



Kingdom of Eswatini
Ministry of Labour and Social Security

Eswatini Social Security Inquiry Analysis Report and Fiscal Space Analysis

August 2022



**International
Labour
Organization**

I. FOREWORD

The Ministry of Labour and Social Security is proud to produce this first Social Security Inquiry (SSI) for the Kingdom of Eswatini. The inquiry is an inventory of all social protection programmes that are provided in the Kingdom of Eswatini by government and non-government partners. It recognises the importance of promoting human development, inclusive growth and the overall wellbeing of the population as envisioned in the National Constitution (2005).



The Social Security Inquiry sets the platform for the implementation of the National Social Security Policy (2021) which aims to provide a 'social protection floor' to all persons by extending social insurance to cover sickness, maternity, employment injury, old age, disability, health, children and families, and unemployment for all Emaswati. It also seeks to extend social security coverage to workers in the informal sector where most of the labour force currently participates.

The inquiry is also an information source leading to the proposed roll out of the national unemployment fund. This will be an important step to provide security to the youth who are faced with high levels of unemployment and to insure for job losses which were most recently exposed by the COVID19 epidemic and subsequent national lockdowns which resulted in job losses and loss of income for many families. The government response to job losses through temporary cash grants for laid off employees, tax deferment for loss making companies and a US\$400 000 Revolving Fund for Micro, Small and Medium Enterprises (MSME) afforded the Kingdom the opportunity to envisage a more sustainable response system.

This Social Security Inquiry has demonstrated the expansive social protection system that is provided in Eswatini to cater for income security, access to health, education and other social services, food security, and empower people to take advantage of economic opportunities. It has also revealed that vulnerable populations such as young people, elderly and disabled populations are the primary beneficiaries of social assistance programmes. It also shows cause for rolling out social insurance programmes to the informal sector to cater for old age, survivorship, unemployment, sickness, maternity, employment injury and disability, to be at par with the formal sector.

It is my sincere hope and believe that this report will be translated into actionable objectives that will lead the country to achieve its ideal of a developed nation where everyone matters.

I take this opportunity to thank the International Labour Organisation for their technical and financial support in conducting this assessment.

Honorable Phila Buthelezi

Minister, Ministry of Labour and Social Security

II. ACKNOWLEDGEMENTS

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The technical and financial support by the International Labour Organisation (ILO) is greatly appreciated, with a special mention to ILO experts Mr. Andrew Allieu and Mr. Yu Zhiming who provided technical support to the local team.

The Ministry extends its appreciation to the unemployment benefit technical working team through the leadership of the Director of Social Security, Mr. Magwabane Mdluli and ILO Project Coordinator Ms. Duduzile Ndzinisa.

The Ministry commends the work done by local consultant Ms. Nokwazi Mhlanga-Mathabela who facilitated data collection and inputting into the online system, including training national officers so that this exercise can be institutionalized as an annual event.

Mr. Makhosini Mdzawe

Principal Secretary, Ministry of Labour and Social Security

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1. Background

The Government of the Kingdom of Eswatini recognises the importance of social protection in promoting human development, political stability, inclusive growth and in promoting the overall wellbeing of the population. This is demonstrated through a range of pro-poor policies and programmes aimed at ensuring that vulnerable populations are catered for through social protection programmes that provide income security, access to health, education and other social services, food security, and empower people to take advantage of economic opportunities.

Social protection is critical for Eswatini who faces a “triple challenge” of poverty, inequality, and food insecurity. According to the Household Income and Expenditure Survey (2016/17), poverty is 58.9% and much higher in rural areas (70.1%) than urban areas (19.6%). The country has high inequality as demonstrated by a high Gini coefficient of 49.3%, which is makes Eswatini within the top 20 most unequal countries in the world. An estimated 40% of

the population faces severely food insecurity and only 24% are food secure. Chronic food insecurity is much higher (82%) in rural areas than in urban area, at 56%¹.

The emergence of HIV in the 1980s and its devastating effects saw government introduce more programmes to cater for orphaned and vulnerable children (OVC) such as free primary education and OVC educational grants, school feeding, and neighborhood care points elderly grants for grandparents who become primary caregivers. These complement the existing available social security benefits, which cover a limited range of risks, mainly related to old age, disability and death of workers that are provided by employers in the formal employment sector. Social security benefits have not yet been established in the non-formal sector where more than 60% of the employed population participates.

The country does not have a comprehensive social protection system or coordinating body yet social security programmes are developed within various ministries and organisations in the public and private sector. From a legal perspective, all the schemes are anchored in legislation through Laws and Policies that guide their operations.

The policy documents guiding social protection in Eswatini include;

1. ***The Constitution of the Kingdom of Eswatini (formerly Swaziland) of 2005*** which includes rights and provisions to protect the wellbeing of identified vulnerable groups in Eswatini, being the needy, older persons, women, children, and persons with disability.
2. ***National Social Development Policy (2010)*** which defines social protection to include social security, social services and developmental social welfare interventions for improving the social wellbeing of all Emaswati.
3. ***National Social Security Policy (2021)*** which sets out social insurance provisions to complement social assistance. Guiding principles of the NSSP include providing a 'social protection floor' to all persons and extend coverage to workers in the informal sector. The NSSP aims to extend social insurance to cover sickness, maternity, employment injury, illness and unemployment.
4. ***Eswatini Strategic Road Map (2019-2022)*** which defines social safety nets as one of the five priority themes and identifies the Deputy Prime Minister's Office and Health and Education as implementing Ministries. The medium-term focus is to improve the quality of life for underprivileged Emaswati by streamlining social grants through census, improving access through electronic payment and increasing social grants.

¹ Vulnerability Assessment 2020 and Global hunger report 2020

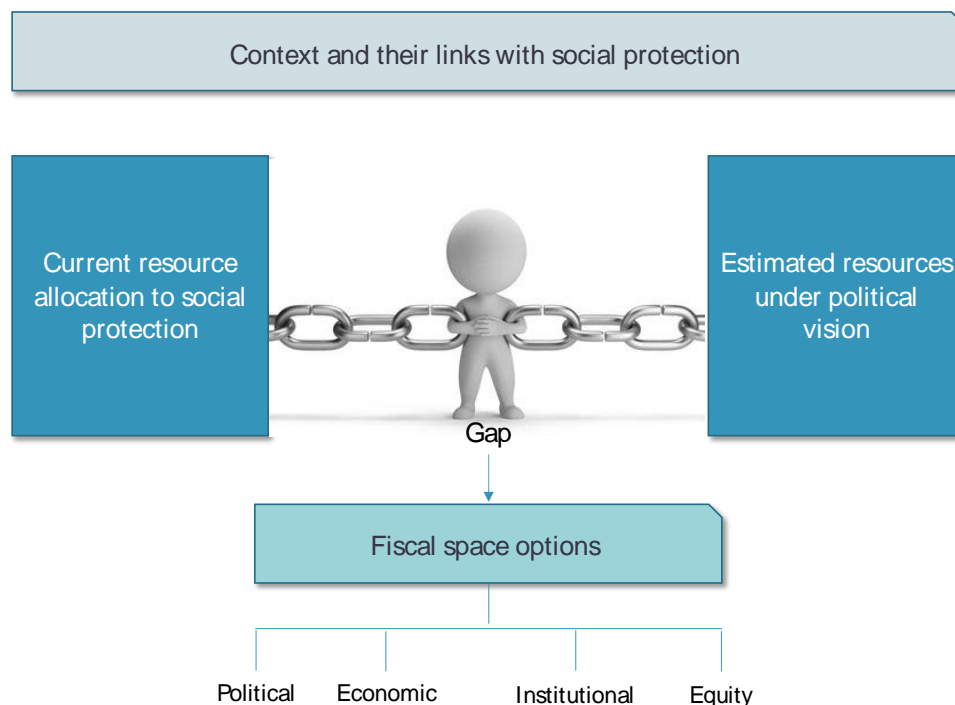
2. Conceptual considerations

This section incorporates theoretical aspects directly linked with the financing function with particular emphasis on the concept of fiscal space and its options and the relevance of Public Financial Management.

2.1. The Financing Process: from Planning to Impact

For all the actors involved in the process of formulation and definition of the NSSP, it is quite important to understand that modern public management explores financing not as a single activity focused on revenue collection but as a broader process that integrates **planning the universal social protection coverage, revenue generation and budget execution**. At the core of this, the identification of the key social protection initiatives, their expected coverage and the size of the benefits become the cornerstone in the future construction of the fiscal space strategy. The identification of goals and targets is fundamental for costing the strategy and assess fiscal space options (i.e. new revenue generation to close the financing gap). However, searching for new sources of funding is not enough to guarantee universal coverage as modern Public Financial Management, to improve the execution of those resources, also becomes a critical piece in the puzzle.

Figure 1. Links in the planning-financing-budgeting process



2.2. Fiscal space creation: definition and alternatives

An intense debate has emerged during the past 15 years regarding the definition and scope of fiscal space. Perhaps the most well-known definition was contributed by Heller (2005: 3) who established fiscal space as “*the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position.*” This traditional approach basically defines fiscal space as a room that governments have to expand outlays but bounded to the limits of debt sustainability. Roy and Heuty (2009: 33), on the contrary, proposes a new concept in terms of:

“...[f]iscal space is the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of development objectives.”

This new conception introduces at least three changes to the traditional view. First, the creation of fiscal space should have an attached label, that is, it must be fiscal space for social protection in this case. Second, the creation of fiscal space is a dynamic process in which government can actively search for additional sources from other sources beyond budget redistribution or debt. Third, fiscal space creation implies both new funding and institutional transformations. In particular, the introduction of expenditure management arrangements is critical to maximize the eventual impact of the new resources on the population.

2.3. Options to create or expand fiscal space for social protection

The SDG-2030 Agenda establishes financing as one of the transversal topics for the success of the strategy. Specifically, the Agenda states in Target 1a that the efforts should “*...ensure significant mobilization of resources from a variety of sources*”. For the specific case of **social protection**, Ortiz et al (idem, 2019) identified 8 potential sources of fiscal space alternatives. This list comprises a mix of options that combine domestic and external sources, traditional and non-traditional and revenues-based and expenditure-based possibilities. The list includes: **1. Expanding social security coverage and contributory revenues; 2. Increasing tax revenue; 3. Eliminating illicit financial flows; 4. Re-allocating public expenditures to more efficient categories; 5. Using fiscal and central bank foreign exchange reserves; 6. Managing debt – borrowing or restructuring sovereign debt; 6. Adopting a more accommodating macroeconomic framework; 7. Increasing aid and transfers.** The list of 8 options for social protection includes:

1. **Expanding social security coverage and contributory revenues:** this option may take the form of increasing contributory rates, expanded coverage (salaried and independent workers) or a mix of both

2. **Increasing tax revenue:** as in the previous case, fiscal space can be created by expanding the base, increasing existing rates, approving new taxes, reducing tax expenditures (exemptions) and reducing evasion
3. **Eliminating illicit financial flows:** this alternative includes an estimation of flow going out the country in terms of money laundering, bribery, tax evasion, trade mis-invoicing and other financial crimes.
4. **Re-allocating public expenditures:** this alternative does not create new funding, but it basically promotes moving resources from one sector to another or improving the internal level of efficiency of the social sector. These may include replacing high-cost, low-impact investments with those with larger socioeconomic impacts, eliminating spending inefficiencies and/or tackling corruption.
5. **Using fiscal and central bank foreign exchange reserves:** this includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/ or using excess foreign exchange reserves in the central bank for domestic and regional development.
6. **Managing debt – borrowing or restructuring sovereign debt:** this involves an active exploration of domestic and foreign borrowing options at low cost, including concessional loans, following a careful assessment of debt sustainability. Other options include restructuring existing debt.
7. **Adopting a more accommodating macroeconomic framework:** this option aims at promoting a new macroeconomic approach that allows for more flexible policies in terms of inflation goals and public deficits without jeopardizing the overall macro sustainability
8. **Increasing aid and transfers:** these transfers refer to flow of funds coming from international agencies, governments and other entities for developmental purposes.

3. Methodological considerations

Based on the previous figure, the present analysis can be constructed around four moments. Moment 1 concentrates in analyzing the economic, social, labour, demographic and fiscal context in which social protection policies and schemes may be developed and operate.

Moment 2 moves into the current situation of the social protection sector in Eswatini. It prepares an inventory of social protection initiatives and describes the relevant programmes in terms of coverage and financial allocation. As an extension of this analysis, the document reports the level of effort that the country should conduct to close coverage gaps per group as well as the level of additional funding that should be required to close those gaps. In other words, there is an interest for understanding and estimation the size of the coverage and financing gaps under different scenarios.

The third moment considers the options to close the gap (i.e. fiscal space possibilities). Given the different scenarios that would yield several financing needs, the report explores how each one of the financing alternatives described above can contribute to close this difference.

Finally, Moment 4 takes the fiscal space options and assess them based on a series of criteria beyond revenue generation. The feasibility of those financing options is evaluated based on the following criteria:

- **Political feasibility:** mainly aimed at analyzing the existence of support from the different socioeconomic groups with direct or indirect interference in the dynamics of the respective alternative, either as a beneficiary or financier. Political feasibility will be discussed with relevant stakeholders to approach the support that each measure may have for its implementation.
- **Technical or economic feasibility:** this area focuses its interest on elements of an economic nature related to the appearance or deepening of distortions, productive and consumption affectations, among others.
- **Institutional capacity to collect the additional funding:** this category refers to the organizational capacity to implement the possible changes emanating from each of the financing items considered above. This includes specific considerations in terms of human, material and technological resources, as well as the evaluation of legal, political or cultural barriers that could affect the work of the institution.
- **Effect on equity (progressivity):** the field of equity seeks to assess the incidence of changes in funding sources so that it is analyzed in a timely manner who would end up paying in each case. In short, it is important to identify whether the option contemplated is progressive, regressive or neutral.

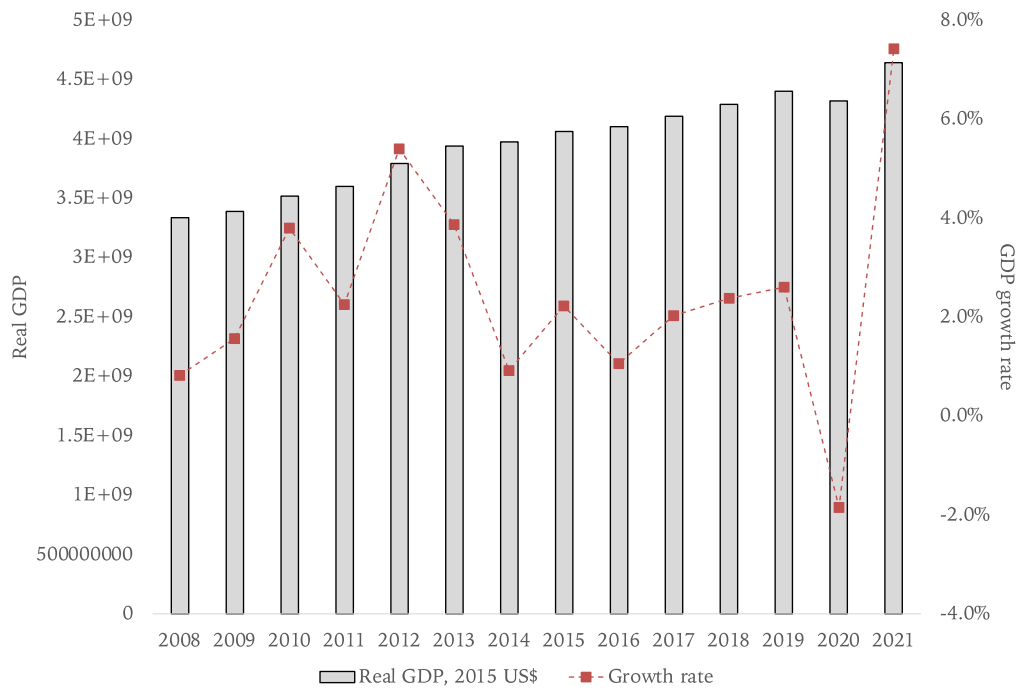
4. Brief context assessment

This chapter presents the main contextual tendencies that have been characterizing Eswatini in the past years in a series of dimensions that affect social protection performance like demography, labour markets, macroeconomic conditions, fiscal balances and social features.

4.1. Macroeconomic and fiscal conditions

Between 2008 and 2021, the Eswatinean economy grew at an average 2.5% per year with a long-run tendency to decelerate in the last years under analysis. In a first period (2008-2013), the GDP grew at 2.9% per year, peaking at 5.4% in 2012. Since then, the economy enters into a period of reduced growth (2.1%) even if the analysis discounts the pandemic period (1.9% per year in 2014-2019). During COVID-19 years, the economy fell 1.9% in 2020 to then recover at 7.4% in 2021. In 2015 real terms, the GDP amounted US\$ 4,640.4 million.

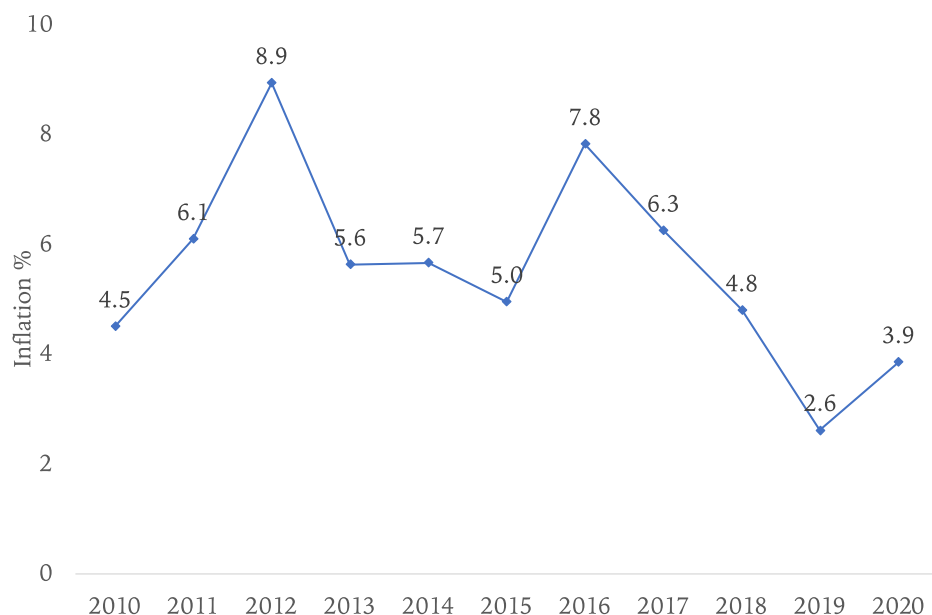
Figure 2. Real GDP and growth rates



Source: World Development Indicators

Average inflation between 2010 and 2020 was 5.6% per year. As in the case of GDP evolution, before 2014 the level of prices increased 6.3% (2010-2013) falling to 5.3% per year in 2014-2019. In recent years, inflation was growing below 5% up to a historical minimum 2.6% but it rebounded to rates over 3.9% during pandemic.

