities can use the extra revenue from SACU revenues to restore some fiscal space. Clearing expenditure will help them to build the stability and trust in institutions necessary for private sector development and growth.

Clearance of arrears

Public expenditure arrears increased again in 2022, threatening to limit the post-COVID recovery momentum. Public arrears need to be cleared to support private sector activity. The government should revive the 2020 arrears clearance strategy. Public financial management should be improved through the rollout of IFMIS, new e-procurement regulations, and the introduction of a treasury single account. These initiatives would improve the control and management of expenditure and constrain the build-up of arrears. The treasury single account will help to operationalize the control of commitments against budget allocations and, subsequently, payments against commitments registered by the Treasury. These reforms, along with prudent macroeconomic management, should help control expenditure arrears.

Table 1.1. Policy options

Policy pillar	Shor term (1–6 months)	Medium term (6 months–2 years)
Address macro-fiscal pressures		
I. Fiscal consolidation	Rationalize and review tax expenditure/ incentives-currently at 13 percent of GDP[1] Institute an Income Tax Compliance Certificate to enhance revenue collection. Introduce a small taxpayer regime (presumptive tax or turnover tax) specifically targeting the informal sector. Introduce taxation of gains on disposal of business assets. Consistently allocate revenues to the SACU Revenue Stabilisation Fund by incorporating capitalization of the Fund into the medium-term fiscal framework.	Reduce the public wage bill to below 10 percent of GDP through implementation of measures in the Fiscal Adjustment Plan, such as an enhanced voluntary early retirement scheme, below-inflation wage adjustment, and controlling the size of the civil service. Privatize some SOEs to reduce fiscal transfers. Consider submitting the bill to introduce the carbon tax and consider increasing the fuel tax once the impact of the war in Ukraine subsides.
II. Eliminate arrears	Ensure the medium-term fiscal framework does not plan for any financing gaps. Implement an arrears clearance and prevention strategy. Roll out a treasury single account. Publish monthly cash-based budget execution/ fiscal outturn report.	Roll out the Integrated Financial Management System (IFMIS). Implement an e-Government Procurement (e-GP) program, rolling out e-government procurement to 10 pilot entities.
Unlock private sector investment		
I. Improve business climate	Operationalize the specialized Commercial Court to deal with complex business matters. Strengthen the Anti-Corruption Commission by clarifying its legal powers and enhancing its financial and human resources to address corruption. Ensure public officials declare assets upon taking and leaving office to help reduce corruption. Close all remaining trading accounts to control spending on goods and services.	Support targeted reforms of the business environment. Strengthen credit infrastructure. Strengthen the SME guarantee scheme. Streamline government regulations and reduce bureaucracy. Implement electronic one-stop shops to boost the investment climate. Unbundle the Eswatini Posts and Telecommunications Company to reduce digital/communication costs and promote private investment.

Policy pillar	Shor term (1–6 months)	Medium term (6 months–2 years)
II. Support export-oriented growth policies	Operationalize one-stop border post between Eswatini and South Africa.	Improve trade diversification by reducing production costs.
	Open critical border posts (such as Mahamba, and Lavumisa border) for 24 hours a day.	Enhance trade integration by participating in regional and global value chains, especially in sugarcane, beef, forestry, and textiles (as per the Country Private Sector Diagnostic).
Enhance service delivery for inclusive growth		
I. Improve the efficiency of public spending	To enhance resource allocation, rationalize, comprehensively review, and prioritize the completion of big projects, and allow more resources for those being efficiently implemented.	Ensure self-reliance in electricity (and reduce dependence on South Africa) by investing in other renewable services.
	Strengthen the gatekeeping role of the Ministry of Economic Planning and Development in providing technical advice and reviewing project preparation before projects are considered for budget selection.	Mainstream climate change in public investment management: incorporate climate change mitigation or decarbonization plans into project identification and design; and develop green regulations.
		Implement a comprehensive project appraisal and monitoring framework.
II. Reform SOEs	In line with the Cabinet-approved SOE implementation plan, close or merge some SOEs, starting with the easier changes on the five identified entities.[2]	Improve the operational performance and accountability of the remaining SOEs.
	Split the commercial and regulatory functions of SOEs into separate entities.	Privatise some SOEs in line with SOEs restructuring framework.

Notes :

1. IMF 2023.

2. Closing the Sebenta National Institute, dissolving the Eswatini National Industrial Development Corporation, and merging the Financial Sector Regulatory Agency and the Centre for Financial Inclusion.

II. Unlock private sector investment

Structural and governance rigidities limit both private sector activity and the country's growth potential. Structural rigidities include the dominance of SOEs and the constrained business environment, whereas governance rigidities relate to corruption, the rule of law, and the protection of property rights.

A better climate for business

The business environment in Eswatini is seen to be constrained (see Box 1.1), and perceptions of public sector corruption continue to worsen. Improving the climate for private investment would require streamlining the regulatory framework, which often creates a barrier to the entry of SMEs. Bureaucratic requirements make it difficult and even prohibitively expensive for SMEs to set up and run a business. Other priorities include strengthening the Anti-Corruption Commission (bringing the anti-corruption legal framework in line with the UN Convention against Corruption) and operationalizing the Commercial Court established in 2022, along with the Small Claims Court. To minimize corruption, public officials should also be encouraged to declare assets upon taking and leaving office.

To improve access to finance for enterprises, enhancements to the business environment need to be complemented by better credit infrastructure. Key actions include improving frameworks for the sharing of credit information and the use of movable assets as collateral, as well as strengthening the corporate insolvency system. To improve credit information sharing, subordinate regulations to the Credit Consumer Act 2021 need to be issued to support the licensing of credit bureaus, the use of credit bureau analytics, data standards, and dispute resolution, among other issues. As for the use of movable assets as collateral, a unified law for secured transactions is required, which covers all types of movable assets, provides clarity on the priority rules for secured creditors, and allows out-of-court enforcement; this should be complemented by an online, notice-based collateral registry system. Lastly, a modern commercial insolvency framework that has special insolvency procedures for SMEs can improve recovery rates and reduce the costs for secured creditors during insolvency processes.

The SME sector, which mainly comprises informal microenterprises, needs targeted support, including through credit guarantee schemes. An existing credit guarantee scheme, which guarantees 50 percent of loans, is underutilized. A World Bank assessment of the compliance of the Small-Scale Enterprise Loan Guarantee Scheme and the Export Credit Guarantee Scheme with the principles of good practice for SME credit guarantee schemes[16] highlighted weakness in these schemes in terms of corporate governance structure, transparent and consistent risk-based pricing policies, and disclosure of nonfinancial information. Improving the SME guarantee scheme and providing technical support to build the capacity of firms could help high-performing SMEs secure financing to grow their businesses.

Export-oriented growth

Better trade logistics and integration, along with regulatory reform, would facilitate trade and drive export-led growth. With Eswatini being a small open economy, the export sector is a key driver of economic growth. As noted in the Country Private Sector Diagnostic, reforms to address trade logistics and facilitation would help increase exports and diversify the export base, and so reduce the country's vulnerability to shocks. Eswatini has comparative advantages in sugarcane and textiles and can leverage its preferential access to regional and global markets to grow exports, create jobs, and stimulate broad-based economic growth.[17]

[16] World Bank 2015.

[17] Stockman 2022.

III. Enhance service delivery for inclusive growth

More efficient public spending

It is vital to improve the efficiency of public spending, particularly in the social sectors, to enhance service delivery. A comprehensive project appraisal system is needed to select only the "best" programs, which represent value for money, for public investment. Better monitoring and evaluation of such programs will ensure that investments are properly implemented and maintained, and lessons learned to inform future investment decisions. The recommendations of the 2019 Public Investment Management Assessment need to be implemented. These include sound planning within a credible fiscal framework, the identification of viable projects based on rigorous appraisal, appropriate scaling relative to affordability, and an implementation framework that minimizes the risk of adverse surprises (especially upward cost adjustments, a serious problem in recent years). Comprehensive institutional reforms are needed to address the chronic weaknesses in public investment management that have undermined the efficiency of such investments. The planned rollout of IFMIS is a welcome initial step to improve budgeting and implementation of public spending.

