Country Focus Report 2023

ESWATINI

Mobilizing Private Sector Financing for Climate and Green Growth

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF BOXES

LIST OF TABLES

LIST OF ANNEXES

LIST OF ACRONYMS AND ABBREVIATIONS

AEO	Africa Economic Outlook
AfDB	African Development Bank
CFR	Country Focus Report
DFIs	Development Finance Institution
GCF	Green Climate Fund
GGI	Green Growth Index
GHG	greenhouse gas
IPPU	Industrial Processes and Product Use
IRENA	International Renewable Energy Agency
MDB	Multilateral Development Banks
MW	Megawatts
NCCSAP	National Climate Change Strategy and Action Plan
NDC	Nationally Determined Contribution
NDP	National Development Plan
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
UNECA	United National Economic Commission for Africa
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change

Eswatini

KEY MESSAGES

Macroeconomic performance and outlook

- Eswatini is slowly emerging from the effects of the COVID-19 pandemic with GDP recovering at 7.9% in 2021 from -1.6% in 2020.
- The country's economic growth decelerated to 3.6% in 2022, partly due to base effects, the spillover effects from South Africa's weak growth, and the disruptive impacts of Russia's invasion of Ukraine, which induced a slump in demand due to an upsurge in inflation, an increase in the cost of credit, and fiscal constraints.
- The impacts of Russia's invasion of Ukraine had global implications through its effects on global inflation and food security, among others. Despite the elevated inflation prospects, the 2022 fiscal deficit was maintained constant at 4.6% of GDP, compared to 2021, which is a result of fiscal consolidation. Public debt stood at 42.7% of GDP as of end March 2023, from 40.4% in December 2021.
- In 2023, the growth momentum is expected to be maintained at 3.5% supported by a rebound in domestic demand, rejuvenation of consumption and stronger investment spending. Economic tailwinds include the huge increase in SACU revenue windfalls and the proposed SACU Stabilization Fund which is expected to foster fiscal stability.
- Headwinds remain the higher global inflation, the weak growth of the South African economy and the outstanding national dialogue.

Private sector financing for climate and green growth

- Eswatini is vulnerable to the effects of climate change despite its very small contribution to global GHG emissions at 0.007%. Despite its small share of global GHG emissions, Eswatini, like other developing countries, has to bear the huge costs of mitigating and adapting to climate change and disaster management.
- Although Eswatini's Green Growth Index (GGI) position slightly improved over the period 2010 – 2021, its average of 42.2 remained below Africa's mean GGI of 48.2.
- Given the enormous financial requirements, public resources alone are insufficient to finance climate action. Eswatini's enhanced NDC implementation narrative indicated that the country requires USD1.3 billion over 2021-2030 to meet the NDC targets. Energy and transport mitigation requires the bulk of the support, followed by agriculture.
- All stakeholders, including Government, private sector and development partners, have a role to play and a shared responsibility to invest in development through a climate smart and environmental sustainability lens.
- Given the limited financing dedicated to climate change adaptation and mitigation from the traditional financiers, innovations to diversify climate financing are critical. Eswatini ought to embrace emerging sources of finance including green climate performance bonds, carbon credits/markets, debt-for-nature/debt-for-climate swaps, climate-related risk management initiatives, green and blue bonds, and a national climate fund.

Natural capital for climate finance and green growth

- Eswatini is a small landlocked country with a territory of 17,364 km2 and a population of 1.1 million people. Despite its small size, the land and climate are diverse with four agroecological zones, ranging from humid and near temperate climates, to arid climates.

- Although not classified as resource rich, the country is endowed an array of natural resources that include arable land, rangelands, mineral deposits including gold, coal, and diamonds, as well as other natural resources including wildlife, forests, livestock, and scenic terrain.
- Natural capital in Eswatini is largely dominated by timber forests, cropland, pastureland and ecosystem forests which the country could exploit to harness resources for financing climate change. The Kingdom also benefits particularly from solar, wind and hydro resources that can be explored to generate clean energy.
- There is potential to increase the productivity of renewable natural capital while sustaining natural resources. With the right human capital and industrial policies, physical assets and ecosystems could provide a higher value of output without compromising environmental quality.

Natural capital rents

- Given that Eswatini is not a resource rich country, its natural capital rents largely come from two sources: coal and forestry.