Figure 3. Inflation rates in Eswatini, 2010-2020



Source: World Development Indicators

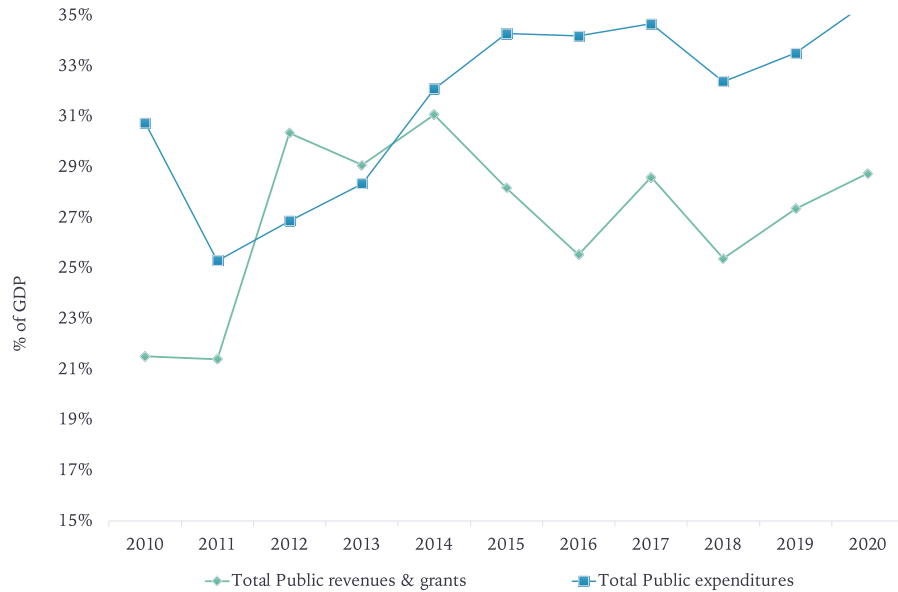
The evolution of the key fiscal variables is presented in the figure below. The total level of revenues and grants averaged 27% of GDP with two years (2012 and 2014) in which total collection exceeded 30%. Some upward tendency was observed if the 2010-2012 (24.4% of GDP) period is compared with 2018-2020 (27.2%). Taxes averaged 25.5% and consequently accounted for 94.2% of total revenues.

In terms of their composition, taxes on international trade and transactions were the most important source of funding: 46.7% of the total taxes had this origin although since 2012-2013 (58.7% average) their participation declined sharply up to 43.5% in 2018-2020. Taxes on income, profits, and capital gains were the second largest tax category (30.3% of total) with also some declining behavior in the two extremes of the period of assessment. After experiencing strong fluctuations in 2010-2015, the category stabilized around 32% of the total taxes.

Finally, taxes on goods and services accounted for 22.7% of the taxes during the whole period. It was perhaps the most stable of the main three tax groups with a min-max participation between 18.3% and 26.1%.

In the case of public expenditures, they accounted for 31.6% of GDP but in this case there was a clear tendency to move up from 27.6% of GDP (2010-2012) to 33.8% in 2018-2020. The top five sectors with the largest participations in the budget at the beginning of the decade were Education, General Public Services, Social Protection, Public Order and Safety and Health, all representing 80% of the expenditure (2010-2011). By the end of the decade, some issues changed. In 2019, for instance, Economic Affairs displaced Public Order from the top five and received more funding than Social Protection.

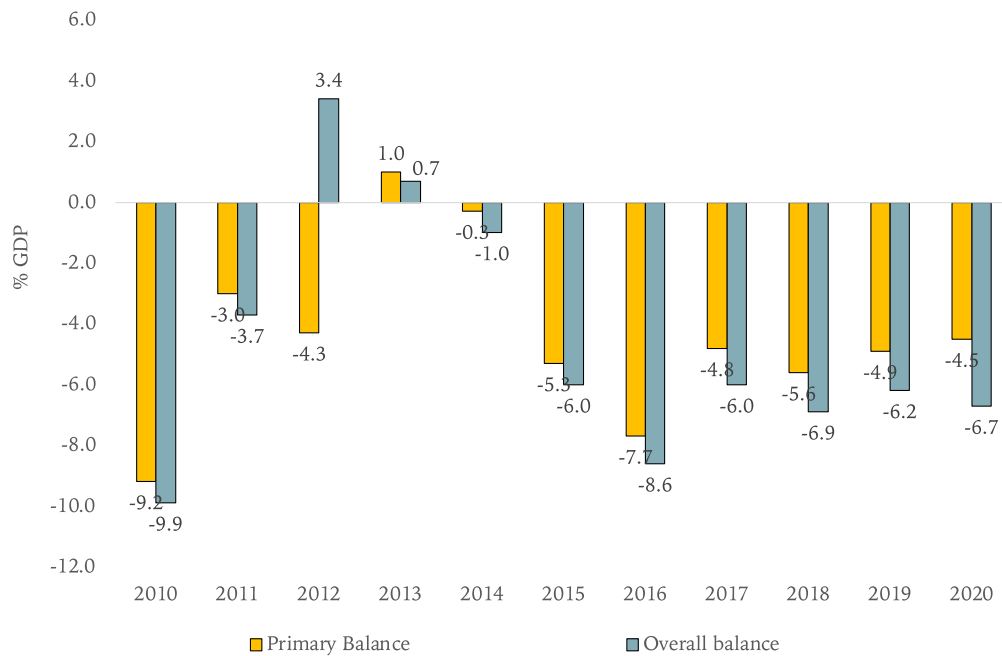
Figure 4. Public revenues and expenditures, 2010-2020



Source: Central Statistics Office

The fiscal balance, a critical variable for the analysis of fiscal space and the feasibility of different sources of funding, averaged -4.4% of GDP (primary balance) and -5.2% of GDP (overall balance). Since 2015, the fiscal deficit had always exceeded 6% of GDP (6.7% on average) and this behavior has had a very negative effect in the public debt. As an example, interest payment, that amounted 0.7% of GDP in 2010-2011, increased to 1.3% in 2018-2019 and to 2.2% of GDP in 2020.

Figure 5. Primary and overall fiscal balances, 2010-2020



Source: Central Statistics Office

4.2. Demographic trends

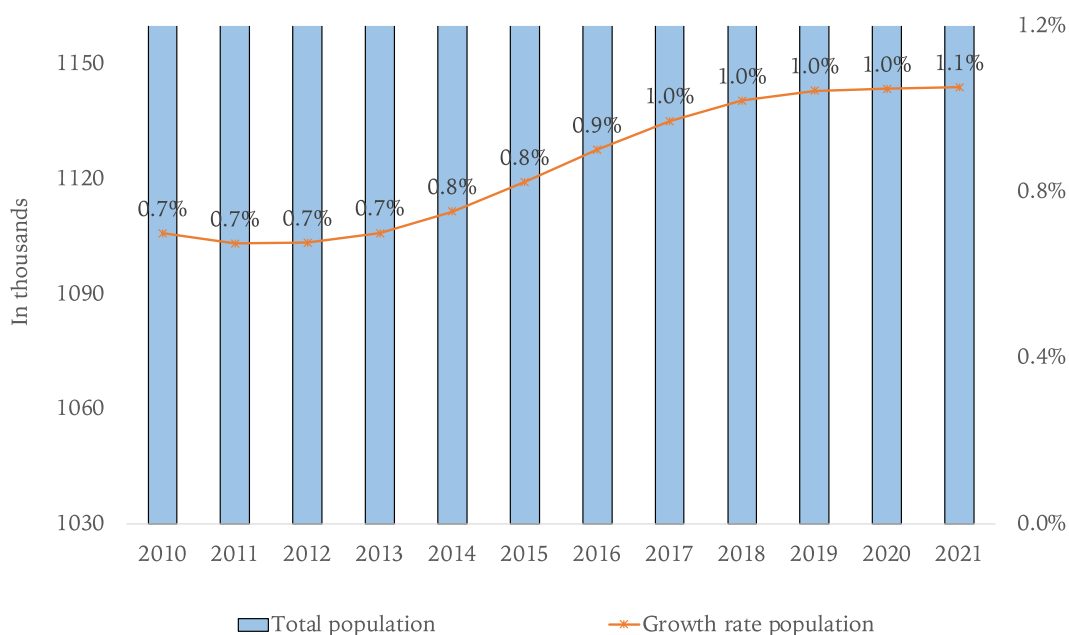
The total population of Eswatini was estimated in 1,172,369 persons by the end of 2021. Since 2010, the average growth rate was 0.86% per year. Contrary to what it is usually observed in most of the countries, population growth recovered after experiencing a lowest 0.68% increment in 2011-2012. In the past quinquennium, the number of people living in the country increased at 1.04% per year.

These dynamics were accompanied by a series of demographic changes that may be of interest for social protection programmes. First, by gender, men increased their participation in the total composition of the population. In 2010-2020, the group gained 1.3 points of participation to represent 48.7% of the total population in this last year. Second, the persistent increment in the growth rate allows to a reduction in the dependency ratio² from 75.8 to 69.1. This condition represents a relief for the system as the number of persons that depend on the resources generated by the working age group is lower. Third, the last decade observed a continuation of the process of urbanization that came from previous

² The dependency ratio refers to “The dependency ratio relates the number of children (0-14 years old) and older persons (65 years or over) to the working-age population (15-64 years old)” (United Nations, ND: 104). See: https://www.un.org/esa/sustdev/natlinfo/indicators/methodology_sheets/demographics/dependency_ratio.pdf

decades. Although urban residents still represent a low share of the total population (24.2% in 2020), it gained 1.6 points since 2010.

Figure 6. Eswatini: total population and corresponding growth rate



Source: World Development Indicators

The recent performance of the dependency ratio is an indication that the country experiences a demographic dividend, that is, a situation in which the working population grows faster than the rest of the segments. In short, young people becomes the predominant category in the population pyramid. Between 1976 and 2017, the working age population moved from 46% to 59% of the total residents in the country, with an expectation to reach 62% in 2022³. This condition is relevant for social protection in multiple ways. First, the demographic dividend opens an excellent opportunity to consolidate social insurance schemes as the affiliation will exceed actual beneficiaries for a long time allowing the insurance to accumulate reserves for covering expenses during periods of insurance maturity. In a similar way, tax-based financing models for covering social assistance programmes may also be benefitted from this dividend. For this being a realistic opportunity, the country should improve overall levels of human development (education, health, etc) in those years to enhance the productivity of the working groups and allow for increasing levels of financing for the sector.

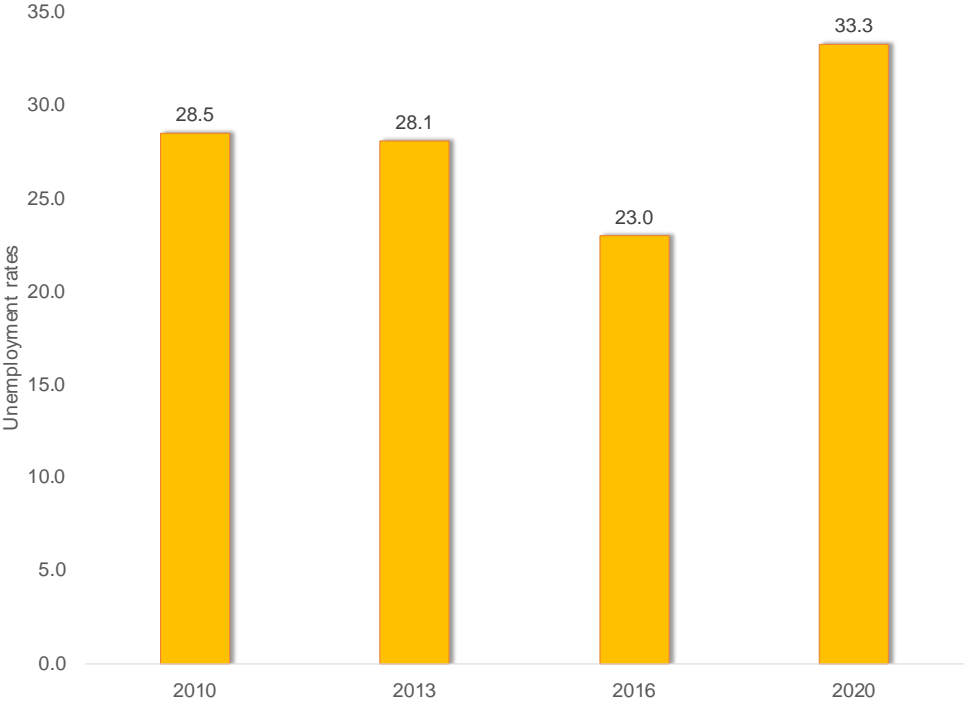
4.3. Labour markets evolution

The total labour force of Eswatini was estimated in 365,895 persons of which three of four members are occupied. Overall, unemployment during the past decade remained high at

³ See <https://eswatini.unfpa.org/en/news/eswatini-launches-national-demographic-dividend-study-report-empower-young-people>

two-digits. The actual rate, however, is subject to wide differences depending on the source. For instance, according to the ILO, unemployment averaged 23.7% of the labour force between 2012 and 2021. National figures, however, estimated the 2020-unemployment rate at 33.3% of the labour force, 7.5 points higher than ILO estimates. In any case, what is true is that unemployment exceeds 22.5% of the labour force in this has been the case even before pandemic years.

Figure 7. Unemployment rates, several years (national estimates)



Source: Central Statistics Office

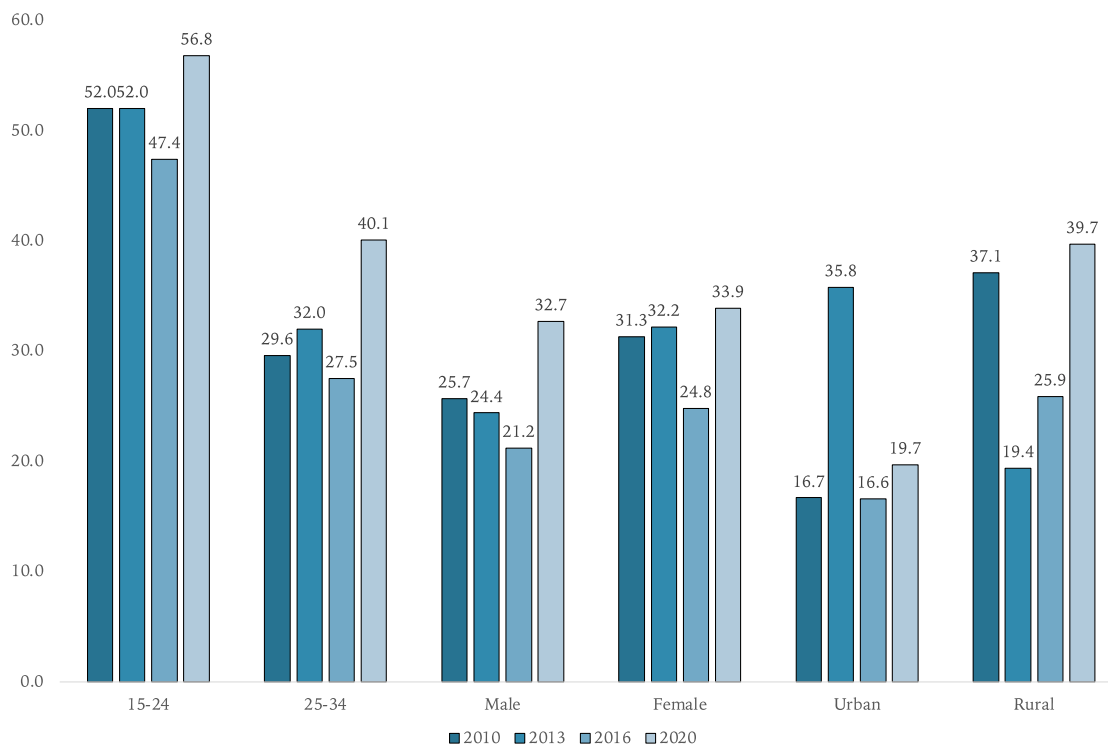
Higher unemployment rates were observed in younger groups, women and rural residents. During the 2012-2020 period, youth unemployment averaged 52.1%, the largest rate among all groups considered in this report. A 20-point difference separates youth unemployment from the second largest age-related rate (25-34 years).

By gender, the average female unemployment rate was set in 30.6% with three of the four years in which the proportion exceeded 30% of the female labour force. Among men (26% average), unemployment was the falling steadily before pandemic, being the only group with this performance during the decade. In this way, the male rate fell from 25.7% in 2010 to 21.2% in 2016. However, the economic effects of COVID-19 negatively affect men by elevating unemployment rate by roughly 11.5 points in relation to 2016.

Finally, by zone of residence, urban unemployment was 8 points lower in urban settings than in rural ones. The gap between the two areas tend to shrink before pandemic in such a way that rural unemployment, that used to be 2.22 times higher than urban one in 2010, dropped

to 1.56 times in 2016. During pandemic, the difference returned to initial values (i.e. 2.0 times).