SOE reform

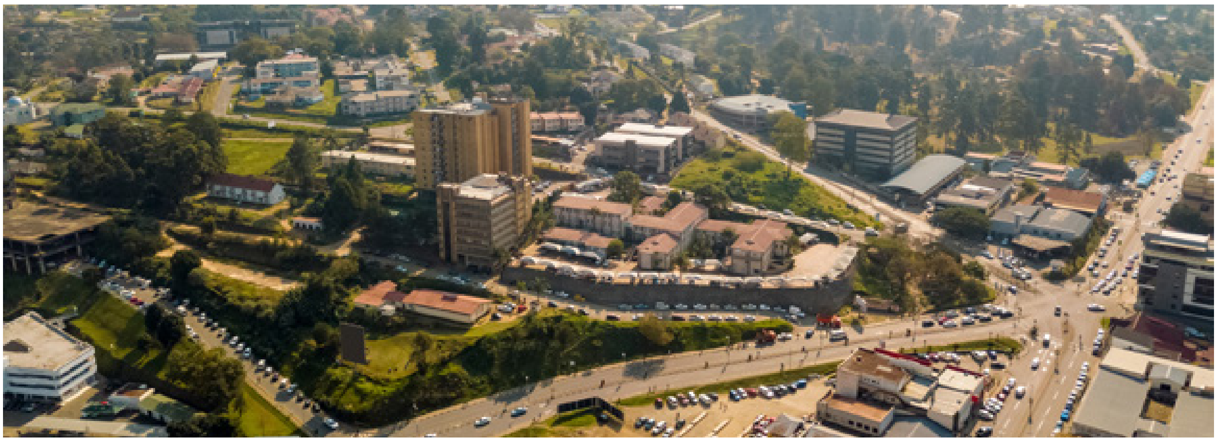
Reforming SOEs is key to the country's success, as they directly and indirectly affect the economy through both fiscal and private sector channels. Growing transfers to SOEs have contributed to high fiscal deficits over the years, but their inefficiency has meant that service delivery has often been poor. In general, a large SOE sector makes public spending more inflexible, unable to respond to fluctuations in revenue or to rapidly increase the delivery of critical services in times of crisis. SOEs also constrain private sector investment in various ways, including through direct competition, higher operating costs, and barriers to the entry of efficient private sector providers. Sector regulations tend to restrict the entry of new market players, foster collusion among existing players, and discriminate among market players, thus undermining competition.[18]

Restructuring the SOE sector would increase the level and quality of private investment. Privatizing key SOEs, such as Pigg's Peak Hotel and Casino, would help increase private investment. Likewise, restructuring the sector would reduce inefficiencies and free up public resources for investment. Finally, improving the management of SOEs would lead to better investment decisions, boost competition, and encourage private sector activity. Part 2 of this report discusses SOEs in more detail.

[18] IMF 2023.

PART TWO

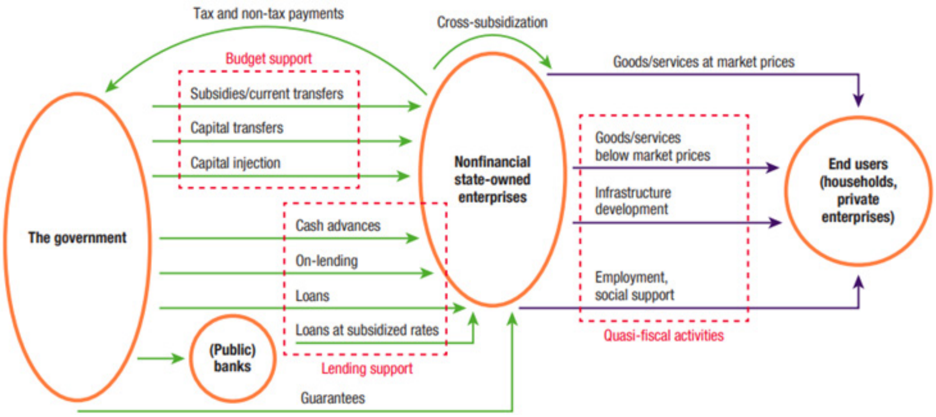
EFFICIENT STATE–OWNED ENTERPRISES CAN BOOST ECONOMIC GROWTH



2.1 Introduction

State-owned enterprises retain a significant presence in Eswatini. Eswatini has a broad definition of SOEs, which includes traditional SOEs (such as commercial companies, utilities, and state-owned financial institutions) along with development agencies, universities, hospitals, the Eswatini Revenue Authority, regulatory agencies, the Central Bank, and some town councils. Although only a few of these carry out commercial activity, SOEs retain a considerable presence and provide basic infrastructure services to businesses and households—including energy, water, communication, and transport—with significant direct and indirect effects on the economy. Their performance affects the quality of service delivery, constrains private sector activity, and drains resources from the budget, which could have been used for other priority investments, such as social services or infrastructure (Figure 2.1). Finally, the state's multiple roles in the economy (as shareholder, regulator, and policy maker) sometimes overlap. These multiple roles can create conflicts of interest and increase barriers to entry for private firms. Reforming SOEs could, therefore, boost economic growth by enhancing efficiency in private and public development. Such reforms could focus on three main aspects: (i) rethinking the state's role in the economy; (ii) strengthening the legal framework to include a clearer definition of SOEs, separate from regulatory agencies; and (iii) strengthening SOE governance and oversight.

Figure 2.1. SOE interrelations with the government and households


Tax and non-tax payments
Cross-subsidization
Budget support
Subsidies/current transfers
Capital transfers
Capital injection
Goods/services at market prices
Nonfinancial state-owned enterprises
Goods/services below market prices
Infrastructure development
Employment, social support
Quasi-fiscal activities
End users (households, private enterprises)
The government
Cash advances
On-lending
Loans
Loans at subsidized rates
(Public) banks
Lending support
Guarantees

Source: Rigo and others 2021.

This focus section examines how SOEs in Eswatini can become more efficient and so boost economic growth. It is organized as follows: the first subsection discusses the role of SOEs in Eswatini, the second sets out the key constraints to their performance, and the final subsection presents policy options.

2.2 The role of SOEs in Eswatini has grown significantly

2.2.1 Context[19]

The role of SOEs in Eswatini has grown significantly. Public enterprises were originally established to manage various aspects of the economy, such as transportation, utilities, and agriculture. However, after independence the role of the SOE sector was expanded to provide additional public services, protect strategic interests, and promote economic development. In the 1970s and 1980s, the main new public entities to be established were the Eswatini Sugar Association and the Eswatini Dairy Board. However, since then, public enterprises have had an extensive reach, operating or controlling significant sectors of the economy.

The authorities recognize SOE reform as an important priority if the country is to accelerate growth and ensure fiscal sustainability. Eswatini's development strategy, the National Development Framework 2019–22, includes reorganizing the SOE sector to enable them to operate efficiently, transparently, and accountably and to support the overall development agenda. The Framework also sets objectives for containing the wage bill and transfers to SOEs and for improving SOE performance through streamlining and privatization. The Fiscal Adjustment Plan aims to reduce transfers to SOEs, most of which rely wholly on government support for their recurrent and capital budgets. The Fiscal Adjustment Plan aimed to reduce, cumulative to fiscal 2024, transfers to SOEs by about 4 percent of total revenue or 1 percent of GDP.[20]

The government commissioned a study on improving the performance of SOEs by the Eswatini Economic Policy Analysis and Research Centre. The report, along with a proposed roadmap for reform, was published in August 2021. Its recommendations include improving the legal and institutional framework for SOEs, imposing a performance monitoring framework for SOE boards and management, and strengthening corporate governance. Implementation of the reforms has only just begun, and no significant advances have been made yet.