1. INTRODUCTION

This Country Focus Report (CFR) for Eswatini reviews the role of the private sector in financing climate change and green growth. It further explores the potential scope of harnessing natural capital to finance adaption and mitigation to climate change and to promote green growth. It aims to replicate at the country level the analyses carried out at the continental level in the African Development Bank's main African Economic Outlook (AEO) Report for 2023.

This CFR is structured as follows: Section 2 discusses Eswatini's recent macroeconomic performance and outlook. Section 3 reviews the private sector's financing for climate and green growth in Eswatini. Section 4 considers the role of natural capital for climate finance and green growth while Section 5 concludes and proffers policy recommendations for the government, the donor community, the domestic and international private sector.

2. ESWATINI'S ECONOMIC PERFORMANCE AND OUT-LOOK

2.1. RECENT MACROECONOMIC AND FINANCIAL DEVELOPMENTS

Eswatini is emerging from the devastating effects of the COVID-19 pandemic, wherein GDP contracted by 1.6% in 2020, before recovering to 7.9% in 2021. Eswatini's economic growth decelerated to 3.6% in 2022, partly due to base effects, the spillover effects from South Africa's weak growth, and the disruptive effects of Russia's invasion of Ukraine, which induced a slump in demand due to an upsurge in inflation, an increase in the cost of credit, and fiscal constraints. Agricultural production was affected by excessive rainfall, high fertilizer, and pesticide costs while continued cash flow challenges negatively capital projects. Inflation increased to 4.8% in 2022, from 3.7% in 2021, mainly driven by higher food and transport costs, prompting the authorities to tighten monetary policy. The discount rate was gradually increased to 7.75% in May 2023, from 3.75% in January 2022. Eswatini's Lilangeni, pegged at par to the Rand, depreciated by around 10% against the USD in 2022, largely due to weak investor sentiments on South Africa.

The 2022 fiscal deficit was maintained constant at 4.6% of GDP, compared to 2021, which is a result of fiscal consolidation. Public debt stood at 42.7% of GDP as of end March 2023, up from 40.4% in December 2021. The current account dipped to an estimated 0.9% of GDP in 2022 due to weak trade and secondary income inflows – a reflection of rising costs of food and fuel against low SACU revenues. According to the Central Bank of Eswatini, international reserves stood at 2.6 months of import cover in December 2022,

Table 1- Macroeconomic indicators

	2018	2019	2020	2021	2022I	2023(p)	2024(p)
Real GDP Growth	2.4	2.7	-1.6	7.9	3.6	3.5	4.9
Real GDP Growth per Capita	1.6	1.9	-2.5	6.9	2.8	2.7	3.9
Inflation	4.8	2.6	3.9	3.7	4.8	5.5	5.1
Overall Fiscal Balance, Including Grants (% GDP)	-7.6	-6.9	-6.5	-4.6	-4.6	-5.1	-3.0
Current Account (% GDP)	0.9	3.8	6.8	2.7	0.9	1.3	0.5

*Source: Data from Domestic authorities; estimate(e) and prediction (p) based on authors' calculations. AfDB Statistics Department, April 2023. *Fiscal data corresponds to the fiscal year which runs from 1 April – 31 March.*

below the recommended 3 months of import cover. Non-performing loans increased from 6.5% of gross loans in January 2022 to 6.9% by end 2022 while, contemporaneously, private sector credit increased by 7.8%.

Unemployment remains high at 33.3% in 2021[i] (from 23.1% in 2017), which exacerbates poverty (58.9%) and inequality (GINI coefficient at 54.6.) amidst high HIV prevalence[ii] (27.9% in 2021).

Russia's invasion of Ukraine since February 2022 had worldwide implications through its effects on increasing global inflation and food insecurity, among other impacts. In Eswatini, effects of the war triggered a rapid increase in domestic and international prices of commodities, in particular food, fuel and farming inputs. Linked to the global increases in prices of fuel and food, the main drivers of domestic inflation were food and transport costs. Eswatini's average annual inflation increased from 3.7% in 2021 to 4.8% in 2022 while the headline annual inflation increased from 3.3% in February 2022, peaked at 6.7% in September 2022. Between October 2022 and April 2023, headline inflation averaged 5.6%, before climbing to 6% in May 2023. The higher global inflation impacted budget implementation, eroded disposable income and elevated the cost of debt as monetary authorities hiked interest rates to fight inflation. The high inflation negatively affected most of the vulnerable members of society and low-income earners. Using its main macroeconomic management tool, the fiscal policy, the Government implemented measures to mitigate impacts, particularly on the agriculture sector. Through increased external borrowing, Eswatini widened its farming inputs subsidy programme to smallholder farmers which benefitted more than 15,000 farmers.