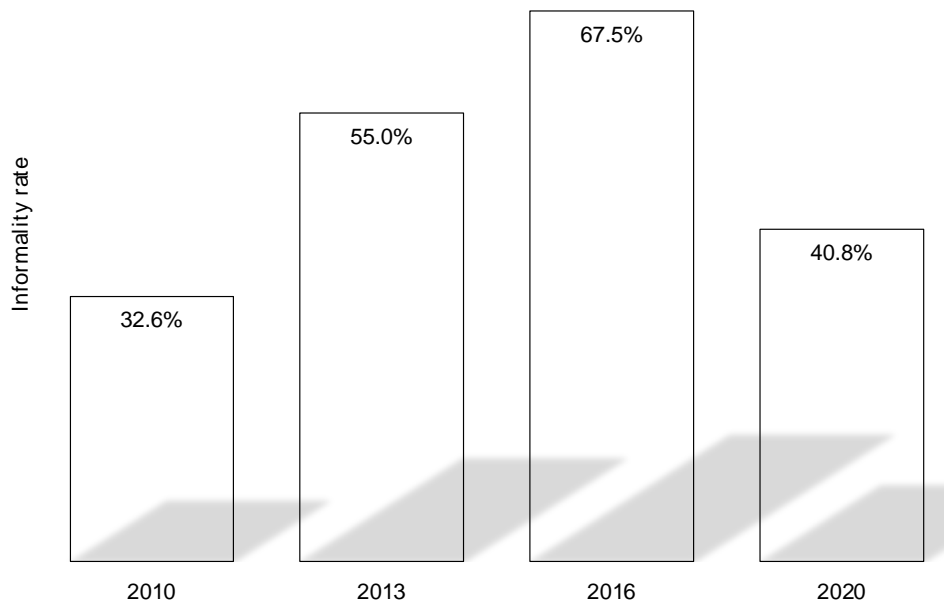
Figure 8. Unemployment rates per population group, several years



Source: Central Statistics Office

Informality (49% average, 51.7% before pandemic) fluctuates substantially during the decade with movements that ranged between 32% in 2010 to a highest 67.5% in 2016. As it happened in many countries around the world, the sanitary restrictions established to control COVID-19 imposed severe barriers to informal workers. As a result, during the first year of pandemic, informality fell to 40.8% and although this figure may be considered a positive outcome, it seems more the result of informal workers that became part of the out of labour market group.

Figure 9. Informality rates, several years

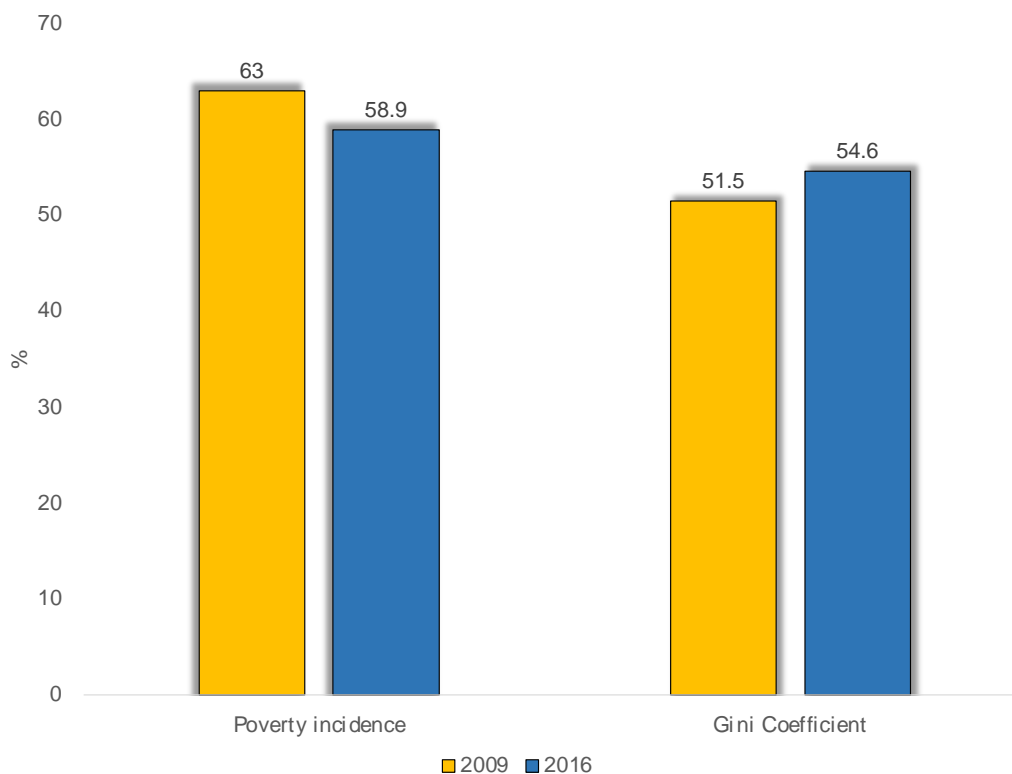


Source: Central Statistics Office

4.4. Social conditions

In the long run, poverty incidence has been progressively declining. According to the World Bank (2020), the poverty levels decreased from 69% in 2001 to 63% in 2009 and to 58.9% in 2016. Rural residents, women, female-headed families, children, unemployed and people with reduced levels of education are more prone to experience material deprivation. Despite progress in this aspect, inequality worsened in parallel to poverty improvements. The Gini coefficient, that used to be 51.5 in 2009, moved up to 54.6 in 2016.

Figure 10. Poverty and inequality in Eswatini, 2009 and 2016

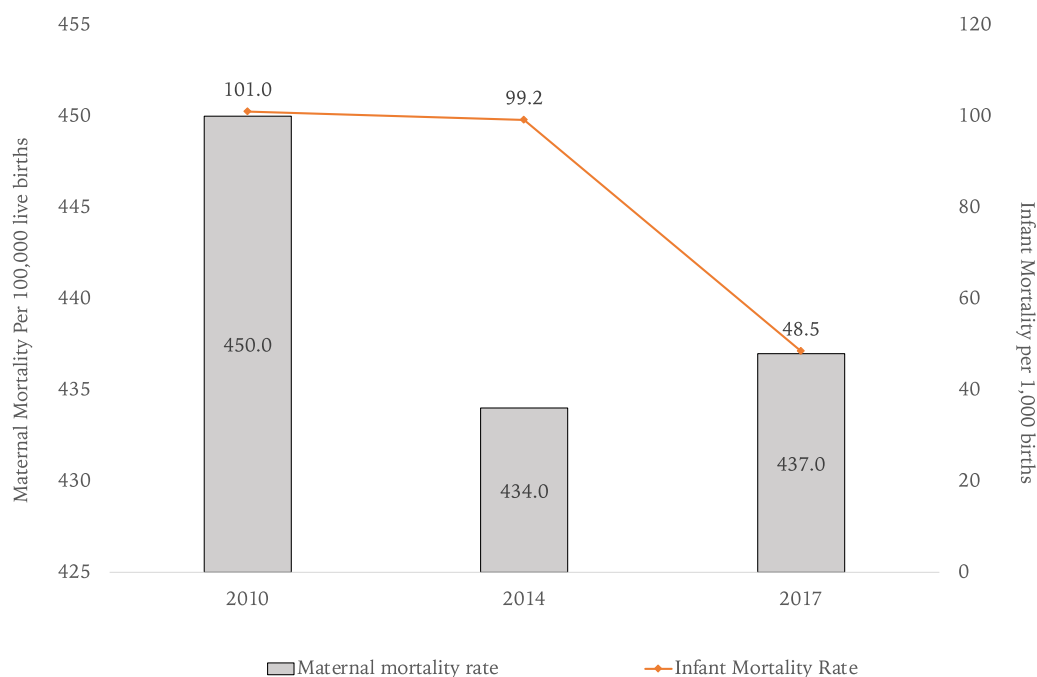


Source: World Bank (2020)

If assessed from a multidimensional perspective, the results show important progress in several dimensions of the variables with just a few exceptions. The share of households with improved access to drinking water increased from 67.3% in 2010 to 72% in 2014. Sanitary conditions, however, did not perform well with the share of families with improved sanitation facilities being the same during the decade.

In the health dimension, the infant mortality rate is roughly half of what existed a decade ago. In this regard, the rate dropped from 101 deaths per 1,000 live births in 2010 to 48.5 deaths in 2017. Maternal mortality, on the contrary, remained practically unaltered in the same period moving between 437 and 450 deaths per 100,000 live births in 2010-2017.

Figure 11. Infant and maternal mortality rates, 2010, 2014 and 2017



Source: World Development Indicators

Finally, education improved in multiples areas. Literacy rates, both male and females, increased in the past decade although the net increment was much higher among the former (+5.3 years) than in the latter (+1.1 years). Other key indicators like primary school net attendance ratio, the secondary school net attendance ratio and the transition rate to secondary school all improved between 2010 and 2014.

5. The Social Security Inquiry 2021

The Ministry of Labour and Social Security (MoLSS) conducted the first Social Security Inquiry (SSI) during September- December 2021. The project was supported by the International Labour Organisation (ILO) and included the collection of data of social protection programmes from several institutions in government and non-public sector. A local consultant was recruited to work with a local team from the MoLSS Department of Social Security and unemployment benefit Technical Working Group (TWG) to collect an inventory of all social protection programmes in the country that provide critical inputs for the construction of a baseline of analysis.

The objectives of the Social Security Inquiry (SSI) are:

1. To provide an inventory of existing social protection schemes in the country including data on key social protection indicators based on the Social Security Inquiry (SSI) as follows: <https://www.social-protection.org/gimi/ShowTheme.action?id=10>.
2. To help in creating, understanding and assessing the current situation of largely excluded populations, in particular refugees, IDPs, persons with disabilities and migrant workers
3. It also helps in informing the policy makers about the relevant programmes that would support in filling in gaps, extension of coverage, increased benefits, and reduced limitation.
4. To improve knowledge on the SDG 1.3.1 monitoring and reporting systems.
5. To help in monitoring the effects of social protection e.g., inequality, poverty reduction, income maintenance.
6. To validate the Social Protection data collected by the assigned team and fill in the gaps with additional data.

For Eswatini, the inquiry is a contribution to the process of developing an unemployment benefit by providing coverage gaps estimation that will lead to the financing gap and fiscal space assessment. This report is an assessment of broad tendencies of social protection programmes that prevail in Eswatini as well as individual conditions governing different programs.

5.1. Methodology

The assessment used the Social Security Inquiry (SSI) tool developed by the ILO to collect information on social protection programs. The tool produces comparable statistics across the world. In terms of Bonnet (2009: 3), the main objective of the SSI is to “collect, store and disseminate, on a regular and sustainable basis, comparable statistics on the financing, expenditure, benefit levels & coverage of social security systems/programmes.”

Information was collected using the SSI matrix for 19 social protection programmes that comprise of schemes aimed at reducing poverty, vulnerability and social exclusion over the life cycle, per definition of social protection. To fill and construct the SSI, the data collection process included:

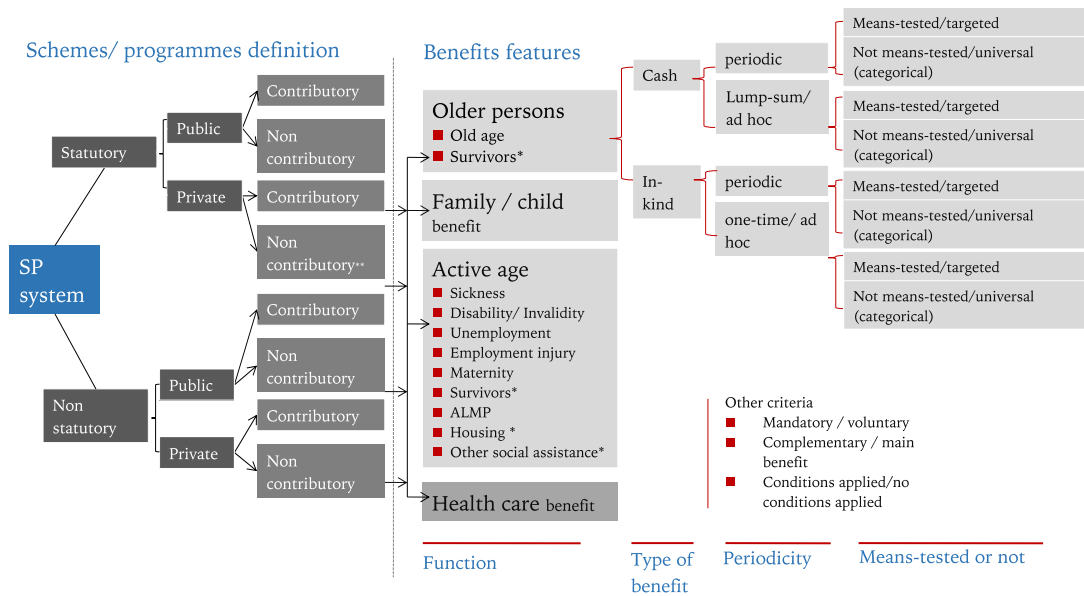
- 1) Identification of the legal status of the program (statutory or non-statutory)
- 2) Nature of the managing body (public or private)
- 3) Nature of financing scheme (contributory or non-contributory)
- 4) Functions covered by the program (old age, family, housing, etc.)
- 5) Type of benefit (cash or in-kind)

- 6) Periodicity, and
- 7) Eligibility criteria (universal or targeted).

As this was the first SSI, it did not extensively cover the private and informal sectors and these will be considered in future inquiries.

Figure 2 below shows the structure of the SSI tool

Figure 12: Structure of the SSI tool



Source: SSI, ILO

5.2. Inventory of schemes and programs: general tendencies

The inquiry identified that social protection programmes in Eswatini cover old age, invalidity, and survivorship, access to education for children, access to healthcare, and food and nutrition, and community public works programmes.

Figure 1 below shows the life-cycle approach and social protection floor which highlight the type of support that is provided to different population cohorts. In both approaches, disability, illness and gender are crosscutting vulnerability across all age cohorts.

Figure 13: Social Protection across the life cycle in Eswatini

| Life-course stage | Childhood | | Adulthood | | | Old age |
|--|--|--|----------------------|------------------------------|--|--|
| | Early childhood | School age | Youth | Pregnant and lactating women | Working age | Old age |
| Cross-cutting vulnerabilities | Disability/ chronic illness/HIV and AIDS/ Gender | | | | | |
| Social assistance | Neighbourhood Care Points | Free Primary Education School Feeding Programme | OVC education grants | | | Elderly grants Ex-Service Men (Umsizi) Military Pension |
| Cross-cutting Social assistance | <ul style="list-style-type: none"> • Disability grant • Special Education for disabled persons • Healthcare- subsidised healthcare, Phalala Medical Referral Fund, ARVs for PLHIV • Social transfers- cash based transfers, food parcels • Public works programs • Motor Vehicle Accident Fund | | | | | |
| Social insurance | | | | | Migrant Miners and Ex-Miners Injury at work | Pension |
| Cross-cutting Social insurance | <ul style="list-style-type: none"> • Health insurance • Survivorship | | | | | |

There are five main social assistance programmes in Eswatini are the old age grant, disability grant, Free Primary Education and OVC educational Grant, school feeding, and feeding at Neighbourhood Care Points. Other crosscutting social assistance includes subsidised health, social transfers for food insecure households, community public works programme and the accident victims' fund.

Social insurance is provided through pension funds and health insurance for working aged populations. See ANNEX 1.

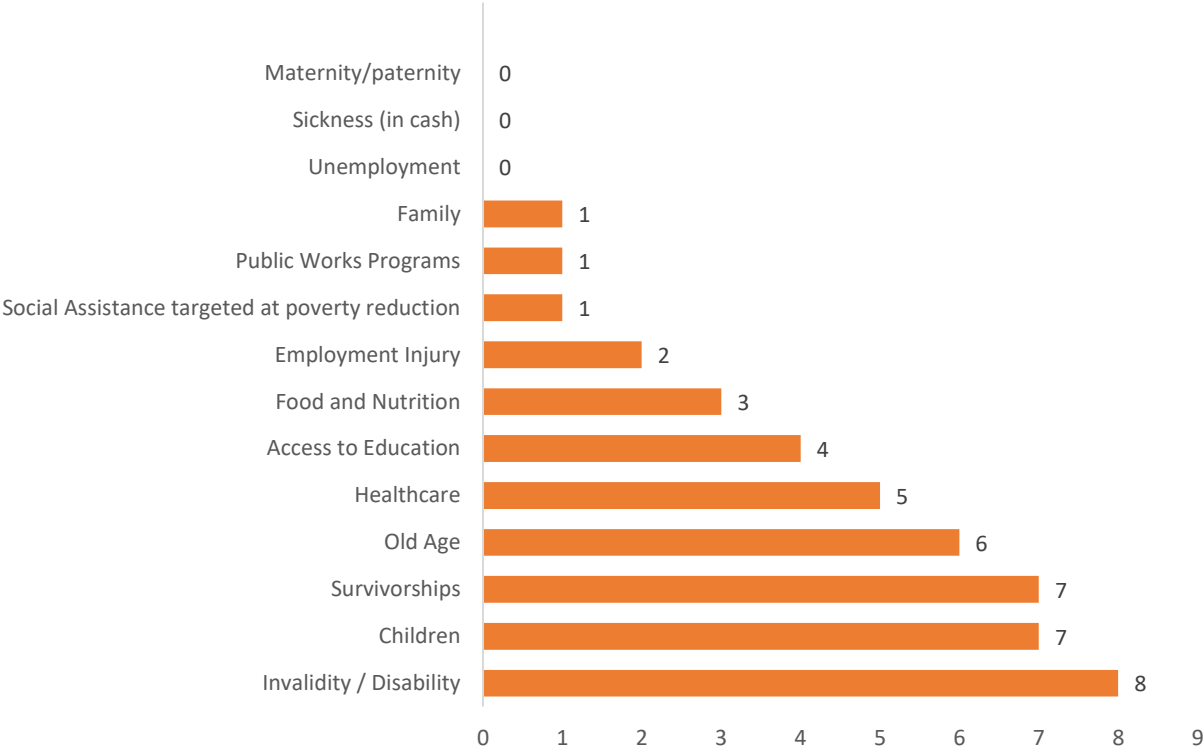
A majority (70%) of the schemes are non-contributory and financed by government whose source of revenue is taxes and grants. Contributory schemes consisted of employment-related investments for old age. I.e. retirement which are drawn out of the salaries of employed persons in the public and private sector.