2.2.2 SOE landscape: The legal definition of SOEs and public enterprises is broad and not in line with the internationally accepted definition

Eswatini's legal definition of SOEs and public enterprises is broad and not in line with the internationally accepted definition. As noted, previously, the legal definition of SOEs includes government units (such as the Eswatini Revenue Authority) and regulatory agencies (such as the Competition Commission and Environmental Authority), which do not carry out commercial activity. In its law, Eswatini recognizes two types of SOE, which are termed "public enterprises": (i) Category A: wholly owned by government, or in which the government has a majority interest, or which is dependent on government subvention for its financial support; and (ii) Category B: in which government has a minority interest or which monitors other financial institutions, or which is a local government authority. Currently, there are 49 category A and 22 category B public enterprises. Only 10 of the 49 category A enterprises undertake commercial activity (annex 1) and should be deemed commercial SOEs.

[19] This section draws heavily on the World Bank Group's Country Private Sector Diagnostic for Eswatini (Stockman 2022).

[20] This saw the results indicator in the Eswatini Economic Recovery Development Policy Loan II or Budget support anticipating the transfers to SOEs to decline from 23 percent of total revenue in 2020 to 19 percent in 2023.

Given the definitional issues in Eswatini, this analysis uses the generally accepted definition of SOEs: entities owned or controlled by the state that provide goods or services on a commercial basis. An entity is considered an SOE if: (i) it is controlled by the state, whether legally, through the ownership of shares, or other means; (ii) it is legally and financially autonomous from the state such that it has legal personality, specific rules of operation defined under a legal regime, and its own revenues and sources of funding; and (iii) it operates in a market for goods or services that could, in theory, be provided by a private company. This definition is adapted from the Organisation for Economic Co-operation and Development's (OECD) Guidelines on Corporate Governance of State-Owned Enterprises and the World Bank's Integrated State-Owned Enterprises Framework (iSOEF).

The focus is on nonfinancial, commercial SOEs with full or majority ownership by the central government; in the rest of this section, the umbrella term SOE is used for such entities. The analysis excludes entities that do not have a commercial objective, such as those that implement public policies or carry out public sector activities; these are broadly referred to as parastatals. State-owned financial institutions are also excluded, as the legal and institutional framework for the financial sector is regulated by a separate set of international principles, and the financial indicators used to analyze the sector are distinct (including capitalization, asset quality, and exposure) or interpreted very differently from the real sector (such as profitability and liquidity). Finally, because of data limitations, the study does not cover minority owned SOEs; the government neither collects information on nor monitors these.

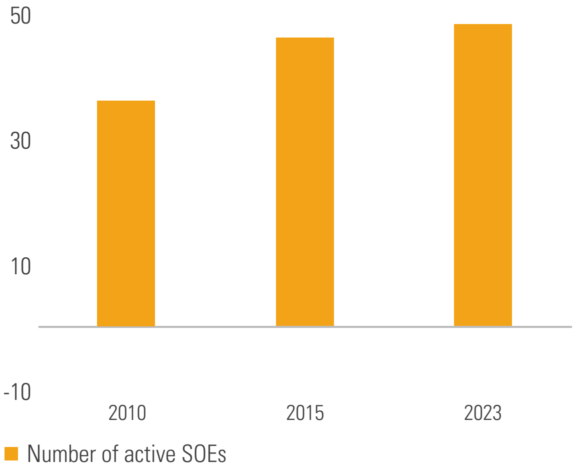
Going forward, this section differentiates between the internationally accepted definition and the Eswatini legal definition of SOEs. SOEs in the internationally defined sense are referred to as "commercial SOEs". SOEs per the Eswatini legal definition are referred to as "Eswatini public enterprises" (EPEs), which includes commercial SOEs, parastatals, and regulatory agencies. This is to avoid the significant confusion caused by broad definition, as it is not always evident which entities are being deemed to be "SOE".

Eswatini's public enterprises are active in key sectors, and their numbers have grown rapidly from 35 in 2010 to the current 49 for Category A (Figure 2.2). Staff numbers nearly doubled, from fewer than 4,000 in 2017 to about 8,000 in 2022 (Figure 2.3). Public enterprises operate in a range of sectors, including agribusiness, information and communication, energy, automotive and ground transportation, health, housing, travel and tourism, construction, education, business development, finance, environment, publishing, and the social sectors. The complexity and size of the public enterprise sector have grown over time, and previous attempts to reform the sector have met with limited success.

Most EPEs rely on subsidies, with implications for competition and government finances (Figure 2.5). Poorly targeted subsidies may create an uneven playing field if they reward inefficient SOEs at the expense of private companies. Four of the top seven commercial SOE beneficiaries of government funding operate in sectors in which the private sector is also active, such as air travel, health (two hospitals), and broadcasting. The Royal Eswatini National Airways Corporation received the second-largest transfer, after the Eswatini Revenue Authority. The Eswatini Television Authority was the seventh-largest beneficiary.[21]

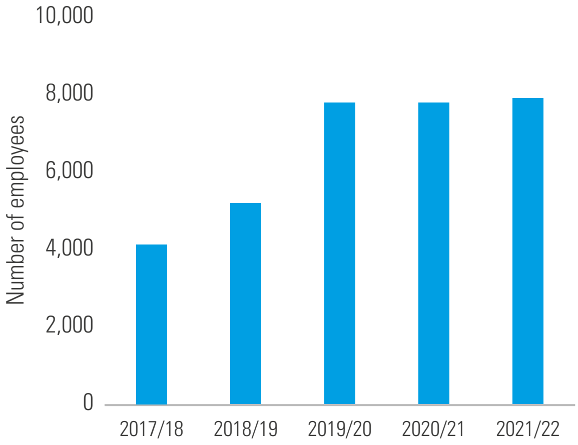
[21] ESEPARC 2022.

Figure 2.2. The number of Category A public enterprises has increased



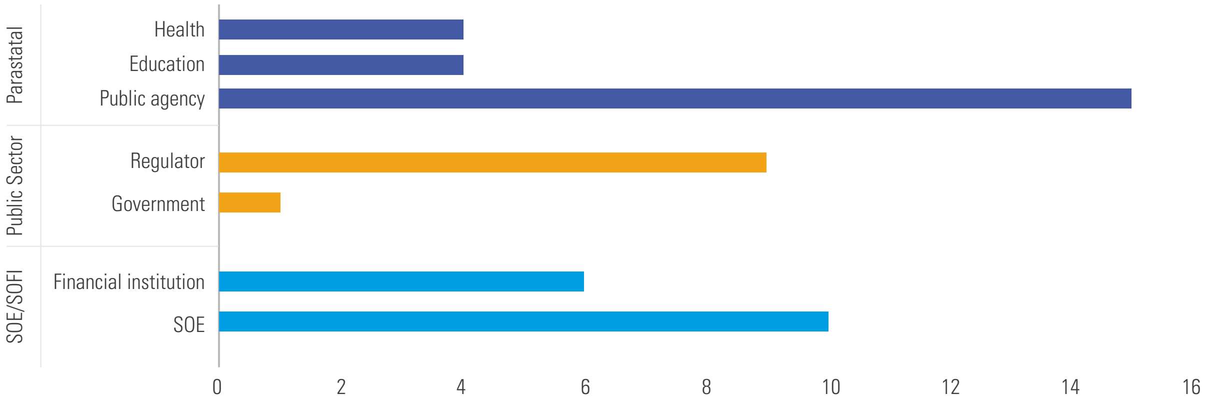
Source: World Bank staff calculations.