Box 1: Impact of Russia's Invasion of Ukraine on Eswatini

Russia's invasion of Ukraine since February 2022 had worldwide implications through its effects on increasing global inflation and food insecurity, among other impacts. In Eswatini, effects of the war triggered a rapid increase in domestic and international prices of commodities, in particular food, fuel and farming inputs. Linked to the global increases in prices of fuel and food, the main drivers of domestic inflation were food and transport costs. Eswatini's average annual inflation increased from 3.7% in 2021 to 4.8% in 2022 while the headline annual inflation increased from 3.3% in February 2022, peaked at 6.7% in September 2022. Between October 2022 and April 2023, headline inflation averaged 5.6%, before climbing to 6% in May 2023. The higher global inflation impacted budget implementation, eroded disposable income and elevated the cost of debt as monetary authorities hiked interest rates to fight inflation. The high inflation negatively affected most of the vulnerable members of society and low-income earners. Using its main macroeconomic management tool, the fiscal policy, the Government implemented measures to mitigate impacts, particularly on the agriculture sector. Through increased external borrowing, Eswatini widened its farming inputs subsidy programme to smallholder farmers which benefitted more than 15,000 farmers.

Eswatini's economic tailwinds in the medium term include the huge increase in SACU revenue windfalls and the proposed SACU revenue stabilization fund which is expected to foster fiscal stability

2.2. OUTLOOK AND RISKS

In 2023, the growth momentum is expected to be maintained at 3.5%, supported by a rebound in domestic demand, and the rejuvenation of consumption and investment spending. Inflation is projected to remain elevated, averaging 5.3% over 2023-24, attributable to persistent global inflation caused by the war in Ukraine and a weaker Rand. The fiscal deficit is expected to narrow to 3% of GDP in 2024, from 5.1% in 2023, due to a strong rebound in SACU receipts. With the forecasted higher growth trajectory, public debt-GDP ratio is expected to decline to 41% and 38% in 2023 and 2024, respectively. The current account is expected to average 0.9% in the medium term due to improved secoldary income flows spurred by SACU. Economic tailwinds include the huge increase in SACU revenue windfalls and the proposed SACU Stabilization Fund which is expected to foster fiscal stability. Headwinds remain higher global inflation, the weak growth of the South African economy and the outstanding national dialogue.

3. PRIVATE SECTOR FINANCING FOR CLIMATE AND GREEN GROWTH

3.1 THE IMPERATIVE FOR CLIMATE AND GREEN GROWTH ACTIONS AND THE ROLE OF PRIVATE SECTOR FINANCING IN ESWATINI

Climate action and green growth is important for Eswatini as the country pursues economic development and transformation underpinned by principles of environmental sustainability, climate adaptation and mitigation, as well as resource efficiency and inclusiveness.

Eswatini is highly vulnerable to the effects of climate change despite its very small contribution to global greenhouse gas (GHG) emissions which are estimated at less than 0.007%[1]. According to the Notre Dame Global Adaptation Initiative Index[2], Eswatini was ranked 141/ 181 in 2020 (from 109 in 1995) and is regarded as the 46th most vulnerable country and the 147th country most prepared for climate impacts. The country is at risk from several hazards such as drought, floods, storms, heatwaves, wildfires, landslides, invasive species and epidemics/ disease outbreaks. The increasing number, intensity and frequency of climate change hazards impose severe socioeconomic and development challenges. For instance, the 2015/16 El Niño-induced drought is estimated to have cost the government 19% of its annual expenditures, about 7% of GDP. About 16% of sugarcane, 67 % of maize, and 90% of cotton failed, while 10% of livestock died.[3]

To strengthen the country's adaptive and mitigation capacities, there is a need for increased investments on climate action, both public and private. Besides the traditional climate finance mechanisms, a number of innovative financial instruments are available which can be tapped into for the implementation of its Nationally Determined Contribution (NDC) actions. These include green bonds, sustainable bonds, debt for climate swaps, credit and risk guarantees and carbon markets which can enable the country to raise capital for financing its climate action initiatives. Given that the financial resources for NDC implementation are enormous, there is a need for strong collaboration among stakeholders to invest in development through a climate smart and environmental sustainability lens.