5.2.1. Functions covered by schemes

A distribution of the functions covered by programs reveals that more schemes cover invalidity or disability (42%), and children and survivors (37%). The invalidity or disability category is covered by 8 out of the 20 programmes and children and survivorship covered in 7 programmes. These are followed by schemes for old age, which are covered in 6 out of the 19 programmes (32%). Five (5) schemes cover healthcare (26%), while access to education is covered by 4 programmes. These are followed by food and nutrition in 3 programmes (16%). Public works programs exist in only one programme. Currently, the country does not have schemes that cover unemployment, sickness and maternity. However,

maternity leave is commonly offered by most employers and costed as benefit, while sickness can be covered under individual health insurance that is not universal.

Figure 14: Number of references of social protection categories in portfolio

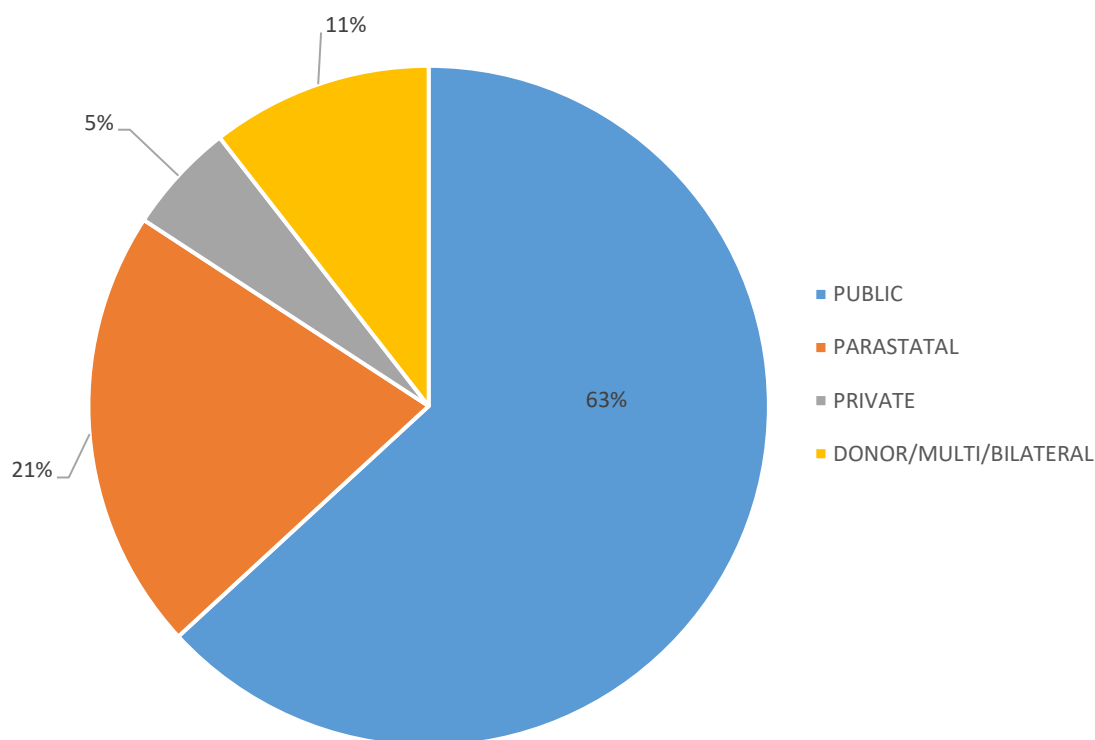


Source: SSI Matrix

5.2.2. Management of scheme

Most (65%) of schemes are management by the public sector through government ministries, 20% through parastatals that are also financed by the government. Only two schemes are fully covered by the private sector. The World Food Program (WFP) supports the food security programmes in communities and cash-based transfers for food crises. The Global Fund for AIDS, TB and Malaria (GFATM) and Presidents Emergency Relief Plan for AIDS in Africa (PEPFAR) supports HIV programmes.

Figure 15: Distribution of management organisation for social protection schemes in Eswatini



5.3. Inventory of schemes and programs: individual characteristics

5.3.1. Schemes provided by the public sector

The public sector provides social protection programmes including the Old Age Grant, Disability Grant, Free Primary Education, OVC Education Grant, Special Education Needs (SEN), School Feeding Programme, Phalala Medical Referral Fund, HIV treatment for people living with HIV, and the Directorate of Industrial and Vocational Training (DIVT). Programmes provided by the public sector are by nature non-contributory as these are covered through government revenues generated from taxes and grants.

- A. The **old age grant** was introduced as a permanent social transfer programme in 2005 primarily to assist older persons who had to care for grandchildren orphaned by HIV and

AIDS. The grant is available for all citizens who are over the age 60 as a universal (not means-tested) programme. During the year under review, the grant was received by 89% of the population over 60, constituting of 96% elderly females and 78% males. One in five households (19.7%) has a member who receives the Old Age Grant.

Programme expenditure in FY2019/20 was E376.3 million which is 0.6% of GDP and 2.1% of the public revenues and grants.

- B. The **Free primary education** programme was rolled out in 2010. The benefit is provided universally to all learners who attend public schools. It covers 237,066 young people, which is 60% of the population that is younger than 14 years. Programme expenditure was E 259.2 million which is 0.4% of GDP and 1.5% of the public revenues and grants.
- C. The **OVC Education grant** was launched by the Ministry of Education and Training (MoET) in 2003 and was relocated to the DPMO's Department of Social Welfare since 2009. The grant covers educational needs for orphaned and vulnerable children who are at secondary and high school. In FY2019/20 support was provided to 58,499 learners, which reveals a service coverage of 49% of the population aged 15-19. Programme expenditure was E166.3 million which is 0.3% of GDP and 0.9% of the public revenues and grants.
- D. **Special Education Needs** and **Directorate of Industrial and Vocational Training (DIVT)** are specially designed programmes for persons living with disability. The concept of instructing learners with special needs and disabilities in general education in the country was first articulated in 1999 through the National Education Policy Statement. However, some selected schools began providing specialized education since the late 1970s. The SEN programmes covered 10, 593 people and cost E10.8 million and E2.1 million, respectively. This averaged 0.02% of GDP and 0.1% of the public revenues and grants.
- E. The **School Feeding Programme (SFP)** provides one warm meal to all learners in all government primary schools since 2009 and secondary and high schools since 2014. A homegrown school feeding programme is being piloted in 50 schools in both primary and high school. Feeding is offered universally to all learners each school day. A total of 352, 547 learners received school feeding at a cost of E54.5 million. The World Food Program also supports this programme. The program costs 0.08% of GDP and 0.3% of the public revenues and grants.
- F. The **Phalala Medical Referral Fund** was set up in 2005 to assist Swazi citizens to have access to specialist medical care within the Kingdom and in special circumstances, outside the Kingdom of Swaziland. The scheme is accessible by all persons through a benefit/means tested criterion for ill patients who require secondary or specialized care. During the year under review, a total of 4,790 people received support at a cost of E20 million which is 0.03% of GDP and 0.1% of the public revenues and grants.
- G. The **free HIV treatment for people living with HIV programme** was initialised in 2003 and since 2010, the government has assumed responsibility to purchase all ARV drugs. The scheme is provided under a benefit-tested criterion to PLHIV. A total

177,156 PLHIV received support which cost the government E275.8 million which is 0.42% of GDP and 1.6% of the public revenues and grants. This program is also supported by the Global Fund for AIDS, Tuberculosis and Malaria (GFATM) and Presidents Emergency Plan for AIDS Relief in Africa (PEPFAR)

5.3.2. Schemes provided by parastatals

Parastatals that support social protection programmes include the Micro projects unit which provides community public works programme under a work sharing arrangement with the community; the National Disaster Management Agency which provides food and supplies during calamities, and the Motor Vehicle Accident Fund from which revenues are collected through fuel sales.

The Public Service Provident Fund (PSPF) and Eswatini National Provident Fund (ENPF) are parastatals that provide social insurance through contributory schemes for compensatory support in the event of contingencies such as old age, illness, injury, disability and death of a spouse or parent.

- A. The **public works programme** supported by Microprojects was introduced in 1988 to support communities with development projects. It involves indirect contributions through provision of labour by members of recipient communities which is estimated as 15% of total project sum. Benefit is paid in kind to the community. During the year under review, the programme supported 82,862 people at a total expenditure of E385.2 million, which averages 0.59% of GDP and 2.2% of the public revenues and grants..
- B. The **Motor Vehicle Accident Fund** was established in 1991 to support victims of road accidents. The fund is generated through revenues from a portion of fuel sales to support. Revenues for the year totaled E120.5 million which is 0.19% of GDP.

Payments from the fund were made through means-testing to 1, 867 third Party accident victims, 94 survivors from loss of spouse or parent and 18 victims for employment injury leading to invalidity or disability. Total expenditure amounted to E64.7 million which amounts to 0.10% of GDP.
- C. The **Public Service Provident Fund (PSPF)** was established in 1993 for the management and administration of pensions for government (public sector) employees. The scheme is run as a Defined Benefit pension and provides the following products for its members and their dependents: Funeral & Death Benefits, Disability Benefits, Retirement Benefits, Withdrawal Benefits, Early Retirement, Deferred Retirement, Abolition of Office and Forced/Medical Retirement. The fund is a contributory scheme for all public servants. In FY 2019/20, a total of 42,150 members provided contribution to the fund, consisting of 23,370 males and 18,780 females. Total revenue to the fund amounted to E 1.2 billion which is 1.83% of GDP.

During the year under review, a total of 26,453 people drew funds from the fund for Pensioners Annuity (9,576), gratuities for early exit through resignation, injury or death (1,152), Survivors Annuity for spouses and children (15,677) and gratuities for foreigners (48). Pensioners' annuity is paid periodically while the others are paid in lump sum. The total expenditure for the year totaled E 1.3 billion which is 1.95% of GDP.

- D. The ***Eswatini National Provident Fund (ENPF)*** was established in 1974 as a retirement savings scheme whose purpose is to provide benefit for employed persons when they retire from regular employment in old age or in the event of becoming incapacitated. The provident scheme is contributory and received contributions from 75,309 people in the year under review, who comprised of 9,419 males and 65,890 females. Total revenue to the fund amounted to E522.9 million, which is 0.80% of GDP.

The fund benefitted 11,048 comprised of 6,724 males and 4,324 females who withdrew cash lump sums for Gratuity. Total expenditure for the year under review totaled E265.4 million, which is 0.41% of GDP.

5.3.3. Schemes provided by the private sector

Schemes that are provided by the private sector are for social insurance for migrant Miners and Ex-Miners which cover old age, illness, injury, disability and survivorship. The Members of Parliament & Designated Office Bearers Pension Fund (MOPADO) provides similar cover for politicians.

- A. Social insurance schemes for ***migrant Miners and Ex-Miners*** were established by mining companies in the Republic of South Africa to cater for retirement and health for miners' workers and ex-miners. The scheme is mixed with contributory and non-contributory elements for old age (contributory) and illness, injury, disability (non-contributory). Non-contributory elements are supported by a fund that was created to compensate ex miners suffering from pulmonary illnesses. Coverage and financial data was not available for the compensatory benefit. A total of 708 people benefitted during the year at a total expenditure for pension and survivorship which totaled E 8 million and estimated as 0.01% of GDP.
- B. The ***Members of Parliament & Designated Office Bearers Pension Fund (MOPADO)*** was established in 1993 as a pension scheme for politicians in Eswatini. The fund contributory and received subscriptions from 548 members, consisting of 453 male and 95 female politicians by who deposited E57.2 million. The fund benefitted 627 people, 339 male and 288 females who drew funds for Pensioners Annuity (603) and Survivors Annuity for spouses and children (24). One (1) beneficiary was outside of the country. The expenditure for the year under review totaled E 95.7 million which is 0.14% of GDP.

5.3.4. Schemes provided by bilateral and multilateral partners

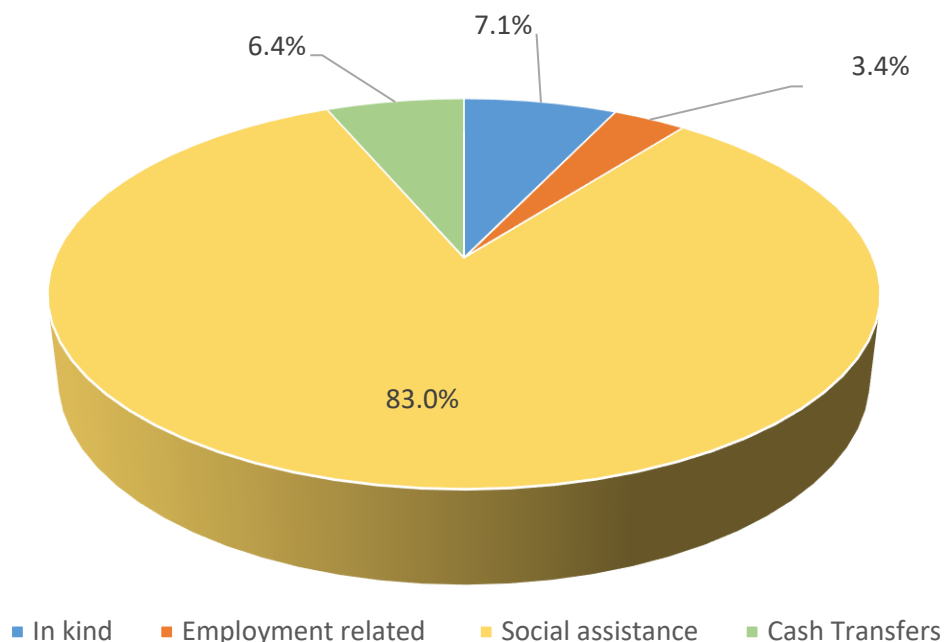
The World Food program is a key partner for the Kingdom in providing food support towards the School Feeding programme, feeding in communities through neighborhood care points and cash-based transfers for food insecure population as determined by the annual vulnerability assessment. The Global Fund and PEPFAR are key partners in healthcare for people who are living with HIV and supports the continuum of care.

- A. Through the **feeding in community programme**, WFP supported 54,145 children to receive food at neighborhood care points. Neighbourhood Care Points (NCPs) are coordinated by the Ministry of Tinkhundla Administration and Development (MTAD), and financed by the World Food Programme (WFP). OVCs receive a cooked meal every weekday and early childhood care and Development (ECCD) services from those under six year. There are about 1,700 NCPs throughout the four regions of Eswatini. Total expenditure for the year under review was E7 million, which is 0.01% of GDP.
- B. During the year under review, WFP also supported **cash based transfers** to food insecure populations who included 75,593 people comprising of 36,663 males and 38,930 females. Total expenditure was E9.4 million, which is 0.01% of GDP.

5.4. Coverage analysis

The SSI data reveals that 1,172,349 people were beneficiaries of at least one social protection program, from which 554,077 persons (47%) were male while 618,264 (53%) are female.

Figure 16. Type of social protection scheme received by beneficiaries



Source: SSI Matrix

This figure could include duplication for those who received support from two or more schemes.

Most (83%) beneficiaries received support for social assistance. This was followed by 7.1% who received for in-kind support. Only 3.4% of beneficiaries received employment related support.

In terms of contribution to social security, only 118,019 people (33,100 males and 84,838 females) contribute to the pension system. This translates to 31.6% of the working aged population. This results in having only 26% of older persons aged 60 and above receiving a contributory pension, and a majority are on the government elderly grants programme.

Only 15% of children were covered by social protection programmes. However, a higher (81%) percentage of children receive free lunch at school and in communities.

Out of the estimated 359,685 people who were food insecure in 2019, only 21% received social assistance through cash based transfers.

Only 5% of the estimated number of persons living with disabilities received a social grant.

5.5. Expenditure Analysis

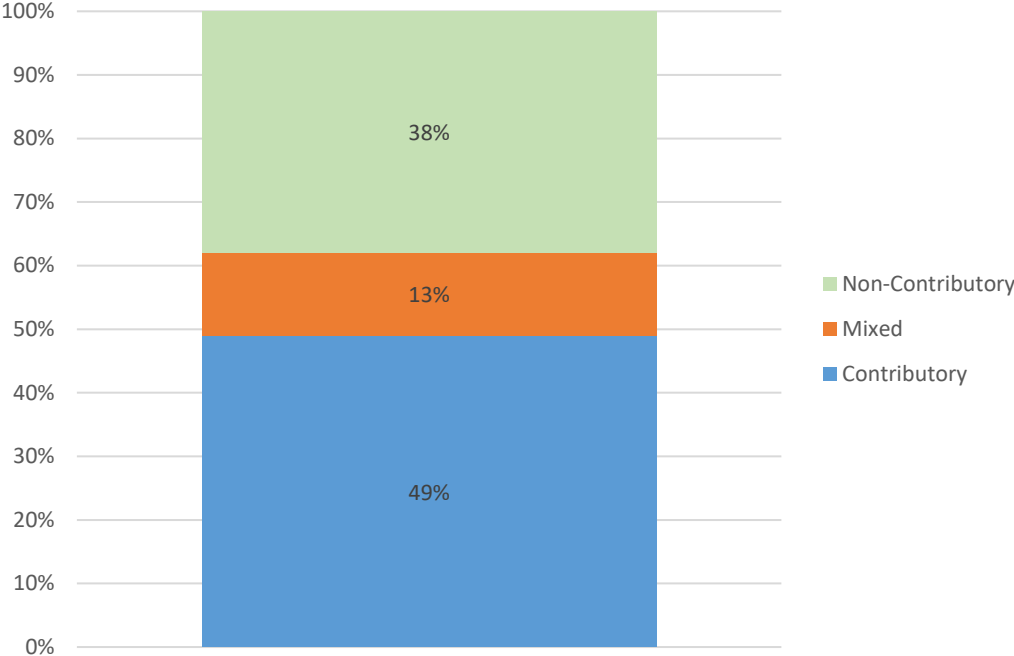
According to official data for financial year 2019/20, total public expenditures in social protection programs amounted to E 3.6 billion, which is 5.6 % of nominal GDP for 2019. Total revenues accruing from social insurances amounted to E 1.9 billion, which is 3% of GDP.