Figure 2.3. … along with employee numbers



Source: World Bank staff calculations.

Figure 2.4. Most "SOEs" are in fact noncommercial parastatals and part of the budgetary central government



Source: World Bank staff calculations.

Figure 2.5. Transfers to EPEs have increased[1]

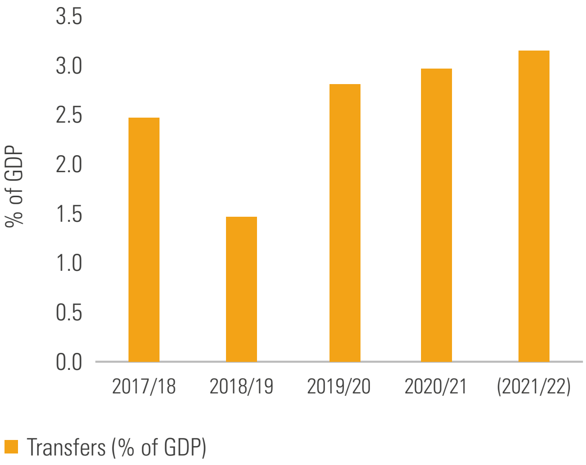
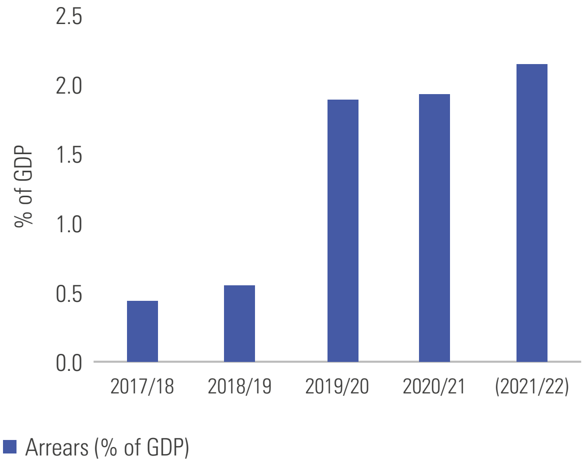


Figure 2.6. … but arrears continue to rise[2]



Source: Public Enterprises Unit, Ministry of Finance.

Notes:

1. These figures are based on Eswatini's legal definition of SOEs, which includes entities generally considered a part of the budgetary central government.
2. These include value-added tax and pay-as-you-earn (PAYE) tax.

Other factors that can crowd out the private sector include weak regulatory governance and low prices for services. In some cases, EPEs regulate sectors in which private and state-owned companies compete. Also, given their social and developmental mandate, EPEs are sometimes required to set unsustainably low prices for their services, below their cost recovery levels. Such low prices discourage the private sector from entering these sectors. While monopoly positions in sectors such as energy, transport, and communications have been previously been justified by the small size of the economy, there is an urgent need for competition in markets such as telecommunications. Finally, without an effective competition framework, the presence of commercial SOEs in sectors in which the private sector is active (such as agribusiness) can be distortive.

2.2.3 The financial performance of commercial SOEs is weak, and they are a net drain on the budget

The seven largest commercial SOEs represent 99.6 percent of total assets of commercial SOEs in Eswatini. This analysis focuses on these seven SOEs, which were selected in consultation with the Ministry of Finance: the Eswatini Electricity Company, the Eswatini Water Services Corporation, the Eswatini Post and Telecommunications Corporation, Eswatini Railways, the Royal Eswatini National Airways Corporation, the National Maize Corporation, and Pigg's Peak Hotel and Casino. Table 2.1 presents aggregate financial data for these SOEs, and Figures 2.7 to 2.10 show the performance of each SOE.

Most commercial SOEs are a net drain on the budget, and chronic losses mean that few have paid dividends. The seven commercial SOEs have been marginally profitable over the past five years, with an average of US$30.2 million in net income per year. Given their weak financial results and limited cash generation, most cannot pay dividends to the state, despite the existence of a dividend policy. Only the Eswatini Electricity Company has consistently paid dividends, although these have been limited, averaging US$6.6 million per year over the past five years.[22] But its declining profitability, following frozen electricity tariffs and higher costs after the currency depreciation, could mean the company might eventually need government support.[23]

Table 2.1. Aggregate financial data for the seven largest commercial SOEs, 2018–22 (US$ '000)

Year	Total assets	Total liabilities	Total equity	Net income (loss)	Net flows to state budget	Return on equity	Return on assets	Return on invested capital	Debt/ equity
2018	604,014	312,731	291,283	31,990	(6,776)	12%	6%	12%	10%
2019	664,886	332,626	332,260	52,817	(127)	15%	7%	11%	9%
2020	682,895	304,114	378,780	32,697	(41,402)	8%	4%	2%	6%
2021	730,524	334,451	396,073	16,088	(38,321)	4%	2%	2%	11%
2022	743,892	346,326	397,566	17,544	(23,718)	4%	2%	-1%	12%

Sources: SOE audited financial statements.

[22] Net contributions comprise dividend payments and income tax payments, minus grants from the state.

[23] In 2022 the Eswatini Electricity Company's net contribution to the national budget was only US$300,000, as against over US$5 million in 2018. Most electricity is imported, mainly from South Africa's Eskom, Mozambique's EDM, and the Southern African Power Pool.

Figure 2.7. Total assets of commercial SOEs increased slightly increased, dominated by the EEC

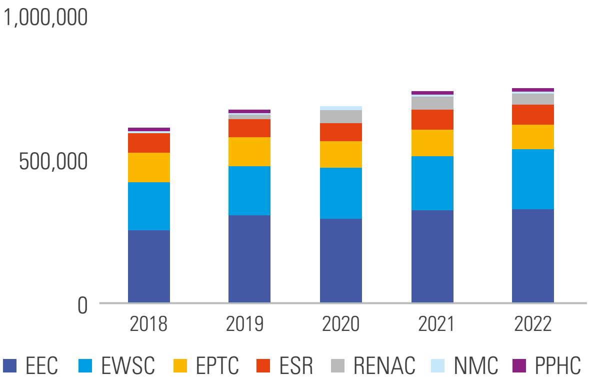


Figure 2.8. Net income decreased in 2022

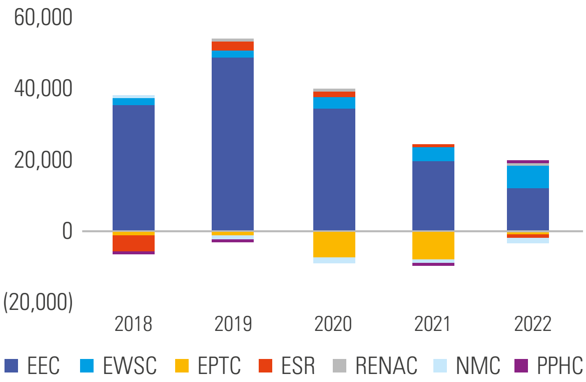


Figure 2.9. Net flow to the national budget was negative, with RENAC registering the highest losses

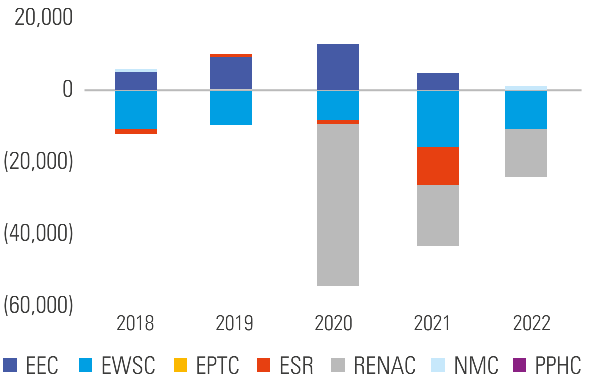
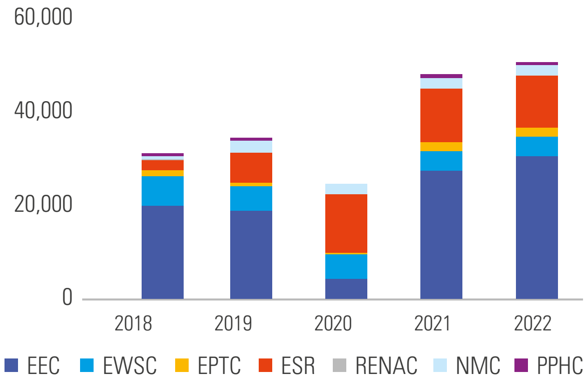


Figure 2.10. Total debt increased, dominated by the EEC



Sources: SOE audited financial statements.
Note: EEC: Eswatini Electricity Company; EWSC: Eswatini Water Services Corporation; EPTC: Eswatini Post and Telecommunications Corporation; ESR: Eswatini Railways; RENAC: Royal Eswatini National Airways Corporation; NMC: National Maize Corporation; PPHC: Pigg's Peak Hotel and Casino.