The Government of Eswatini views climate change mitigation and adaption as key to attaining its national development objectives. By ratifying the Paris Agreement in 2016, Eswatini committed to actively combat global warming and to communicate to the Conference of Parties regular roadmaps for its adaptation and mitigation targets. The country drafted the first NDC in 2015 and updated it in 2021. The enhanced NDC represents a progression beyond the 2015 NDC by adopting an economy-wide GHG emissions reduction target of 5% by 2030, compared

1 https://climatepromise.undp.org/what-we-do/where-we-work/eswatini
2 University of Notre Dame (2020). Notre Dame Global Adaptation Initiative. URL: https://gain.nd.edu/our-work/country-index/
3 World Bank: Country Private Sector Diagnostic, 2022.

Box 2: Key elements of the National Climate Change Policy (2016)

- Promotes an integrated approach for climate action, building on the national policy and strategy and institutional frameworks. The policy is 'developing a sustainable, climate resilient and inclusive low-carbon green growth society'.
- Sets out adaptation and resilience-building goals and objectives, focused and structured on key and threatened sectors of the economy (food security, water, energy, tourism, forestry etc).
- Develops implementation frameworks, taking into consideration ongoing policy goals and institutional structures, which aim to enhance the effectiveness of the policy.
- Aligned with broad policy goals and objectives regarding climatic challenges, it covers both mitigation and adaptation measures, with a larger focus on adaptation and resilience-building.
- Appropriately identifies the needs for capacity-building, education, awareness and public involvement.
- The requirement for and role of international cooperation and climate finance is fully endorsed and emphasized for the successful implementation of the policy

to the baseline scenario. This economy-wide emission reduction could increase to 14% with external financing. Eswatini further developed a costed NDC Implementation Plan covering 2021-2030, linked to progress on several Sustainable Development Goals (SDGs). However, implementation frameworks have largely focused on international public financing and have had limited national private sector financing. With the support of the United Nations Development Programme, Eswatini adopted the "Inclusive Budgeting and Financing for Climate Change" approach to mainstream the climate dimension in tracking public budgets and expenditures[4]. This is expected to help identify any funding gaps for the NDC and thus promote resource mobilization.

Eswatini also adopted the National Climate Change Policy (2016) to provide strategic direction for the country's priorities for climate change interventions. The country's new National Development Plan (NDP, 2023-2027), prioritizes climate action and committed to build Eswatini's resilience to climate change and to minimize future losses. Eswatini is developing its National Adaptation Plan as well as developing a joint NDC and NDP investment plan, which will be key to resource mobilization for NDC implementation. The NDC implementation will be mainstreamed into the NDP, sub-national development plans and budgets through projects and appropriate intervention programmes.

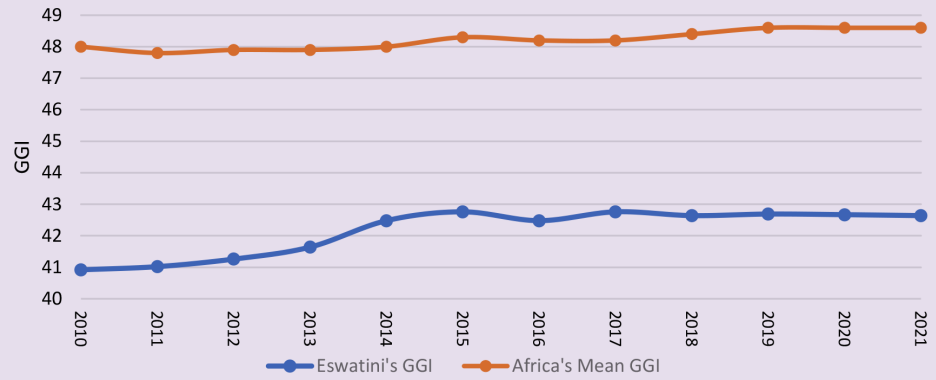
Although Eswatini's Green Growth Index slightly improved over the period 2010 – 2021, the country remained below Africa's mean GGI.