An analysis of expenditure reveals that 49% of total expenditure was towards social security products whose funding was contributory and invested through employment related savings. This is predominately attributed to the large public service programme held by the PSPF.

Thirty-eight (38%) percent of expenditure was towards social protection programmes that were non-contributory.

Thirteen percent of expenditure was towards mixed funded programmes.

Figure 17: Expenditure by contributory, non-contributory and mixed methods



Source: SSI Matrix

5.6. Other considerations

This segment finally describes issues not contemplated in the previous sections regarding social protection coverage and financing conditions.

5.6.1. Tendencies in non-contributory social protection expenditures

Total expenditures in non-contributory social protection programs amounted to E1.4 billion. Expenditure on social protection programmes has been growing at an exponential rate and is largely attributed to the increases in HIV burden since its discovery in 1986 and mitigation programmes of OVC education grants, free primary education, elderly grants, free HIV treatment and community feeding.

5.6.2. Tendencies in contributory social protection expenditures

Expenditures in contributory social protection programs amounted to E 1.8 billion. This is towards pension annuities, survivors and gratuity.

5.6.3. Tendencies in mixed social protection expenditures

Expenditures in mixed (contributory and non-contributory) programs amounted to E458 million. This is mainly attributed to the motor vehicle fund and public works programme by Microprojects.

5.7. Estimation of the financing gap

The table below summarizes the list of existing social protection programmes organized by population group. Each line includes the estimated size of the group, the existing coverage and coverage rate, the average benefit per person and the estimated financing gap. The gap refers to the difference between the size of the group and the current number of beneficiaries times the annual average benefit of the corresponding scheme. Although all figures come from official statistics, two assumptions were incorporated in the analysis:

- For poor households, the exercise assumes a transfer that is equivalent to 50% the national poverty line (E975.3 per month)
- For unemployed and mothers, the monetary transfers were equivalent to E2,925 per year. This amount is the same as three times the monthly poverty line.

In total, the full financing gap of covering all groups in the table was estimated at **SWE 1,287,437,706 per year or 1.76% of GDP**. The largest groups (in terms of individuals without coverage) are children and unemployed persons while in terms of coverage, mothers receiving cash transfers and unemployed are the most critical as both have zero coverage.

Table 1. Social protection financing gap (in SWE)

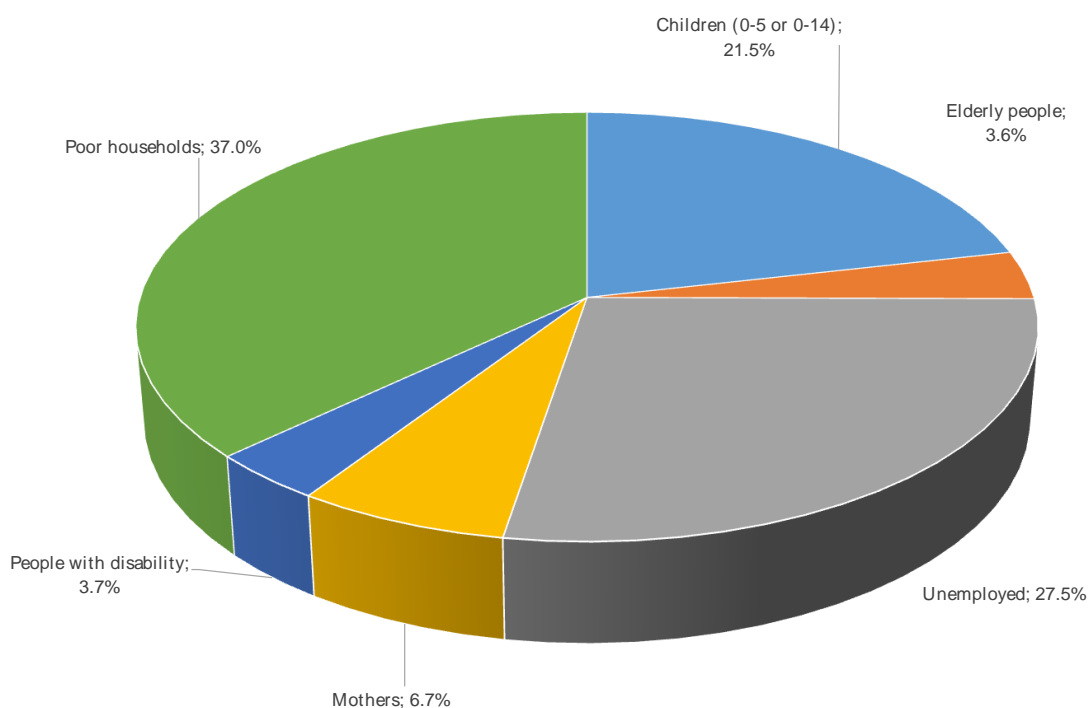
| Population group | Programme | Current coverage | Size of group | Coverage rate | Annual transfer per beneficiary | Gap in SZL |
|-----------------------------------|---------------------------|------------------|---------------|---------------|---------------------------------|-------------|
| Children (0-5 or 0-14) | Free primary Education | 237,066 | 387,473 | 61.2% | 1,094 | 164,475,353 |
| | School feeding Programme | 352,547 | 377,433 | 93.4% | 155 | 3,845,565 |
| | NCPS | 54,145 | 260,036 | 20.8% | 129 | 26,483,018 |
| | Special education | 10,518 | 55,613 | 18.9% | 1,031 | 46,479,491 |
| | Healthcare (ARVs) | 8,787 | 11,297 | 77.8% | 1,557 | 3,907,841 |
| | Social Transfers | 53,687 | 304,585 | 17.6% | 124 | 31,025,755 |
| Elderly people (60 yrs and older) | Elderly grants | 71,797 | 80,755 | 88.9% | 5,241 | 46,946,281 |
| Unemployed | 3-month monetary transfer | - | 121,050 | 0.0% | 2,925 | 354,071,250 |
| Mothers | Healthcare (ARVs) | 9,991 | 10,517 | 95.0% | 1,557 | 818,934 |

| | | | | | | |
|------------------------|---------------------------|--------|---------|-------|-------|----------------------|
| Mothers | 3-month monetary transfer | - | 29,200 | 0.0% | 2,926 | 85,436,280 |
| People with disability | Social grant | 5,039 | 18,389 | 27.4% | 3,563 | 47,570,456 |
| Poor households | Cash based transfers | 75,593 | 157,000 | 48.1% | 5,852 | 476,377,483 |
| Total | | | | | | 1,287,437,706 |

Source: Authors elaboration

The distribution of the financing gap per population group is observed in the following figure. Subsidies to poor household may account for 37% of the gap while unemployed persons would add 27.5% more to the difference. Children rank third in terms of size of the gap: roughly one in five emalangeneni would be allocated here.

Figure 18. Distribution of the financing gap per population group



Source: Authors elaboration

The previous list of schemes can be shortened in line with economic and political considerations. If, for instance, the criterion is to keep only one intervention per group so to achieve universalization by this way, the needs of additional financing may drop considerably. An example of this exercise appears in the following table. This can be

considered an initial idea of a *social protection floor* that focuses on transferring money to different population groups according to their needs. In this shortened list, the financing gap is estimated at **E 1,041,427,504 that are equivalent to 1.43% of GDP**. Poor households (45.7%) and unemployed (34%) remained at the top of the individual groups but now accounting for almost 80% of the gap.

Table 2. Social protection financing gap (in SWE)

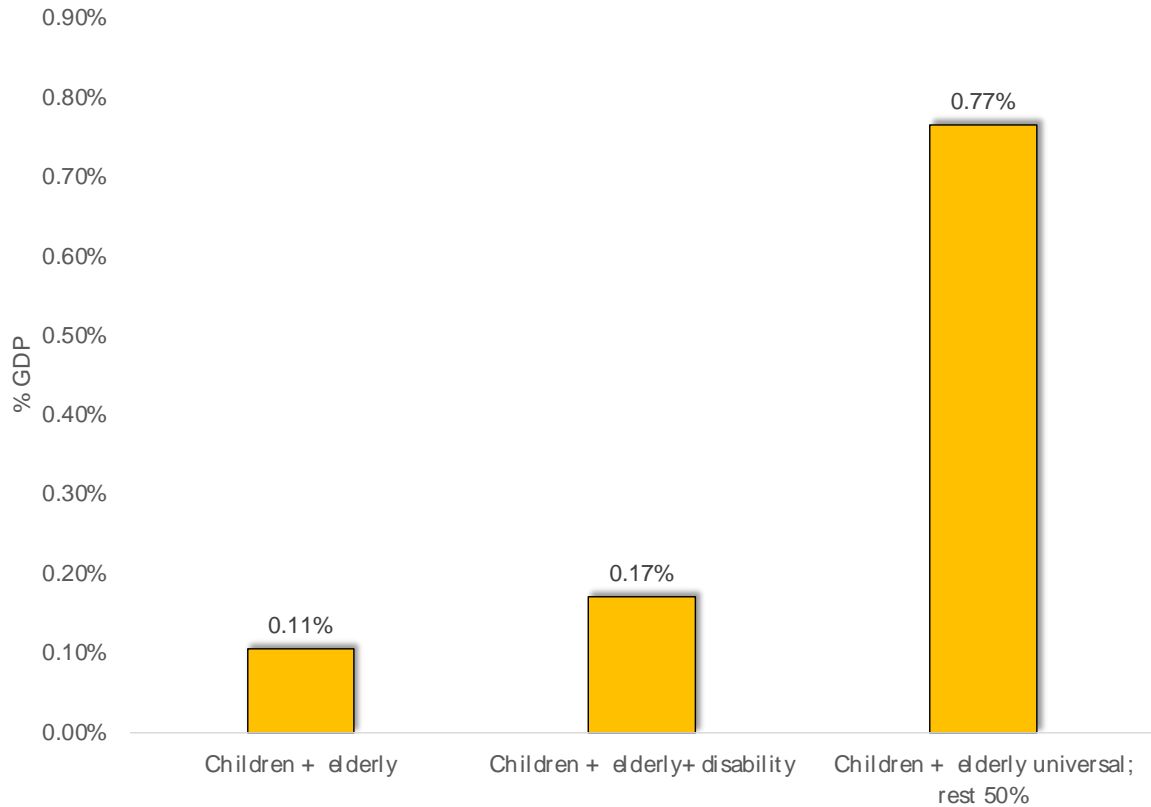
| Population group | Programme | Current coverage | Size of group | Coverage rate | Annual transfer per beneficiary | Gap in E |
|-----------------------------------|---------------------------|------------------|---------------|---------------|---------------------------------|----------------------|
| Children (0-5 or 0-14) | Social Transfers | 53,687 | 304,585 | 17.6% | 124 | 31,025,755 |
| Elderly people (60 yrs and older) | Elderly grants | 71,797 | 80,755 | 88.9% | 5,241 | 46,946,281 |
| Unemployed | 3-month monetary transfer | - | 121,050 | 0.0% | 2,925 | 354,071,250 |
| Mothers | 3-month monetary transfer | - | 29,200 | 0.0% | 2,926 | 85,436,280 |
| People with disability | Social grant | 5,039 | 18,389 | 27.4% | 3,563 | 47,570,456 |
| Poor households | Cash based transfers | 75,593 | 157,000 | 48.1% | 5,852 | 476,377,483 |
| Total | | | | | | 1,041,427,504 |

Source: Authors elaboration

A third alternative is to define only a sub-group of population units that would be subject to universalization. When resources are limited, the country may advance by universalizing certain groups while progress in the others moves smoothly or is completely frozen.

Different combinations towards universalization are observed in the following graph. The first two bars include the alternative of universalizing children and elderly, on one hand, or children, elderly and people with disability in the other hand. The rest of the groups experience no progress. In these circumstances, the required additional funding may go between 0.11% and 0.17% of GDP. The third bar defines a mixed strategy of universal coverage for children and elderly and 50% of the coverage for the rest of groups. In this case, the financing needs would go up to 0.77% of GDP.

Figure 19. Financing gaps for different scenarios of coverage



Source: Authors elaboration

6. Fiscal space for social protection in Eswatini: analysis of options

The chapter presents fiscal space options following the corresponding Handbook prepared by Ortiz et al (2019). The macro-seven options considered in this segment are:

1. Social contributions
2. Tax-related revenues
3. Expenditure reprioritization

4. Illicit financial and trade flows
5. Debt management
6. Use of fiscal and foreign exchange reserves
7. Official Development Assistance

For each option, the section discusses such issues like revenue generation estimates and the economic, fiscal, institutional and political feasibility.

6.1. Social contributions

Social contributions ranked among the top fiscal space creators for social protection around the world. This section estimates the potential additional revenue coming from the establishment of a social insurance in Eswatini. To proceed, the exercise conducts calculations for both formal and informal workers using a series of real-data figures and some assumptions about coverage rates.

In the case of formal workers, the table below summarizes the parameters and expected fiscal space generation of universalizing coverage among this group. This is considered the “target, long-run situation”.

According to available information, the size of the labour force is 241,933 personas out of which 65% are salaried and 35% are self-employed. The average monthly wage is E4,510 and it is assumed that a self-employed worker earns 60% of that average. If the contribution rate is assumed to be 10% and universal coverage is the target scenario, then the results indicate that a social insurance that operates under those circumstances would generate **1.55% of GDP (E 146,100.6 million per year)**. Of this, 1.17% of GDP may come from affiliating wage-earners while the remaining 0.38% would be generated by self-employed.

Table 3. Expected fiscal space due to social insurance coverage (all workers)

| Variable | Wage earners | Self employed |
|-----------------------------|--------------|---------------|
| Occupied labour force | 241,933 | 241,933 |
| Participation in employment | 65% | 35% |
| Total workers | 157,256 | 84,677 |
| Average monthly earnings | 4,510 | 2,706 |
| Contribution rate | 10% | 10% |
| Coverage rate | 100% | 100% |
| Expected revenues | 851,071,907 | 274,961,693 |
| % GDP | 1.17% | 0.38% |

Source: Author estimations

The former figure assumes no informality. This, of course, is not true as it is estimated that informality may account for 53.4% of total workers (129,192 persons) in Eswatini. If the analysis assumes that 45% of the informal employed persons are wage earners and 55% are self-employed, then informality rates would be 37.0% of salaried workers and 83.9% for self-employed. These estimates affect the potential universe of effectively insured workers. In this case, for instance, the total size of wage earners would drop to 99,120 salaried workers and only 13,621 self-employed. In total, after informality-adjustment, the revenues of the scheme would amount **SWE 580,666,722 or 0.79% of GDP**. This scenario can be defined as a short to medium-term point of reference for financing purposes.

Table 4. Expected fiscal space due to social insurance coverage of formal workers (excluding informality)

| Variable | Wage earners | Self employed |
|-------------------|--------------|---------------|
| Total workers | 99,120 | 13,621 |
| Expected revenues | 536,437,170 | 44,229,552 |
| % GDP | 0.73% | 0.06% |

Source: Author estimations

6.2. Taxation

Taxation is another top fiscal space generator that adopts a multifaceted approach in the way it can contribute to social protection financing. For the purposes of this analysis, taxation is assessed on the grounds of the following aspects:

- Revenues coming from expanding current general taxes
- Revenues coming from expanding or creating specific taxes
- Potential new revenues coming from lowering tax evasion or tax expenditures

General taxation

General taxation explores the additional fiscal space due to tax increments in VAT and income tax mainly.

According to the Eswatini Revenue Service, the Value Added Tax (VAT) is an indirect levy applied on local and imported goods and services. The tax was introduced on 1 April 2012 (VAT Act 2011 and related Regulations) to replace Sales Tax with an initial 14% rate. Prevalent rate today is 15%. Some exemptions exist.

According to the table below, in the last three years, revenues collected by VAT averaged 5.1% of GDP with an expected increasing tendency over time. According to estimates of the Ministry of Finance, the VAT-related revenue collection would be 1 percentage point higher in 2021/2022 in relation to 2019/2020. In other words, one point of VAT generates something equivalent to **0.37% of GDP**. Despite this interesting result, it is important to consider that increments in the VAT may also increase the risk of evasion and therefore it is

a much better approach to expect a lower collection given the reaction of taxpayers. If this penalty is assumed to be 10% of the initial estimate, then the final collection would drop to **0.34% of GDP** per VAT point.

Table 5. Revenue collection by tax, 2019-2021

| Tax | 2019 | 2020 | 2021 |
|---------------------|------|------|------|
| Value Added Tax | 4.6% | 5.1% | 5.6% |
| Corporate tax | 2.7% | 0.4% | 2.6% |
| Personal income tax | 5.4% | 5.3% | 5.5% |

Source: Ministry of Finance

In Eswatini, the income tax is applied on all “income derived from sources generated within or deemed to be generated within the country, irrespective of whether the recipient of the income is actually resident in Eswatini” (PwC web page)⁴. The current corporate rate is 27.5% (flat). With the exception of 2020/2021 (where income tax fell 85% in relation to 2019 due to the economic effects of COVID-19), in regular years the corporate income tax has been representing 2.64% of GDP. In other words, each income tax point yields **0.10% of GDP** from the business side. Moving this tax from the current rate to 30% may increase funding by **0.24% of GDP (0.21% of GDP if adjusted by expected evasion)**.

The personal income tax is progressive and runs according to the table below in percentages between 20% and 33% of the income in excess. Between 2019 and 2021, the tax generated 5.4% of GDP with some tendency to grow over time (expected 0.09% of GDP increment). If the estimates assume that the average rate is 25% (i.e. most of the taxpayers are in the first two categories), then that would represent **0.22% of GDP per point (0.20% of GDP after inputting for evasion)**.

Table 6. Tax rates applied to personal income tax

| Over | Not Over | Tax rate |
|---------|-----------|--|
| 0 | 100,000 | ESW 0 plus 20% of taxable income in excess of ESW 0 |
| 100,000 | 150,000 | ESW 20,000 plus 25% of taxable income in excess of ESW 100,000 |
| 150,000 | 200,000 | ESW 32,500 plus 30% of taxable income in excess of ESW 150,000 |
| 200,000 | and above | ESW 47,500 plus 33% of taxable income in excess of ESW 200,000 |

Source: PwC

In summary, one additional point in both corporate and personal income tax may generate **0.32% of GDP (0.29% after adjustment)**.