The seven commercial SOEs received about US$31.5 million per year in budget transfers over the past five years, mainly through grants and equity injections. The commercial SOE sector remains a net drain on the national budget: the cumulative outflow to SOEs from the budget (grants/direct subsidies and equity) over the past five years was US$158 million, whereas the inflow (dividends and income taxes) was only US$47 million. Both grants, a form of direct financial assistance, and equity injections drain budgetary resources and contribute to fiscal instability. The main recipients of direct subsidies over the past five years have been the Eswatini Water Services Corporation (US$59 million), the Royal Eswatini National Airways Corporation (US$48 million), and the Eswatini Electricity Company (US$9 million). Although equity injections are less frequent than grants, they can be significant, reaching US$42 million for the seven SOEs in the last five years. In 2020 the Royal Eswatini National Airways Corporation alone needed an equity increase of about US$22 million.

Total commercial SOE debt has been rising, with the debt-to-equity ratio almost doubling between 2020 and 2022. Nevertheless, leverage is low relative to other Sub-Saharan countries; as such, Eswatini's commercial SOEs do not seem to present a fiscal risk. The total debt of the commercial SOE sector is just above 1 percent of GDP, significantly lower than in Tanzania (3%), South Africa (12%), and Mozambique (27%). The aggregated debt-to-equity ratio for the sector has remained below 12 percent over the past few years, as the funding model relies heavily on equity and grants. This limits the debt service of commercial SOEs and avoids the rising debt trajectory commonly seen in other countries. In addition, most debt is long term and does not create an immediate cash flow concern for the government. Lastly, the growth of commercial SOE debt also appears to be under control.

The commercial SOE sector's liabilities are relatively small at nearly 8 percent of GDP; in emerging markets, SOE liabilities represent around 24 percent of GDP, according to the IMF.[24] Countries like Mozambique, South Africa, and Tanzania all have a much larger SOE sector, with liabilities ranging from 20 to 35 percent of GDP. Eswatini's commercial SOE sector is also relatively small in terms of revenue. Forthcoming World Bank research suggests revenues averaged about 20 percent of GDP across 90 developing countries, but in Eswatini revenues averaged only 5.5 percent of GDP in the last five years.[25]

Commercial SOEs and EPEs are not allowed to contract debt without government approval in terms of the Public Financial Management Act. State-owned financial institutions also do not appear to provide significant lending to commercial SOEs; most financial institutions would require sovereign guarantees to lend to these institutions.

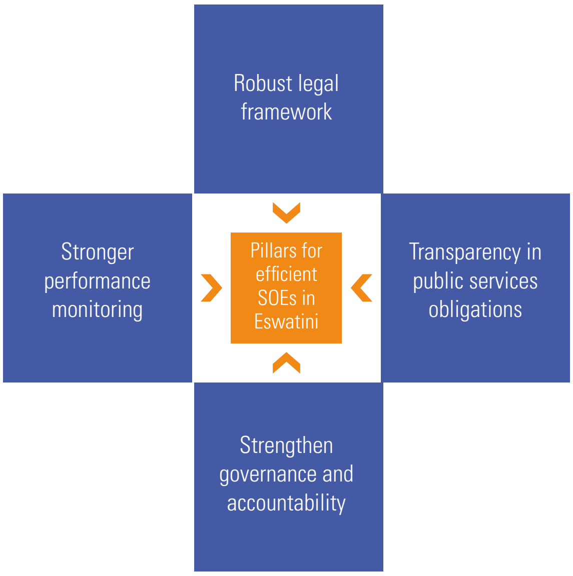
2.3 An efficient commercial SOE sector can bring economic and social benefits

The efficiency of SOEs needs to be improved to help harness their potential economic and social benefits. This report suggests four pillars that can create opportunities for efficient SOEs, as illustrated in Figure 2.11.

1. A more robust legal framework could promote investment and greater private sector development.

Modernizing the legal framework for SOEs in Eswatini, which dates from 1989, would be beneficial. The Public Enterprises (Control and Monitoring) Act[26] is the only legal instrument governing SOEs. In addition to setting the governance arrangements for the SOE sector, it establishes the Public Enterprises Unit in the Ministry of Finance to monitor these enterprises.

Figure 2.11. Pillars for efficient SOEs in Eswatini


Robust legal framework
Stronger performance monitoring
Pillars for efficient SOEs in Eswatini
Transparency in public services obligations
Strengthen governance and accountability

Source: World Bank staff.

Differentiating the various roles that the state plays in the economy can improve governance and reduce conflicts of interest, thus promoting confidence in the corporate sector. The legal framework does not clearly separate the state's role as shareholder from its policymaking, regulatory, and commercial functions. Separating these roles would help avoid functional overlaps and minimize any conflicts of interest that may arise when the roles are combined, especially in sectors where the private sector also operates. The water and sanitation sector illustrates the governance challenges stemming from unclear mandates of different stakeholders. From an institutional organizational perspective, the Eswatini Water Services Corporation has the mandate to provide water and sanitation services to urban customers. It also provides water services to some peri-urban household and reports to the Ministry of

[24] Harris and others 2020.

[25] World Bank Forthcoming.

[26] Public Enterprises (Control and Monitoring) Act, enacted on August 3, 1989.

Energy and Natural Resources, which is responsible for service provision. However, sanitation services for peri-urban and rural areas are the responsibility of the Ministry of Health, which historically has had no linkages with the water corporation.

Reducing overlaps between the government's ownership, regulation, and management functions can also improve competitive neutrality and support private sector development.[27] Some SOEs carry out regulatory functions in the sector in which they operate, which can create conflicts of interest and increase barriers to entry for other firms. For example, the Marketing Board combines regulatory and commercial functions in both the input and output markets. Likewise in the construction sector, the governance body of the regulatory council comprises directors of construction firms; this creates opportunities for collusion and regulatory capture. Such overlaps create incentives for decisions that can harm both consumers and competition. Another concern is vertically integrated SOEs that provide essential services upstream and compete with their customers for market share in the downstream markets can distort competition. The Eswatini Post and Telecommunications Corporation and the Eswatini Electricity Company are typical examples of SOEs in that position. The electricity company provides transmission to all electricity generators but also competes for the renewable energy market with independent power producers.

It is generally not advisable to have regulatory agencies set up as SOEs. The functions of such agencies differ substantially from those of enterprises, and the legal and institutional structure of SOEs does not provide the powers and independence needed to carry out such functions. For example, regulators should have the capacity to issue regulations, investigate cases of noncompliance, and apply sanctions. No enterprise, regardless of its ownership, would be well suited for a mandate requiring such levels of accountability, independence, and transparency. SOEs are also under the purview of the Public Enterprise Unit; this arrangement would not afford regulators the necessary independence to function effectively. In addition, the Public Enterprise Unit is unlikely to have the requisite capacity or resources to effectively oversee independent regulators.