⁴ See <https://taxsummaries.pwc.com/eswatini/corporate/taxes-on-corporate-income>

Specific taxation

Specific taxes refer to those levies applied to particular activities or goods and services. The literature in the field has explored multiple cases of countries where specific taxes have been approved to finance health and social protection. Examples in this regard include taxes on mining and gas, financial transactions, touristic arrivals, touristic services, mobile communications, tobacco, lotteries and residential properties, among others. Based on internal calculations and other exercises already prepared to Eswatini (see World Bank, 2010), the section analyzes how some of these alternatives can contribute to close the gap. Specifically, it estimates additional funding from four specific sources: increasing fuel tax, an special levy on tourism arrivals and a telecommunications-based tax.

Currently, the fuel tax in Eswatini amounts E3.85 per liter. According to estimates of the Ministry of Finance, revenue collection derived from this tax may amount ESW1,549.2 million in 2021/2022. Based on those figures, the country would consume 402,398,701 liters of fuel per year. A E1.15 additional tax may yield ESW 462,758,506 in one year that represents **0.63% of GDP**.

In the case of international arrivals, roughly 1,251,500 persons landed in Eswatini in the two years previous to pandemic. If a levy on arrival is set at E50, then the additional resources for social protection may amount SWE 62,575,000 or **0.09% of GDP**.

The section also explores a tax per mobile line. Between 2019 and 2020, the total number of mobile lines in Eswatini jumped from 1,176,000 to 1,243,000 units, a 5.7% increment. If during the next two consecutive years the same growth rate persists, then the expected number of mobile lines would be 1,388,669 units in 2022. A E100 levy per line, annually paid, would generate **0.19% of GDP**⁵.

Finally, a tax on sugar production (the most important crop in Eswatini) is introduced. According to FAO statistics, the country produced 5,736,971 tons of sugar in 2019 and 5,699,469 tons in 2020. A E0.05 per kilogram of sugar produced would yield SWE 286,848,550 equivalent to **0.44% of GDP**.

Table 7. Potential revenues generated by specific taxes (% GDP)

| Tax | Additional fiscal space (% GDP) |
|--|---------------------------------|
| Increasing Fuel Tax (E1.15) | 0.63 |
| Additional tax on arrivals (E50) | 0.09 |
| Tax per mobile line (E100) | 0.19 |
| Tax per kilogram of sugar produced (E0.05) | 0.44 |

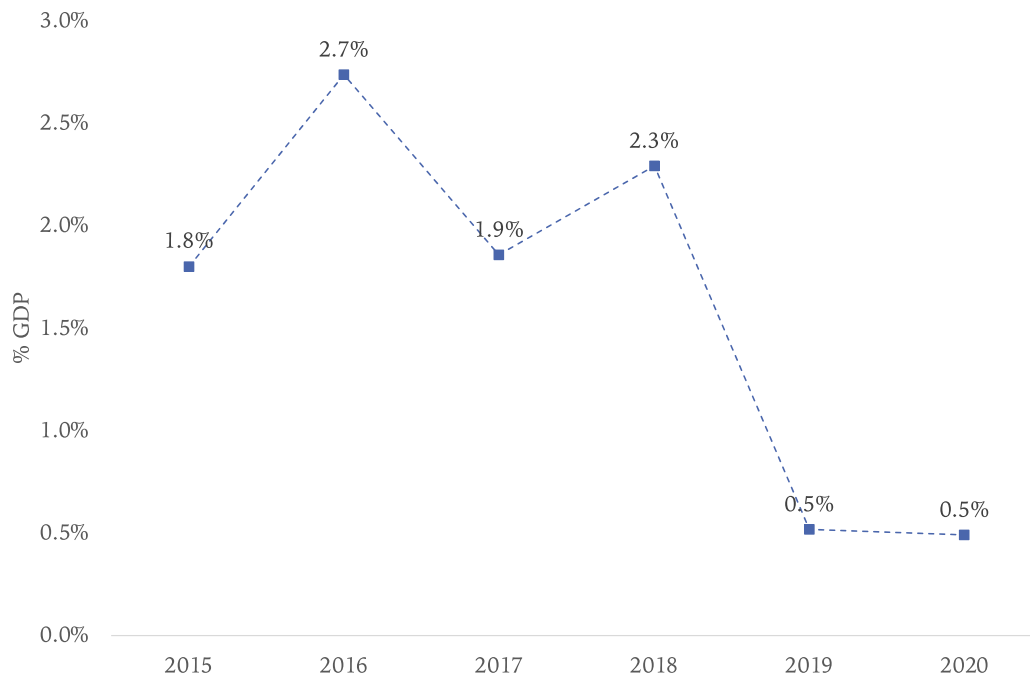
Source: Author estimations

⁵ Although the traditional way to analyze this source is with “minutes consumed”, the data was not available so in

Tax expenditures

According to the Global Tax Expenditures Database (GTED), tax expenditures in Eswatini (in terms of foregone revenues) averaged 1.62% of GDP between 2015 and 2020. However, in the last years, their levels drop significantly due to several reforms introduced in the tax system. In 2019-2020, foregone revenues declined to **0.51% of GDP**. In other terms, the potential contribution of this source is limited and the only way to become an important alternative is to eliminate all the exemptions and allocate the new income to social protection.

Figure 20. Tax expenditures in Eswatini (% GDP), 2015-2020



Source: GTED

Tax evasion

Data on tax evasion in Eswatini is fragmented, coming from multiple sources. One of the sources, the Tax Justice Reports 2020, estimates overall losses in the order of E281 million per year due to corporate tax abuse and offshore tax evasion. This accounts for **0.43% of GDP**.

6.3. Budget reprioritization

Budget reprioritization is one of the measures that belong to efficiency-oriented options meaning that no new revenues are created but the existing funding is allocated in a different way (i.e. favoring social protection).

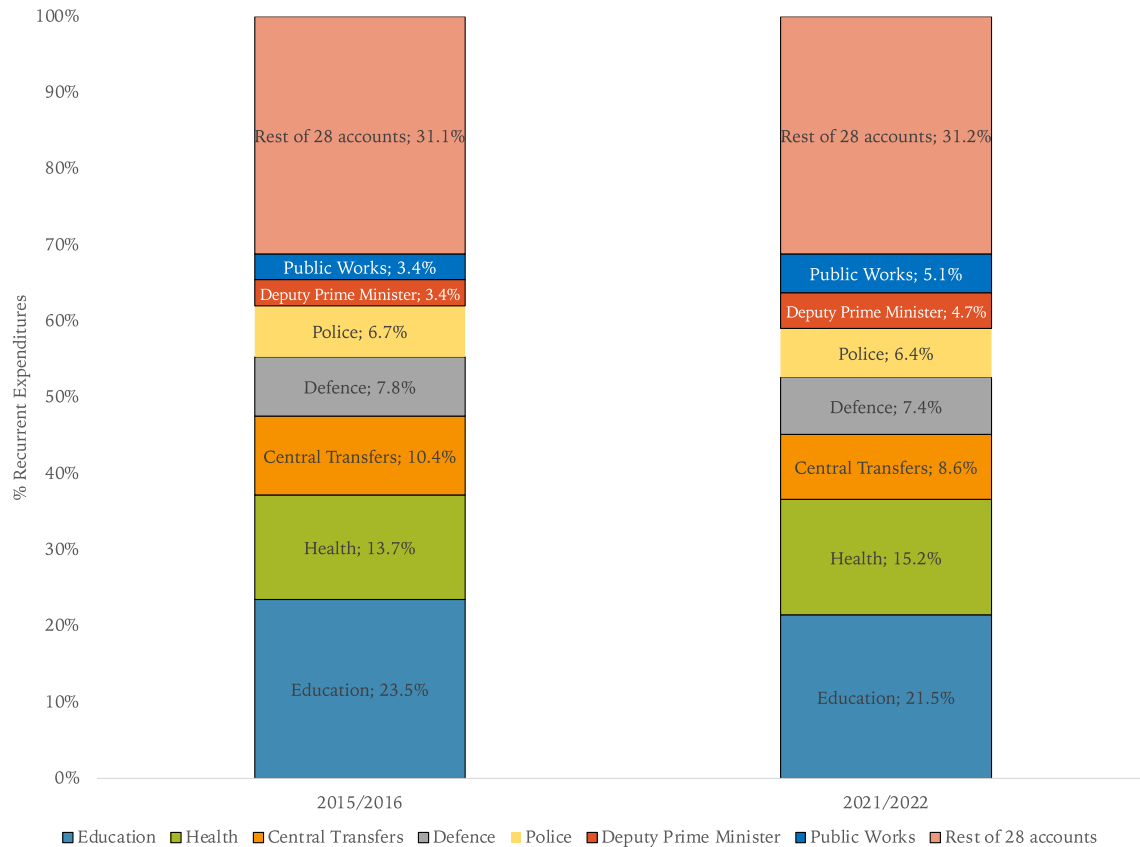
The analysis of budget reprioritization can be done using two approaches. The **economic approach** uses the accounting perspective, that is, it assesses the structure of the budget according to remunerations, procurement of goods and services, transfers, and capital spending. The **functional approach**, on the other hand, evaluates expenditure distribution according to the strategic function it performs (i.e. national security, environment, social protection, government, etc).

Between 2015/2016 and 2021/2022, **the public expenditures** of the Government of Eswatini grew from ESW 11,737.1 to ESW 15,983.8 million at an average 5.2% per year. In GDP terms, spending was under control moving from 22.2% to 22.6% in the same period.

From a functional approach, the budget was distributed among 36 accounts. The top 5 categories (Education, Health, Central Transfers, Defence and Police), that accounted for 62% of the total budget in 2015, moved down to 59.1% in 2021. The rest of the accounts do not exceed 5% of the total spending except for Public Works (5.1% in 2021). The share of Education and Central Transfers fell by 2 and 1.8 points, respectively, while Public Works, Health and the Office of the Deputy Prime Minister observed increments of 1.7, 1.5 and 1.2 points during the assessed period.

In GDP terms, the former dynamics implied a reduction in the total allocation to Education from 5.2% to 4.8% while Central Transfers also lose 0.4 points from 2.3% to 1.9%. On the other hand, Health and Public Works gained 0.4 points of GDP while the Office of the Deputy Prime Minister increased its share by 0.3 points up to 1.1% of GDP.

Figure 21. Functional structure of the Government Budget, 2015/2016-2021/2022



Source: Author elaboration based on Ministry of Finance Budget Estimates

The previous dynamics suggest little room to re-accommodate the budget to free resources that may be allocated for social protection purposes. Why? The idea behind reallocation is to evaluate those accounts that increased their participation in the budget and analyze whether reverting this increment is feasible and desirable. In this line, the evidence shows that the “big winners” of the period (Health, Public Works and the Office of the Prime Ministers) are all critical for the objectives of pursuing enhanced economic growth and social cohesion.

The micro evidence at the level of budgetary program indicates that some little space may exist in very specific accounts. For instance, in the case of Public Works, two items, consumables and internal transfers, grew 5.6 and 3.3 times between 2015 and 2021. Overall, the institutional budget doubled in the same period. In GDP terms, those two accounts grew from 0.26% to 0.73%, **a net increment of 0.47 points**. It may be important to check the reasons behind that increment to assess whether a reversion of the increment can be transformed into effective fiscal space for social protection. This figure may increase to **0.63% of GDP** if the net increment of remunerations is inputted in the analysis.

In the case of health, the budget increased 1.5 times in nominal terms during the assessed period. International transfers led the institutional growth (9.2 times increment) followed by the procurement of drugs (1.98 times), services (1.90 times) and rentals (1.60 times). External transfers, however, represent a very low proportion of the budget. The four

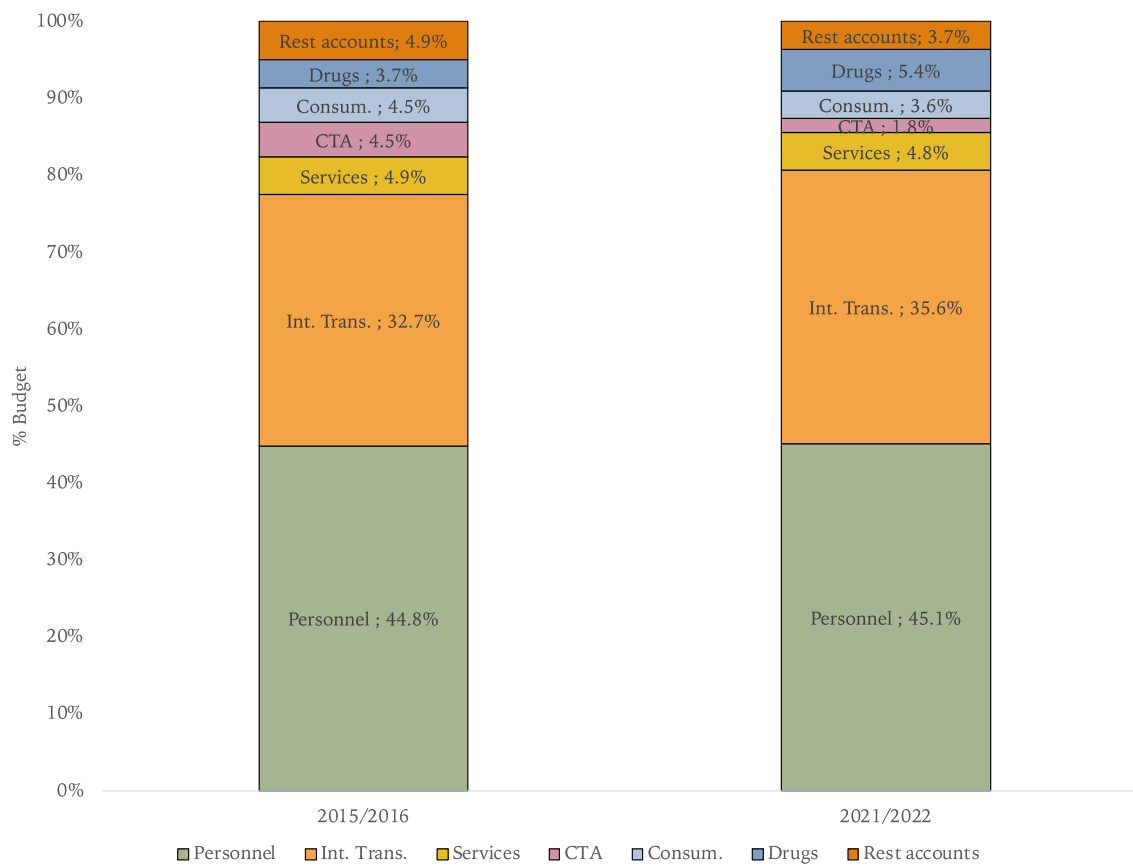
previously mentioned accounts explained 71% of the increment in the Ministry of Health Budget **or 0.82% of GDP**. A more restricted version may exclude drugs from the analysis in whose case the increment drops to **0.22% of GDP**. Drugs, however, can be evaluated separately to analyze potential savings from current purchasing and managing practices.

Finally, the increment observed in the Office of the Deputy Prime Minister is mainly explained by the expanded allocation of internal transfers. In particular, transfers from the Welfare Department in the form of grants and subsidies became the most important determinant of the overall Ministerial growth. As they belong to social protection, this increment may not be considered for budgetary reallocation.

From an economic perspective, current domestic transfers were the most benefitted account with the expansion of the budget in this period. Such transfers, that used to represent 32.7% of the total budget, now accounts for 35.6%, a net increment of 2.9 points. Remunerations remain as the most important category and, although they also gained participation in the overall budget, this increment only achieves 0.3 points. Both items now represent 80% of the government spending. Drugs (+1.7 points) and external transfers (+0.3 points) also moved up their participations, but their individual shares are comparatively small. On the contrary, four categories lose participation, being the most important the Central Transport Authority -CTA- (-2.7 points), transportation (-1.0 point) and consumables (-0.9 points).

When the previous results are converted into GDP terms, then the evidence indicates that, excluding domestic transfers and drugs, the top winners of the period were remunerations (+0.2% of GDP) and external transfers (+0.1%). In other words, if the strategy to create fiscal space consists in reverting budgetary increments in those two accounts, then the analysis suggests a ceiling of **0.3% of GDP** that may be reallocated. However, this is not free of risks and limitations. To save this 0.3%, for instance, salaries should be frozen for some years and/or the size of the staffing should also be reduced. Similarly, transfers should be under control and should be expected to grow below GDP over 3-5 years. As expected, freezing salaries for some time may be politically unfeasible and this may retard any gain for increasing social protection financing.

Figure 22. Functional structure of the Government Budget, 2015/2016-2021/2022



Source: Author elaboration based on Ministry of Finance Budget Estimates

In short, this alternative offers some moderate-to-low options to create fiscal space for social protection. First, an important share of the budgetary increments between 2015 and 2021 was explained by higher social spending and this reduces the margin of reallocation. Second, when financially possible, there may be some political barriers that may halt efforts to generate savings. That may be the case of remuneration control. Finally, some measures aimed at enhancing cost control, like reviewing drug spending, may take some time to be effective.

6.4. Illicit financial and trade flows (IFTF)

The United Nations (2016: 1) defines IFTF as

IFFs are defined broadly as all cross-border financial transfers, which contravene national or international laws. This wide category encompasses several different types of financial transfers, made for different reasons, including: funds with criminal origin, such as the proceeds of crime (for example tax evasion, money laundering, fraud and corruption); funds with a criminal destination, such as bribery, terrorist financing or conflict financing; transfers to, by, or for, entities subject to financial sanctions

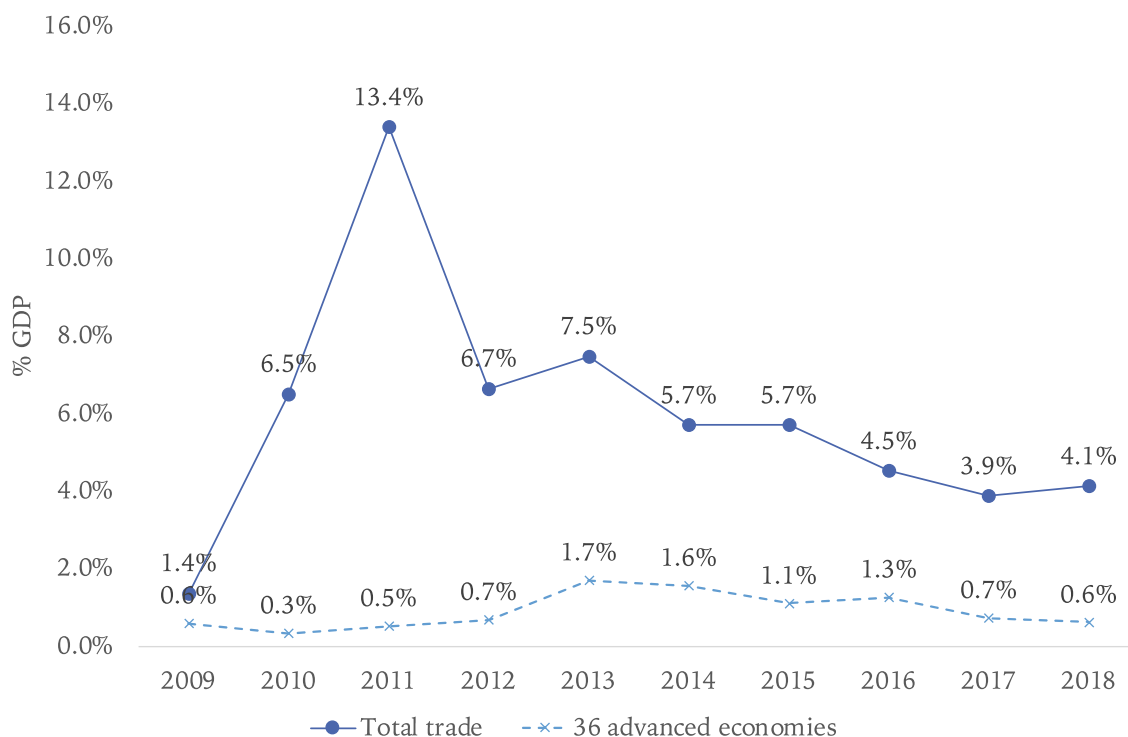
under UN Security Council Resolutions such as 1267 (1999) and its successor resolutions (e.g. Al Qaida and other terrorist organisations); and transfers that seek to evade anti-money laundering/counter-terrorist financing measures or other legal requirements (such as transparency or capital controls).

IFTFs became a relevant topic of discussion in the context of development finance. In Africa, for instance, the United Nations (2020) indicates that the African economies lose something close to US\$88.6 billion a year, or 3.4% of the continental GDP, due to illicit flows. Following this report, Moyo (2021) highlights the fact that about 50% of the SDG financing gap in Africa can be closed if that money would be recovered.

For the case of Eswatini, several estimates have been prepared. The Global Financial Integrity (GFI, 2021) calculates in roughly US\$39.5 million per year the value gap of trade flows between the country and 36 advanced nations. As stated in the graph below, after peaking at **1.7% of GDP in 2013**, the estimates present a declining pattern in trade value gaps up to a lowest **0.6% of GDP**. In the last three years of assessment, trade gaps accounted for 0.9% of GDP and 28.3% of total trade flows. In 2017 and 2018, Eswatini ranked among the top four countries (in a sample of 134 nations) with the largest value gaps (as a share of trade flows).

When the same analysis moves to the *total trading partners in Eswatini*, the estimates show the size of the trade gap in 5.9% of GDP in 2009-2018 with minimum and maximum calculations of **1.4% and 13.4% of GDP**. In the last triennium, the difference amounted **4.2% of GDP** or US\$179 million.

Figure 23. Value gaps in trade in Eswatini, 2009-2018



Source: GFI (2021)

Mis-invoicing is another way to approximate the levels of illicit flows in the country, in this case, through trade. GFI (2019) estimates that, in 2015, trade mis-invoicing with the main developed countries was about US\$200.5 million or 4.93% of GDP. In terms of total trade, this result accounts for mis-invoicing levels representing 37% of total imports and 58% of total exports. Equivalently, in GDP terms, mis-invoicing represents 1.92% in the case of imports and 3% in the case of exports.

Table 8. Trade mis-invoicing levels in Eswatini

| | Import misinvoicing | | Export misinvoicing | |
|--|---------------------|-----------------|---------------------|-----------------|
| | Over-invoicing | Under invoicing | Over-invoicing | Under invoicing |
| | | | | |

| | | | | |
|----------------------------------|--------|--------|--------|--------|
| Million US\$ | 42.833 | 35.237 | 62.456 | 59.924 |
| % trade with developed countries | 20.3 | 16.7 | 29.6 | 28.4 |
| % GDP | 1.1% | 0.9% | 1.5% | 1.5% |

Source: GFI (2019)

In other words, if the analysis assumes that 20% of the flows are recovered and, of them, another 20% turns into fiscal revenues, then the potential fiscal space for social protection in Eswatini may be in the range **0.17%-0.20% of GDP**, depending on the source of flows considered. In the best-case scenario (2013, when total trade-related illicit flows accounted for 13.4% of GDP), additional funding for the sector would amount 0.54% of GDP. It is important to note that those calculations exclude financial-related illicit flows.

Although illicit flows became a popular topic in development financing, recovering these funds is not an easy task and require a wide set of legal, institutional, staffing and technological tools to operate and be successful. In short, criticisms to illicit flows as a source of social protection include:

- **No adequate legal framework.** The concept of “illicit flow” may not be clear for policymakers and courts and what is illicit in some countries may not be in others.
- **Lack of training in the area.** Most staffing in our customs and tax authorities has not received adequate training to detect or identify illegal flows in root of the event. In addition, no
- **No IT systems.** In a similar way, IT systems, including software and data management techniques to identify potential events, are absent in most of the ministries of finance or central banks.
- **No specific institutional departments.** Finally, organograms usually do not include departments and/or activities aimed at detecting illicit flows. Certainly, some of the actions required to identify illicit funds are currently implemented but not with the objective of detecting that particular type of flow.

6.5. Debt management

Public debt can be utilized as a tool to expand social protection financing although there are several pros and cons that should be considered before taking debt as one of the sources of fiscal space creators. First, as social protection has been proved to be a critical determinant of economic growth and socioeconomic development (UN, 2012), there is a case for indebting the country to expand this category of spending. At certain points, this may be the only way to increase social protection budgets in the very short term as other alternatives like taxation may face political and legal barriers for its implementation.

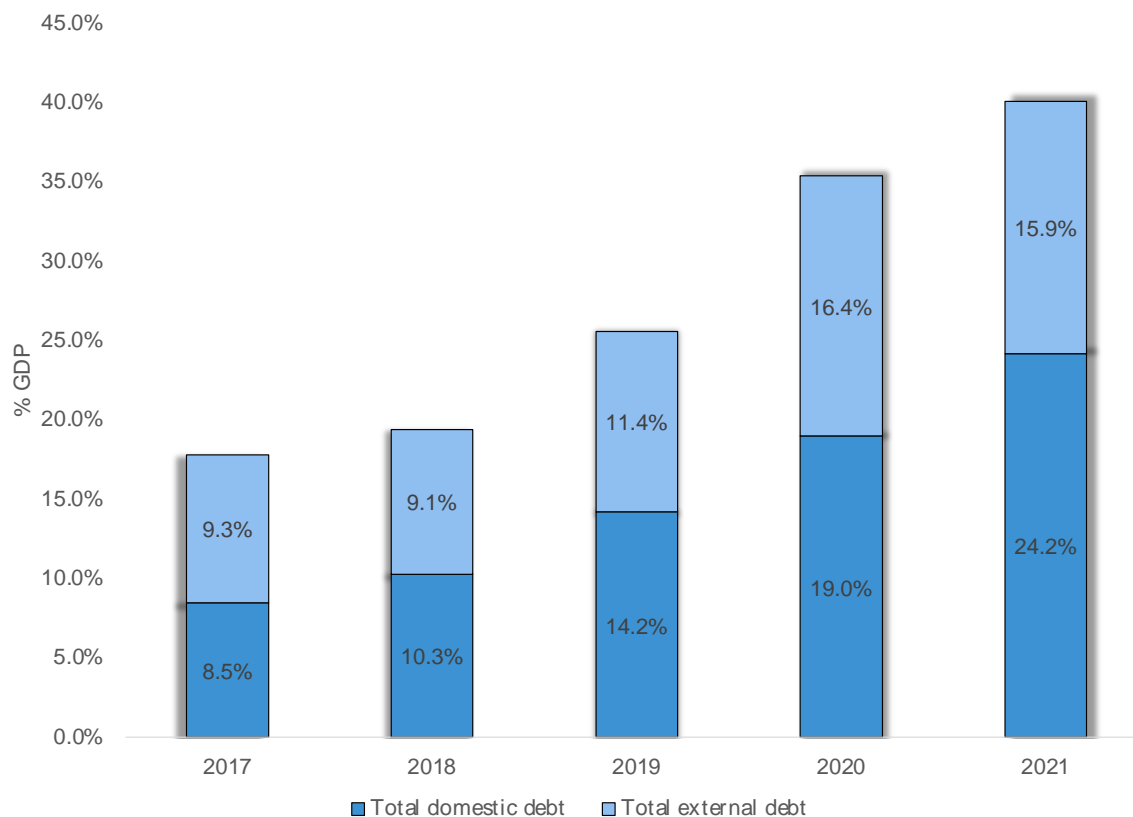
Second, the international experience is clear that debt can be expanded but not on a permanent basis. Overborrowing may cause fiscal crises (debt crises) with the consequent

negative effects on social protection spending from at least two perspectives. First, debt service takes resources for repayment instead of being allocated to social protection. Second, in an effort to control the fiscal deficit, governments usually cut social protection budgets to reduce overall expenses. In line with this, it is important to say that there is no optimal debt level as it is usually defined. Debt levels in the range 40% to 60% of GDP are just references but cannot be considered at the single parameter that would rule a single country. The optimal level may depend on the characteristics of the economy. For instance, governments should ask if there is a market willingness to finance its debt given GDP growth conditions, perspectives on exchange and interest rates and other determinants.

Public debt in Eswatini has been growing at a fast pace since 2017 although its current level is just in the limit of international recommendations (i.e. 40% of GDP). By the end of the fiscal year 2020/2021, the total debt amounted SZL 26,122 million, about 2.6 times the value in 2016/2017. In GDP terms, the total debt moved up from 17.8% to 40.1% in the same period. The main driver of this increment was the domestic debt (+15.7 GDP points) while the external debt contributed with roughly 29.6% of the total increment (+6.6 GDP points).

The domestic debt accounted for 54.1% of the total debt in 2017-2021. Bonds, that represented 51.3% of the domestic debt in 2016/2017, increased to 60.9% in 2020/2021. In terms of the external debt (45.9% of total debt), the dynamics were different. In 2016/2017, 62.7% of the stock were in hands of multilateral organizations, a figure that remains practically the same since then. Private creditors, on the contrary, that used to be 18.8% of the total external debt, jumped to 27.7% in 2020/2021.

Figure 24. Public debt composition, 2017-2021 (% GDP)



Source: Ministry of Finance Annual Public Debt Bulletin

Debt service amounted, by the end of the 2020/2021 fiscal year, SZL 2.4 billion, 26% higher than the amount paid in 2019/2020. Domestic debt service represented 54.2% of those payments. Over the course of the last years, debt service reimbursements grew faster than revenues at the point that the ratio of service to revenues increased from 10.7% to 13.2%.

In general, the cost of the Eswatinean debt is high especially at the local level. As it is stated by the Ministry of Finance (2021: 6)

The cost of domestic debt portfolio in terms of interest payment as a percentage of GDP was 1.1 percent compared to 0.2 percent for external debt with a weighted average interest rate of 8.5 percent compared to 3.2 percent for external debt...The domestic debt is high as most of the borrowing is assumed not to be spread in the market to reach the long-term investors who will lower the debt service in the medium to long term.

Given the previous considerations, a 1-point reduction in the average interest rates, both domestic and external, may yield **0.39 points of GDP in savings**. Of them, **0.20 points** may come from reducing the domestic debt average rate while **0.19 points** may come from external debt negotiation.

Although initial figures may provide an optimistic perspective of the potential of improved debt management for financing social protection, contractual and institutional issues may

difficult achievements in this area. Better opportunities to improve the debt profile may come from the domestic side in the way negotiating longer periods of maturity become an option and facilitate overall debt service via lower debt repayment. Two issues should be taken into account. In the positive side, the Ministry of Finance estimates that, in the medium-term, domestic interests may fall 0.3 points of GDP while external interests would do the same but in a much lower size (0.1 points). **In total, the perspectives project a 0.4% of GDP level of savings.**

In the negative side, however, the current debt profile may create some barriers to achieve short-term outcomes for social protection financing purposes. The most recent available data show a *high risk of refinancing* particularly in the case of the domestic stock⁶. The average time to maturity (ATM)⁷ of this debt is just 2.2 years due to the high proportion of treasury bills that integrate the portfolio. In addition, debt maturing within one year was 58.4% so more than half of the domestic debt will be due in the next 12 months (Ministry of Finance, 2021). This situation forces the Government to focus any effort in obtaining new resources to cover its obligations with little room for identifying and expanding funding for such sectors like social protection. In addition, if the level of fiscal deficit continues being high and the market preferences are for short-term instruments, then the chances to increase fiscal space may decline.

6.6. Use of fiscal and foreign exchange reserves

The use of fiscal and foreign exchange reserves also emerged as an alternative to finance the sector. Authors like Rodrik (2006) talk about *the social cost of keeping reserves* and the *opportunity cost of holding reserves* (even if they generate positive returns) vis-à-vis *the cost of borrowing money for development projects*. In general, it is said that if the country has reserves “in excess”, there is a case to consider them as a potential source of revenue, either as a direct financing source or as a collateral to back-up loans for development purposes. However, opponents to this idea consider that reserves should be used only as an insurance mechanism against sudden stops, economic crises or to cover unexpected movements in the balance of payments, among other arguments.

Several pieces of literature have suggested metrics and rules to analyze what is defined as *reserves in excess* (see for instance ECB, 2012; Greenspan, 1999; Moghadam, Ostry and Sheehy, 2011). This section utilizes four criteria:

- **Total reserves in months of imports:** that considers that the optimal stock should represents covering the payment of at least 3 months of imports.

⁶ The risk of refinancing refers to the chance that an entity (that acts as a borrower) will not be able to replace debt that is coming due with new debt.

⁷ An Average Time to Maturity (ATM) is defined as the average remaining time to maturity for each security or contract composing a debt instrument (<https://www.anevis-solutions.com/2017/closer-look-average-time-maturity-atm/>)

- The **Greenspan-Guidotti rule** that establishes that the reserves should account for 100% of the short-term debt.
- The **ratio of foreign exchange reserves to the total foreign debt balance**. Mbeng-Mezui and Duru (2013: 5) indicates that this indicator “reflects a country’s ability to repay its total foreign debt balance with foreign exchange reserves”, being 40 per cent the optimal value.
- The **ratio of foreign exchange reserves to Money & Quasi-money (M2)**: this measure represents a financial crisis precaution metric and the benchmark for this coefficient usually ranges between 10 per cent and 20 per cent of M2 if the country has a pegged or fixed exchange rate and 5 per cent – 10 per cent for floating exchange rate regimes

The table below presents the results of considering those four indicators. Only two of them estimate that the country has “reserves in excess” in the order 5.1% to 8.5% of GDP, depending on the indicator. If 15% of those reserves would be utilized to finance social protection, then the created fiscal space from reserves would range **between 0.76% and 1.27% of GDP**.

Table 9. Excess of reserves by indicator

| Rule | Benchmark | Last 3 years | Reserves in excess (% GDP) |
|---|------------------|---------------------|-----------------------------------|
| Total reserves in months of imports | 3 months | 2.4 months | No excess |
| Greenspan-Guidotti rule | 100% | 19.4% | No excess |
| Foreign exchange reserves to the total foreign debt | 40% | 75.8% | 5.1 |
| Foreign exchange reserves to M2 | 5%-10% | 36.40% | 8.5 |

Source: Author estimations based on MoF and World Development Indicators

Such results, although optimistic in terms of potential revenue generation, it is important to remind several features. First, evidence about the existence of “reserves in excess” is weak. In particular, when assessing this condition in the context of the two short-term indicators (coverage of months of imports and Greenspan rule), the conclusion is that the country is in deficit of reserves and therefore any movement to reduce the current stock may worsen the

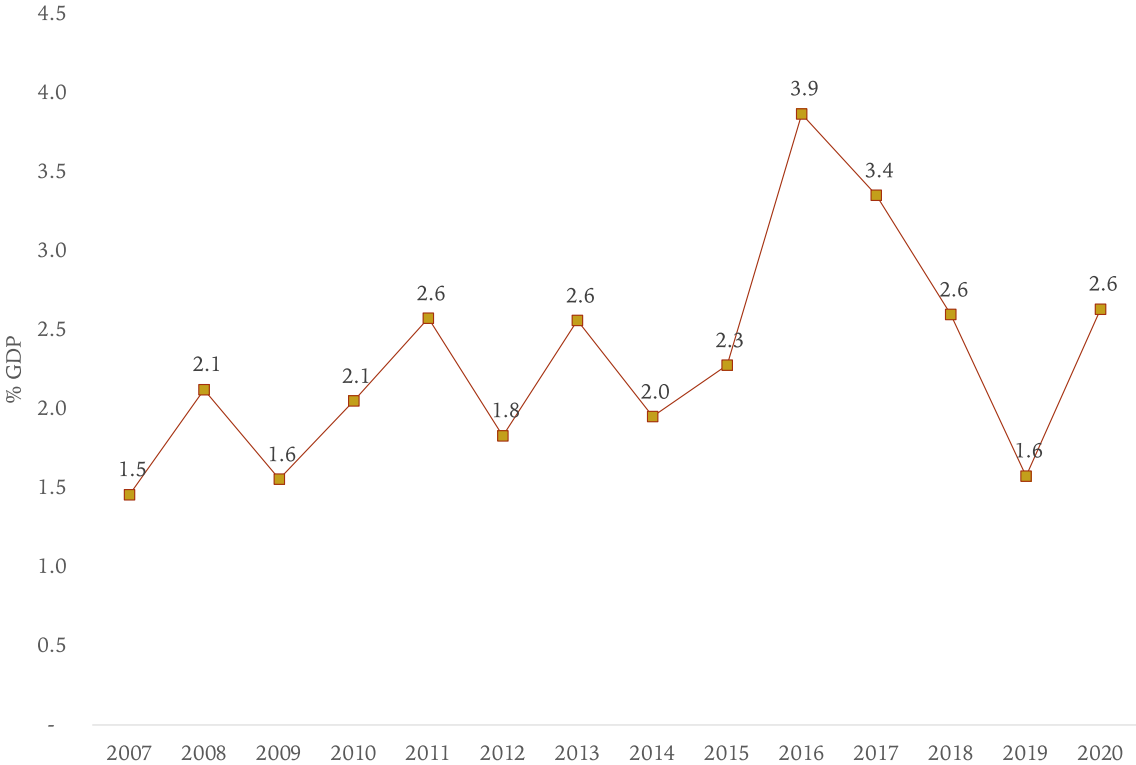
vulnerability of the country in those two areas. Second, use of central bank reserves other than crisis prevention, exchange rate protection and similar tasks is not usually accepted at political levels. In multiple countries, indeed, the corresponding legislation bans the possibility of using reserves for financing public spending. Finally, not all reserves in hands of the Central Bank can be utilized for financing purposes as part of them belong to commercial banks and other public entities.