There are no restrictions on creating new SOEs, on establishing subsidiaries, or on SOEs acquiring equity holdings in other companies. Without proper oversight, this could result in an expansion of the SOE sector and undermine the current reform initiatives that aim to reduce the size of the sector.

2. Fiscal gains could be possible if the financial repercussions of public service obligations were considered more carefully.

SOEs must often undertake activities based on political demands, without due consideration of their financial impact. Such activities include the provision of goods and services at below-market prices, either nationally or to specific sectors or regions. Governments may also use SOEs to pursue public policies, which may involve quasi-fiscal activities or public service obligations (Box 2.1). However, public service obligations may well not be in the best interests of an SOE. They are often unfunded and can impose considerable costs on the SOE, undermining its long-term strategy. SOEs with onerous public service obligations can often not afford to conduct sufficient maintenance and make other needed investments, which undermines their ability to deliver quality services. For instance, the Eswatini Water Services Corporation was required to expand water supply and sanitation services to peri-urban areas. Although the policy of universal services may be laudable, the high costs of extending services to sparsely populated areas could have a significant financial impact on the water corporation and may even require subsidies from the state budget. Any extension of public service obligations should

[27] Stockman 2022.

therefore be carefully weighed. Ideally, the financial reports of SOEs should show their performance against social objectives separately from their financial performance.

The Eswatini Electricity Company performs relatively well, even better than some regional peers. Its aggregate technical and commercial losses are estimated at 12.7 percent, and tariff increases granted by the regulator, the Eswatini Energy Regulatory Authority, have helped strengthen its financial health. Tariffs are determined under a multiyear price determination formula, which depends on the cost of power imports from South Africa. The average tariff is approximately US$0.14/kilowatt-hour.

3. Exercising an effective ownership function could help improve SOE performance.

The state's ownership function of SOEs is exercised through various ministries and a standing cabinet committee (Figure 2.12). The Ministry of Finance oversees the management and performance of SOEs. Other ministries, such as Commerce, Industry and Trade; Agriculture; and Natural Resources and Energy, exercise ownership over the SOEs in their respective sectors. Cabinet (mainly through the Standing Cabinet Committee on Public Enterprises)[28] is the ultimate decision-making body for SOEs. The line minister, in consultation with the Standing Committee, must approve the following for category A public enterprises: (i) major adjustments to the level or structure of tariff prices, rates, or other fees or charges; (ii) any major investment; (iii) any major expansion of its operations; (iv) the closure, sale, liquidation, or divestment of any major part of the business; and (v) major adjustments to staff salaries.

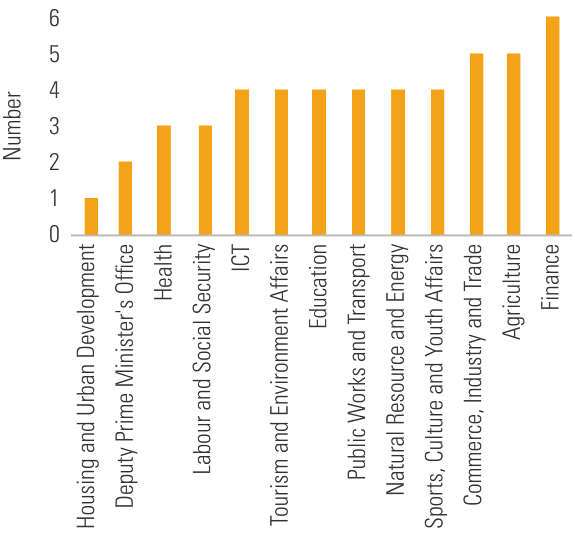
Box 2.1. Public service obligations

Governments often use public service obligations, called quasi-fiscal activities, community service obligations, or public service agreements, to pursue public policy through SOEs rather than through regular budget channels. Common examples include requiring SOEs to provide services to underserved communities, offer services at below-market prices, or carry out investments that are not commercially desirable. Good international practice requires public service obligations to be defined and costed, and the SOE to be compensated for these obligations through clear and transparent budget transfers (which means they should be reflected in both the national budget and the financial statements of the SOE). Uncompensated public service obligations are a key driver of SOE losses, indebtedness, and arrears, and thus a source of significant explicit and implicit contingent liabilities for the state.

Source: World Bank 2014.

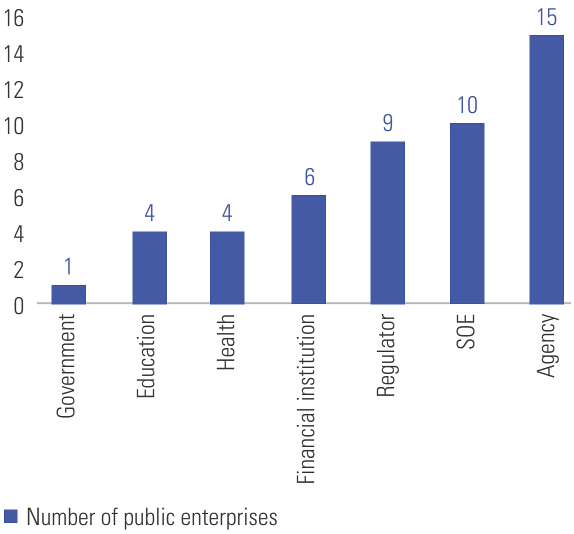
[28] Art. 10 of the Public Enterprises Control and Monitoring Act. The Committee comprises 10 ministers and is chaired by the Minister of Finance.

Figure 2.12. SOEs are housed in various ministries



Source: Public Enterprises Unit, Ministry of Finance.

Figure 2.13. But only 10 meet the international definition of SOEs



Source: Public Enterprises Unit, Ministry of Finance.

There is no ownership policy or other document that provides a clear rationale for the state ownership of enterprises. Such a document would provide a framework for assessing whether an SOE is necessary or whether its activities could be better performed by the private sector. It would also consider any potential or actual adverse effects of SOEs on the market. Good international practice, as reflected in the World Bank's iSOEF and the OECD Guidelines on the Corporate Governance of State Enterprises (Box 2.2), stresses the importance of the state carefully evaluating and disclosing the objectives that justify its ownership of SOEs and subjecting these to regular review. It further recommends the development of an ownership policy, which sets out the rationale for state ownership of SOEs and clearly defines public policy objectives that individual public corporations or groups of such corporations must achieve. Assessing whether SOEs respond to market failures, or whether goods and services could be adequately provided by the private sector, would be important considerations for any investment strategy for the SOE sector.

Box 2.2. OECD Guidelines on the rationale for state ownership

1. The state exercises the ownership of SOEs in the interest of the general public. It should carefully evaluate and disclose the objectives that justify state ownership and subject these to a recurrent review.

A. The ultimate purpose of state ownership of enterprises should be to maximize value for society, through an efficient allocation of resources.

B. The government should develop an ownership policy. The policy should inter alia define the overall rationales for state ownership, the state's role in the governance of SOEs, how the state will implement its ownership policy, and the respective roles and responsibilities of those government offices involved in its implementation.

C. The ownership policy should be subject to appropriate procedures of political accountability and disclosed to the general public. The government should review at regular intervals its ownership policy.

D. The state should define the rationales for owning individual SOEs and subject these to recurrent review. Any public policy objectives that individual SOEs, or groups of SOEs, are required to achieve should be clearly mandated by the relevant authorities and disclosed.

Source: OECD 2015.

The Public Enterprises Act established the Public Enterprises Unit in the Ministry of Finance to monitor these enterprises. Its responsibilities include: (i) monitor and review their financial affairs and budgets; (ii) set performance targets, including statements of objectives, operations (especially noncommercial services), financial assistance from government, tax and dividend payments, management procedures and incentives, as well as a detailed medium-term corporate plan; (iii) provide or arrange for technical assistance to improve the financial management capacity of SOEs; and (iv) prepare a consolidated report on the SOE sector. The Minister of Finance is then responsible for submitting this consolidated report to Parliament. The Unit currently lacks sufficient resources and staff to effectively monitor the full portfolio of SOEs and parastatals.

4. There is a need for robust governance and accountability practices to achieve more efficient SOE operations

SOE boards should help oversee the financial operations of their enterprises; however, they do not always exercise this function effectively. The board of directors of an SOE comprises five to nine members, including the chief executive officer. The Principal Secretary in the Ministry of Finance (or their representative) must be a full member of the governing body of category A public enterprises. Apart from the chief executive officer, members of the governing body are appointed by the relevant line minister, in consultation with the Standing Committee. The chief executive officer is nominated by the board and appointed by the line minister, also in consultation with Standing Committee. Boards are most effective when they have adequate decision-making powers and can make decisions in the best interest of the company and shareholders. In the case of SOEs, the ultimate shareholders are the citizens of Eswatini, rather than the government, which is an "agent" that ought to represent the interests of the citizens.

Public enterprises must undergo an external financial audit every year. However, the process of appointing and dismissing external auditors should be strengthened. The board nominates the external auditor of the public enterprise, who is then appointed or dismissed by the line minister, in consultation with the Standing Committee. This mechanism may need to be strengthened to ensure that auditors are independent, and audit quality is not compromised. Auditor independence is crucial for the integrity of the audit process. If auditors fear dismissal for reporting unfavorable information, they may be tempted to overlook or downplay issues; this undermines the quality of their audits. Proper safeguards around auditor appointment and dismissal can help ensure that auditors remain independent and unbiased in their work. In addition to such audits, the relevant line minister may, in consultation with the Standing Committee, direct the Auditor-General to examine the accounts of public companies.

The legal framework does not sufficiently recognize the importance of managerial autonomy (or nonpoliticization) of SOEs. Much decision-making power seems to be concentrated in the government. Effective SOE governance requires the proper allocation of power and responsibilities among stakeholders, including different parts of government, the board of directors, and management.

The law does not set specific transparency requirements for SOEs, although in practice some information is made public. Annual and quarterly financial statements, along with annual reports, are made public, since these are approved by Cabinet and presented to Parliament. A report that aggregates the financial information of the portfolio of commercial SOEs, however, is not prepared; this would be a useful tool for monitoring SOE performance. The names of board members and senior management are disclosed in annual reports on a voluntary basis; some SOEs choose to publish this information online. The appointment of board members is published in the Official Gazette. Finally, while some performance data is readily available on SOE websites, the Public Enterprises Unit also provides such information upon request once it has been approved by Cabinet.

2.4 Policy options: Looking forward

The reform of SOE governance requires careful consideration of political economy factors, as reforms can stall without the buy-in of actors with the authority and political will to drive them.[29] SOEs often manage significant revenue streams and are sometimes used by the state or political groups to exert political influence over economic outcomes and resource allocation. Successful reform requires strong leadership and capacity to withstand resistance from vested interests.[30] A case in point is the Eswatini Electricity Company, whose profits have been rising on average. In 2020, however, the government restricted tariff increases, and the company's profits declined sharply. SOEs may also encounter political interference in their operations to benefit vested interests who may seek to misappropriate funds. Successful reform requires strong leadership and capacity to withstand resistance from vested interests.

SOEs' unique mix of commercial and political mandates also poses significant challenges to governance reforms. Public service obligations can exacerbate tensions between the commercial and noncommercial mandates of SOEs, particularly if these are imposed without adequate funding. For example, an otherwise well-governed SOE may still incur losses or fail to deliver adequate services if the state requires it to operate commercially unviable projects or to provide services at below market rates without sufficient compensation. Conversely, where SOEs provide public services essential to achieving development outcomes, governance reforms should also consider their wider societal impact (for example, the impact on the public of higher electricity, water, or transport costs).

This study proposes three directions that can help improve the efficiency of SOEs and accelerate the pace of reforms, as follows:

Rethink the state's role in the economy.

1. Enact an SOE ownership policy that explicitly includes a clear rationale for maintaining state shareholding in SOEs. Evaluate the rationale for state ownership and consider the costs and benefits of such ownership given resource constraints and any adverse market effects of SOE participation. In view of the demands on limited public resources, analyze the costs and benefits of maintaining equity stakes in companies, particularly in SOEs that do not deliver a public service mandate or meet a strategic objective. Consider whether SOEs respond to a market failure or whether the private sector could adequately provide such goods and services. SOEs that fail to meet the criteria for continued state ownership could be privatized, restructured, or wound down over time, as appropriate.

2. Carefully consider the trade-offs between funding the SOE sector and investing in, say, infrastructure or the social sectors. Eswatini's SOE funding model relies heavily on equity, rather than debt; thus, the fiscal risks commonly observed in other countries are not present here. However, the large amounts of equity involved, coupled with the poor profitability of the sector, suggest that the allocation of public funds is suboptimal. Without relevant reforms, new investments into these SOEs would not necessarily generate the desired return, while also diverting resources away from other important sectors.

3. Ensure that all SOE decision-making with (potentially) significant fiscal impacts follow a transparent due process and involve all interested parties. For example, due process should be established to define the public service obligations of SOEs, with appropriate approvals,

[29] World Bank 2020.

[30] The iSOEF provides guidance on mitigating political economy factors in Thematic Guidance Note 2: Political Economy Analysis of SOE Reform.

oversight, and transparency. The impact and longer-term sustainability of public sector obligations or investment projects ought to be considered more systematically, as they may create future fiscal risks.

Strengthen the legal framework to include a clearer definition of SOEs, separate from regulatory agencies.

4. Clarify the definition of SOEs and reclassify public enterprises. The current definition of public enterprises in Eswatini is broad and includes entities that are not enterprises. SOEs could be limited to enterprises that meet the OECD definition of carrying out commercial activity that could be performed by a profit-seeking company.

5. Enact a separate law governing independent regulatory agencies. Independent regulatory agencies have different requirements because their functions differ substantially from those of enterprises. The legal and institutional structure of SOEs does not provide the powers and independence needed to carry out these functions.

6. Separate the commercial and regulatory functions of SOEs into different entities. The Country Private Sector Diagnostic cited as among the most critical of SOE reforms the unbundling of the Eswatini Post and Telecommunications Corporation. This is an important step that would enhance competition and private investment in the digital sector and contribute to lower prices and better access.

Strengthen SOE governance and oversight.

7. Improve monitoring of SOEs, including of equity stakes held by the state. SOE performance monitoring should be strengthened, including through capacity development of SOE oversight agencies and boards. Further, an inventory should be taken of the state's minority shareholdings and of the equity stakes that SOEs hold in other companies. Currently, the government only monitors category A public enterprises.

8. Establish clear and merit-based guidelines for the appointment of board members. In view of their critical role in the governance of SOEs, the board of directors should be professional and independent and possess sufficient expertise to govern the SOE effectively. Transparent guidelines for their appointment, including requirements for their qualifications and experience, can help to ensure that only competent and qualified individuals are appointed.

9. Enhance the transparency of SOE information. Transparent reporting increases accountability and allows stakeholders to assess the performance of SOEs. SOEs should be required to disclose relevant information to the board and the public, including board decisions, financial reports, operational performance, executive compensation, and potential conflicts of interest. A report aggregating the financial information of the SOE portfolio should also be prepared on an annual basis and made available publicly. Moreover, SOE management and employees' compensation and bonuses should be linked to key performance indicators. This would encourage a results-driven culture and align the interests of management with the objectives of the SOEs.