6.7. Official Development Assistance

The last fiscal space alternative refers to Official Development Assistance, defined as “government aid that promotes and specifically targets the economic development and welfare of developing countries” (OECD web page).

According to Figure 2, net ODA received by Eswatini since 2007 was estimated at 2.3% of GDP per year. In the last five years with available data, net ODA flows increased to an average 2.8% of GDP per year (US\$104.5 million) although between 2016 and 2019 they moved from the highest observed level in the decade (3.9% of GDP) to the lowest level (1.6% of GDP in 2019).

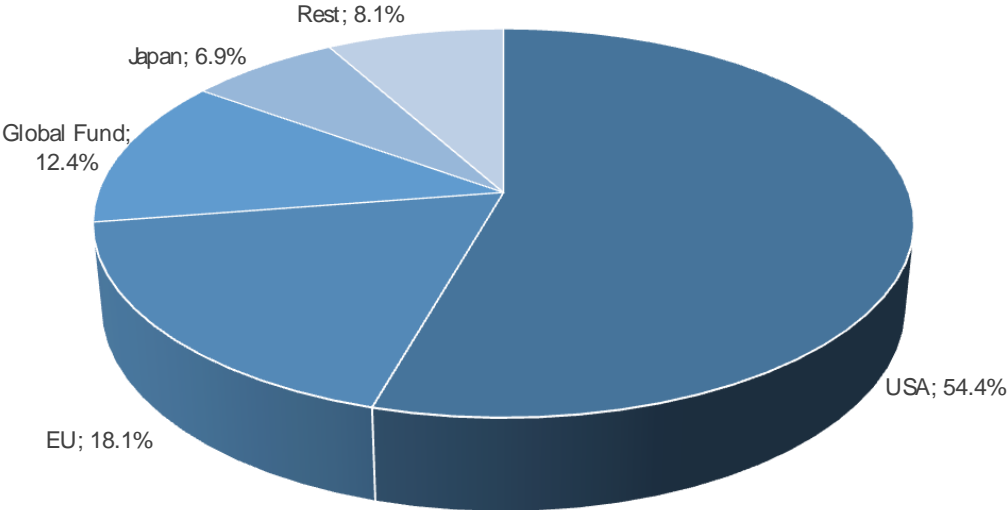
Figure 25. Net ODA as % of GDP, 2007-2020



Source: World Development Indicators

The OECD-DAC database, on the other hand, shows that 54.4% of the average ODA received in 2019-2020 came from the United States while the EU grants an additional 18.1%. The Global Fund is the largest institutional donor (US\$12.1 million) representing 12.4% of the total Assistance in those two years⁸.

Figure 26. Eswatini: Distribution of net ODA by origin, 2019-2020



Source: OECD

Finally, by development sector, health accounts for the largest share of the resources with 84.3% of the ODA received in 2019-2020. Of course, this figure may be biased by the emergence of the pandemic of COVID-19 in 2020 that concentrate a significant share of resources in one segment (i.e. healthcare services). Other social infrastructure and services, from where social protection receive external funding, accounted for 3.92% of net ODA representing 0.08% of GDP. It seems that this component has been losing overall participation in assistance flows as in 2015 DAC support to Eswatini represented 0.18% of

⁸ See https://public.tableau.com/views/OECDDACaidataglancebyrecipient_new/Recipients?:embed=y&:display_count=yes&:showTabs=y&:toolbar=no&:showVizHome=no

GDP (+0.10 points higher than in 2019/2020). If health is included, then ODA-based financing accounted for 1.85% of GDP.

6.8. Overall assessment of the fiscal space alternatives

The table below summarize the key features of each one of the fiscal space options that were considered in this chapter. Overall, and depending on the specific parameters and assumptions in each case, additional funding may run between 0.08% (ODA flows) and 0.79% of GDP (social contributions). In terms of gap closure, the range moves between 5.6% and 55.2%. Again, these results may vary if the calculating parameters shift from what it was specified here.

Table 10. Fiscal space options: revenue generation and gap closure

| Fiscal space option | Assumption | % GDP | % Gap closure |
|------------------------------------|---|-------|---------------|
| Social contributions | All workers covered, adjusted by informality | 0.79 | 55.2 |
| VAT increment | One point increment | 0.34 | 23.8 |
| Income tax, corporations | One point increment | 0.10 | 7.0 |
| Income tax, individuals | One point increment | 0.24 | 16.8 |
| Increasing Fuel Tax | Additional E1.5 tax | 0.63 | 44.1 |
| Additional tax on arrivals | Additional E50 tax | 0.09 | 6.3 |
| Tax per mobile line | Additional E100 tax | 0.19 | 13.3 |
| Tax per kilogram of sugar produced | Additional E0.05 per kg | 0.44 | 30.8 |
| Tax expenditures | All tax expenditures eliminated | 0.51 | 35.7 |
| Tax evasion | 50% corporate evasion eliminated | 0.22 | 15.4 |
| Budget reallocation, functional | Public Works and Health increments are reversed | 0.69 | 48.3 |
| Budget reallocation, economic | Increments in remunerations and external transfers are reversed | 0.30 | 21.0 |
| Illicit flows | 20% of flows are recovered in the form of taxes | 0.20 | 14.0 |

| | | | |
|---------------------------|---|------|------|
| Debt management | 1 point reduction in average interest rate | 0.39 | 27.3 |
| Foreign exchange reserves | 15% of reserves in excess are allocated to social protection, lowest estimation | 0.76 | 53.1 |
| ODA flows | Recent ODA flows to the sector remain | 0.08 | 5.6 |

Although funding generation is a key component in the overall analysis of fiscal space creation, even the best alternative is subject to political, institutional and economic factors that may enhance or detriment the possibilities of success.

The table below utilizes a stoplight approach in which the green color reflects a positive valuation of the alternative in a specific category while a red one denotes negative perspectives.

Based on the contribution to gap closure, the list of options was classified in three groups. The green category includes all options that close the gap in something between 38.7% and 55.2% of the difference. Yellow-related options would contribute in closing between 22.1% and 38.7% of the gap. Finally, those options with red colored cells contribute with less than 22.1% in reducing the gap.

Group 1 (green) is constituted by social contributions, fuel tax, functional reallocation of the budget and foreign exchange reserves utilization. Three conclusions emerged from the stoplight feasibility assessment of this group. First, moderate to high *political* opposition can be expected in the four options. None was initially valued in optimistic terms. Some moderate acceptance can be visualized for the social insurance and the budget reallocation although in the first case the final definition of who bears the financial burden may erode a bit the support from different socioeconomic groups. The other two options, reserves and the incremental fuel tax, may have even more negative perspectives for the reasons explained in the main text (in the case of reserves) or because the higher fuel tax may affect inflation and the socioeconomic conditions of poorer families. Second, better perspectives emerge for this group in terms of the *institutional capacity* to manage each one of the options. In the cases of the fuel tax and the functional reallocation, they may not imply a challenge for the Ministry of Finance as they would require some basic internal adjustments (including IT systems modifications) to implement the proposals. In the case of social contributions and reserves, the situation is less optimistic as the launch of a social insurance requires a learning curve to see the massive results, including increasing coverage rates of hard groups like self-employed workers. Third, equity was the best-valued category in Group 1 also some extreme situations may be observed. The establishment of a solidarity-based model of social insurance may contribute to improving equity but, at the same time, elevating the fuel tax may affect those social groups with lower socioeconomic conditions, as it was formerly mentioned. This last point, however, may require more evidence as some recent studies about the incidence of energy and fuel subsidies point to a large benefit

incidence in favor of wealthier groups. In Angola, for example, the IMF (2015: 14) concluded that “...roughly 80 percent of refined fuels is consumed by the richest 40 percent of households, while only 7 percent is consumed by the poorest 40 percent”. Jara et al (2018) obtained a similar conclusion for Ecuador.

Group 2 (yellow) comprises the VAT increment, the tax per kilogram of sugar produced, the total or partial elimination of the tax expenditures and the improvement of debt management. Politically speaking, these group received a similar valuation as Group 1 with the exception of debt management, considered to be green-colored. The 1-point increment of the VAT and the elimination of tax expenditures were considered red-labeled as it happened with all options with a tax nature. The elimination of tax exemptions may also experience a strong political opposition, including social groups that may worry for the implications of such decision on the prices of the goods and services in the basic basket of consumption. From an institutional perspective, the overall valuation of the group is positive with three alternatives receiving a green. Because three of the four options are taxes that already exist or whose contributory base is easily identifiable, the Group may not force severe adjustments in the Ministry of Finance or others to effectively collect the funds. The only element that may cause some concern is the capacity to improve debt levels as there is a set of contractual arrangements that regulate past debt. Finally, in the case of the effects on equity and social conditions, some concerns appear in relation to increments in VAT and the elimination of tax expenditures, as it was briefly commented. Also,

Table 11. Feasibility analysis of fiscal space options using stoplight

| Options | Contribution to gap closure | Political | Institutional | Equity |
|------------------------------------|-----------------------------|-----------|---------------|--------|
| Social contributions | Green | Yellow | Yellow | Green |
| VAT increment | Yellow | Red | Green | Yellow |
| Income tax, corporations | Red | Red | Green | Green |
| Income tax, individuals | Red | Red | Green | Green |
| Increasing Fuel Tax | Green | Red | Green | Red |
| Additional tax on arrivals | Red | Red | Green | Green |
| Tax per mobile line | Red | Red | Green | Red |
| Tax per kilogram of sugar produced | Yellow | Yellow | Green | Yellow |
| Tax expenditures | Yellow | Red | Green | Yellow |
| Tax evasion | Red | Green | Red | Green |
| Budget reallocation, functional | Green | Yellow | Green | Yellow |
| Budget reallocation, economic | Red | Yellow | Green | Yellow |
| Illicit flows | Red | Green | Red | Green |
| Debt management | Yellow | Green | Yellow | Green |
| Foreign exchange reserves | Green | Red | Yellow | Green |
| ODA flows | Red | Green | Green | Green |

Finally, Group 3 (red) is constituted by the increments in the income tax of corporations and individuals, the tax on arrivals, the tax per mobile line, the full or partial elimination of tax evasion, the economic reallocation of the budget (i.e. remuneration and external transfers

control), the reduction of illicit flows and the continuous reception of ODA flows. From a political perspective, all tax-based policies are expected to experience a strong opposition and consequently they were labeled with a red mark. However, other options like the fight against tax evasion and illicit funds and the persistent reception of ODA flows seems to have better acceptance, at least publicly speaking. Institutionally speaking, green evaluations dominate the group. Interestingly, those financing options with political greens tend to experience institutional reds as the reduction of evasion and illicit flows are clearly of difficult identification in the reality. Finally, in equity terms, most of the alternatives were considered to favor equity and social circumstances with the exception of the tax per mobile line as it may affect low-income groups.

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8. Annexes

ANNEX 1: Social Protection Schemes

| | Program | Contributory or Non-contributory Status | Beneficiaries | | |
|-----|---|---|---------------|--------|--------|
| | | | Total | Male | Female |
| 1. | Elderly Grant | Non-contributory | 71797 | 25129 | 46668 |
| 2. | Disability Grant | Non-contributory | 5039 | 2016 | 3023 |
| 3. | Workman`s Compensation | Contributory | 1158 | 509 | 649 |
| 4. | Ex-Service Men (Umsizi) Military Pension | Non-contributory | 289 | 3 | 286 |
| 5. | OVC Education Grant | Non-contributory | 58499 | 32174 | 26325 |
| 6. | Public Assistance Grant-School Feeding Programme | Non-contributory | 352547 | 181470 | 171077 |
| 7. | Free Primary Education | Non-contributory | 237066 | 124016 | 113050 |
| 8. | OVC Feeding at Neighbourhood Care Points (NCPs) | Non-contributory | 54145 | 24636 | 29509 |
| 9. | Migrant Miners and Ex-Miners | Mixed | 708 | 615 | 138 |
| 10. | Public Service Provident Fund (PSPF) | Contributory | 26453 | 10819 | 15580 |
| 11. | Eswatini National Provident Fund (ENPF) | Contributory | 11048 | 6724 | 4324 |
| 12. | Members of Parliament & Designated Office Bearers Pension Fund (MOPADO) | Contributory | 627 | 339 | 288 |
| 13. | Phalala Medical Referral Fund | Non-contributory | 4790 | 1581 | 3209 |
| 14. | Free ARVs for PLHIV | Non-contributory | 177156 | 61168 | 115988 |

| | | | | | |
|-----|--|------------------|-------|-------|-------|
| 15. | Motor Vehicle Fund | Mixed | 1979 | 1195 | 785 |
| 16. | Public Assistance grants- Cash Based transfers for crises response | Non-contributory | 75593 | 36663 | 38930 |
| 17. | Directorate of Industrial and Vocational Training (DIVT) | Non-contributory | 75 | 46 | 29 |
| 18. | Micro Projects | Mixed | 82862 | 39468 | 43394 |
| 19. | Special Education Needs (SEN) | Non-contributory | 10518 | 5506 | 5012 |

ANNEX 2: Participating organisations and representatives

| | Name | Institution | Contact Number /email |
|-----|-------------------------|----------------------------------|---|
| 1. | Mr. Bhekithemba Mamba | PSPF | 7806-4757 bhekithemba@pspf.co.sz |
| 2. | Ms. Samkelisiwe Gama | PSPF | samkelisiwe@pspf.co.sz |
| 3. | Mr. Nkabinde | ENPF | 7602-8504 mnkabinde@enpf.co.sz |
| 4. | Mr. Vulindlela Ginindza | DPMO | 7603-9864 vuliginindza@gmail.com |
| 5. | Mr. Sandile Ndzimandze | DPMO | 7621-5045 sndzimande@hotmail.com |
| 6. | Ms. Sebentile Myeni | MoH | 7644-3128 Sebentile.myeni@gmail.com |
| 7. | Mr. Sifiso Mavuso | MoH- Economist | 7634-5062 sifisocmavuso@yahoo.com |
| 8. | Mr. Bheka Mziyako | NERCHA | 7806-3604 Bheka.mziyako@nercha.org.sz |
| 9. | Mr. Comfort Shabalala | MOPADO | 25058357/ 76023955 mopado@swazi.net |
| 10. | Mr. Madoda Khumalo | Min of Education and Training | 7911-2020 madodamk@yahoo.com |
| 11. | Mr. Sakhiwo Ndlovu | MoLSS- Localisation | 7645-7018 Sakhiwo58@gmail.com |

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|-----|----------------------|--|---|
| 12. | Mr. Ntabeni | National Disaster Management Agency (NDMA) | ntabeni@ndma.org.sz |
| 13. | Mr. Sibusiso | National Disaster Management Agency (NDMA) | 7683-2402 |
| 14. | Mr. Sam Dlamini | World Food Programme (WFP) | 7633-8900 Samuel.dlamini@wfp.org |
| 15. | Mr. Sandile Thwala | World Food Programme (WFP) | sandile.thwala@wfp.org |
| 16. | Mr. Eddie Mkhathswa | CANGO | 7648-3199 programmemanager@cango.org.sz |
| 17. | Ms. Bahlengile Motsa | Min of Home Affairs | bahlengilemotsa@gmail.com |
| 18. | Ms. Thandie Dlamini | Ministry of Labour and Social Security (MoLSS) | 7651-2463 dthandierejoice@gmail.com |
| 19. | Ms. Phumlile Mavuso | MEPD- Central Statistical Office (CSO) | mavusophumlile@yahoo.com |
| 20. | Mr. Musa Simelane | Eswatini Royal Insurance Corporation (EsRIC) | 2408- 1639 musa@sric.sz |
| 21. | Mr. Vama Jele | Miners Association | 7625-8705 vamajele@gmail.com |
| 22. | Ms. Bahlengile Motsa | Directorate of Industrial and Vocational Training (DIVT) | bahlengilemotsa@gmail.com |
| 23. | Mr. Earnest Simelane | Directorate of Industrial and Vocational Training (DIVT) | simelaneearnest@gmail.com |

| | | | |
|-----|--------------------------|---|---|
| 24. | Ms. Tengetile Msibi | Motor Vehicle Accidents Fund Office (MVA) | msibit@mva.org.sz |
| 25. | Mr. Dumisa Ndzinisa | Micro Projects Unit | dndzimandze@gmail.com |
| 26. | Mr. Seskhona Zwane | Ministry of Labour and Social Security | seskhonalizo@gmail.com |
| 27. | Mr. Abraham M Hlatshwako | Members of Parliament & Designated Office Bearers Pension Fund (MOPADO) | 7608-4006 hlatshwakoam@mopado.co.sz |