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ANNEX 1

CATEGORY A PUBLIC ENTERPRISES, BY TYPE

No.	Name of entity	Type	Description and role
1.	Eswatini Electricity Company (EEC)	SOE	Procures, generates, transmits, and distributes electricity
2.	Eswatini Post and Telecommunications Corporation (EPTC)	SOE	Provides postal and telecommunication services in Eswatini
3.	Eswatini Railways (ESR)	SOE	Provides transport services for import and export commodities; also serves as a bridge railway for transit cargo, linking Eswatini's main industrial centers with the railway systems of South Africa, Mozambique, and other Southern African Development Community (SADC) countries
4.	Eswatini Water Services Corporation (EWSC)	SOE	Abstracts, purifies, stores, transports, and supplies water and collects, conveys, treats, and disposes sewage in the areas specified in the schedule of the Water Services Act: Croydon, Hlatikulu, Hluti, Kubuta, Kwaluseni, Lavumisa, Lobamba, Lomahasha, Lubuli, Malkerns, Mananga, Mankayane, Manzini, Matsapha, Mbabane, Ngwenya, Nhlangano, Nkoyoyo, Piggs Peak, Siphofaneni, Siteki, and Vuvulane
5.	National Maize Corporation (NMC)	SOE	Guarantees market to local maize producers at competitive prices; also provides good quality maize to consumers at affordable prices
6.	Piggs Peak Hotel and Casino (PPHC)	SOE	Operates in the hospitality industry under the Ministry of Tourism and Environmental Affairs
7.	Royal Eswatini National Airways Corporation (RENAC)	SOE	National airline, offering charter brokerage and ground-handling services, and operating a subsidiary travel agency (Royal Eswatini Travel Agency); also mandated to manage two state aircrafts and the VVIP terminal at the KM 111 International airport
8.	Royal Science and Technology Park (RSTP)	SOE	Sets the foundation for the growth of a knowledge economy in Eswatini; seeks to create infrastructure to enable the development of science, technology and innovation through research and development in the economy
9.	Eswatini National Petroleum Company (ENPC)	SOE	Secures, markets, and trades in crude oil and petroleum products
10.	Eswatini Television Authority (ETVA)	SOE	National television broadcasting company
11.	Central Transport Authority/Organization (CTA/CTO)	Agency	Purchases, maintains, and disposes of government vehicles and related equipment, and provides fuel for government vehicles
12.	Conciliation Mediation and Arbitration Commission (CMAC)	Agency	Alternative dispute resolution and social justice agency
13.	Eswatini Cotton Board (ECB)	Agency	Promotes, regulates, and grows the cotton industry and markets cotton products
14.	Eswatini Dairy Board (EDB)	Agency	Develops and regulates the dairy industry

No.	Name of entity	Type	Description and role
15.	Eswatini Environment Authority (EEA)	Agency	Ensures that the environment of Eswatini is treated in a proper way now and in future
16.	Eswatini Housing Board (EHB)	Agency	Promotes home ownership and housing in Eswatini
17.	Eswatini Investment Promotion Agency (EIPA)	Agency	Attracts, promotes, and facilitates foreign and local investment and trade in the country
18.	Eswatini National Council of Arts and Culture (SNCAC)	Agency	Develops and promotes the preservation of arts and culture
19.	Eswatini National Housing Board (ENHB)	Agency	Provides affordable housing to middle- to low-income earners
20.	Eswatini National Trust Commission (ENTC)	Agency	Conserves the country's cultural and natural heritage
21.	Eswatini National Youth Council (ENYC)	Agency	Coordinating body for all youth programs mandated by the government
22.	Eswatini Tourism Authority (ETA)	Agency	Implements the National Tourism Policy and develops the tourism sector
23.	Eswatini Water and Agricultural Development Enterprise (ESWADE)	Agency	Facilitates the planning and implementation of the Komati Downstream Development Project (KDDP), the Lower Usuthu Smallholder Irrigation Project (LUSIP), and other large water and agricultural development projects
24.	Eswatini Youth Enterprise Revolving Fund (YERF)	Agency	Promotes youth employment and alleviates poverty among young people between the ages of 18 and 35 years
25.	National Disaster Management Agency (NDMA)	Agency	Delivers strategic and technical leadership and direction on a well-coordinated framework for the growth and enactment of practical disaster risk reduction or management programs and activities and aligns them with national and regional development plans
26.	Eswatini Medical Christian University (EMCU)	Education	University
27.	Sebenta National Institute (SNI)	Education	Provides basic and functional education and training to all communities through basic and functional literacy programs, life skills for out-of-school and other disadvantaged people, and effective partnerships
28.	Southern Africa Nazarene University (SANU)	Education	University
29.	University of Eswatini (UNESWA)	Education	University
30.	Eswatini Bank	Financial institution	Retail and corporate bank
31.	Eswatini Development Finance Corporation (FINCORP)	Financial institution	Economically develops Eswatini through the provision of accessible financial services
32.	Eswatini National Industrial Development Corporation (ENIDC)	Financial institution	Sovereign wealth fund, serving as a special purpose vehicle (SPV) for investing on behalf of government to maximize investment returns in the various investing avenues
33.	Public Services Pension Fund (PSPF)	Financial institution	Manages and administers pensions for public servants

No.	Name of entity	Type	Description and role
34.	Sincephetelo Motor Vehicle Accident Fund (SMVA)	Financial institution	Provides compensation for certain losses or damages caused unlawfully by means of motor vehicles and for matters incidental thereto
35.	Small Enterprises Development Company (SEDCO)	Financial institution	Provides technical and financial assistance and infrastructure at subsidized rates to SMEs; facilitates their purchase of equipment and other inputs and the sale of outputs
36.	Eswatini Revenue Authority (SRA)	Government	Tax administration
37.	Baphalali Eswatini Red Cross Society (BERCS)	Health	"Partner of choice in alleviating human suffering" in Eswatini
38.	Eswatini Nazarene Health Institutions (ENHI)	Health	Hospital
39.	National Emergency Response Council on HIV/AIDS (NERCHA)	Health	Oversees, coordinates, and facilitates the national multisectoral response to HIV/AIDS, under the Prime Minister's Office
40.	Siteki Good Shepherd Hospital	Health	Hospital
41.	Construction Industry Council (CIC)	Regulator	Regulates, develops, and promotes the construction industry
42.	Eswatini Civil Aviation Authority (ESWACAA)	Regulator	Manages airports and regulates air transport services and civil aviation activities
43.	Eswatini Communications Commission (ESCCOM)	Regulator	Regulatory authority for the information and communication technology sector
44.	Eswatini Competition Commission (ECC)	Regulator	Independent statutory body under section 6 of the Swaziland Competition Act (No. 8 of 2007): encourages competition by controlling anticompetitive trade practices, mergers, and acquisitions; protects consumer welfare; and provides an institutional mechanism for implementing the Act. Also administers the Fair-Trading Act of 2001, a consumer protection statute. Monitors, regulates, controls, and prevents acts likely to adversely affect competition among businesses
45.	Eswatini Energy Regulatory Authority (ESERA)	Regulator	Core responsibility to exercise control over the electricity supply industry
46.	Eswatini Standards Authority (ESWASA)	Regulator	Promotes standards and quality in local industry, commerce, and the public sector; also responsible for eliminating tariff and nontariff barriers to trade
47.	Financial Service Regulatory Authority (FSRA)	Regulator	Regulatory and supervisory authority for all nonbank financial institutions
48.	National Agricultural Marketing Board (NAMboard)	Regulator	Regulates the importation of "scheduled agricultural products", such as maize and maize products, rice, fresh vegetables and fruits, wheat and wheat products, and poultry and poultry products
49.z	Eswatini Public Procurement Regulatory Agency (ESPPRA)	Regulator	Independent regulatory body under the Procurement Act (No. 7 of 2011) with responsibility for policy formulation, regulation, oversight, capacity building and professional development, and information management and dissemination in public procurement