Eswatini's mean Green Growth Index (GGI) averaged 42.2 (on a scale of 0 to 100) over the period 2010-2021, marginally improving from 40.9 to 42.6 points, but ranking below Africa's average (48.2) and other regional peers (Figure 2). Eswatini's peers in the Southern Africa's Customs Union that also rank above Africa's mean GGI include Botswana (58.3), Namibia (55.3) and South Africa (52.5). Eswatini's GGI performance is more typical of the North Africa sub-region which averaged 42.9 over the period 2010-21. (Figure 2)

Eswatini's GGI is primarily influenced by efficient and sustainable energy use, accounting for

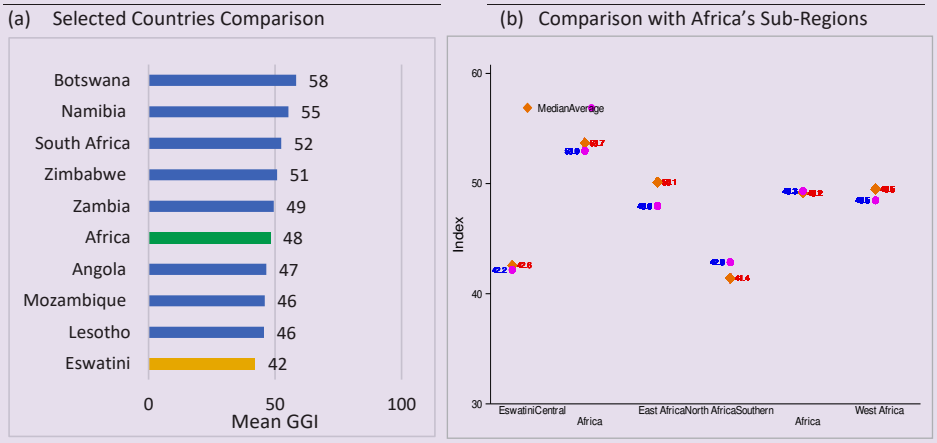
4 Inclusive Budgeting and Financing for Climate Change in Africa – The Kingdom of Eswatini.

Figure 1: Eswatini GGI Performance (2010 – 2021)



Source: AEO 2023 database from Global Green Growth Institute

Figure 2: Eswatini's GGI Comparison with other Countries and Regions



Source: AEO 2023 Database

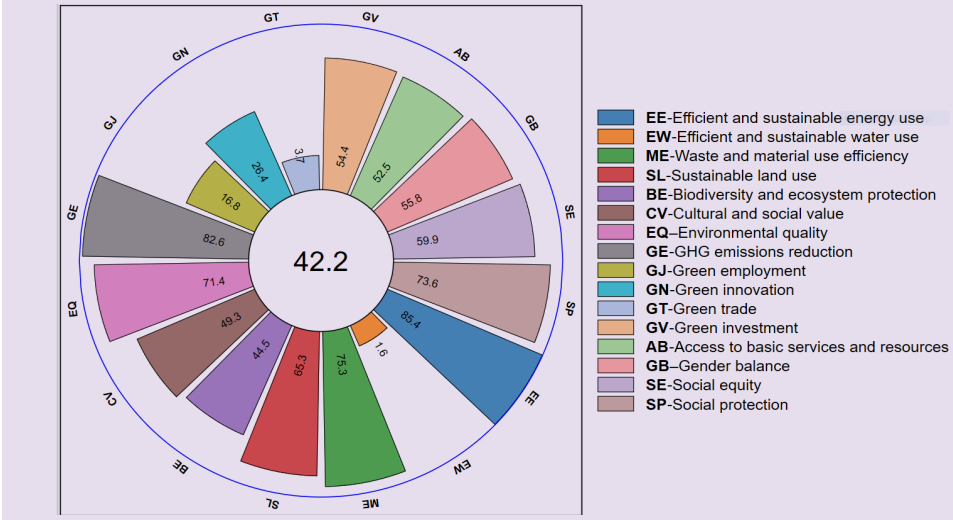
85.4 points, which can be attributed to the high proportion of renewable energy sources such as hydro, solar, and biomass in the energy generation capacity[5]. GHG emissions reduction account for 82.6 points and can be attributed to an increase in sustainable land management and the adoption of energy efficiency in the water and wastewater treatment plants[6]. The country, however, underperforms on having efficient and sustainable water use (1.6) which could be attributed to the country's high water stress levels (77.6%)[7], green trade (3.4), and green employment (16.8). (Figure 3).

Accelerating progress toward green growth by mobilizing private sector finance requires strong collaboration between development and climate change stakeholders in Eswatini.

The demands for climate change adaptation and mitigation are huge and will require significant investments from private, public and

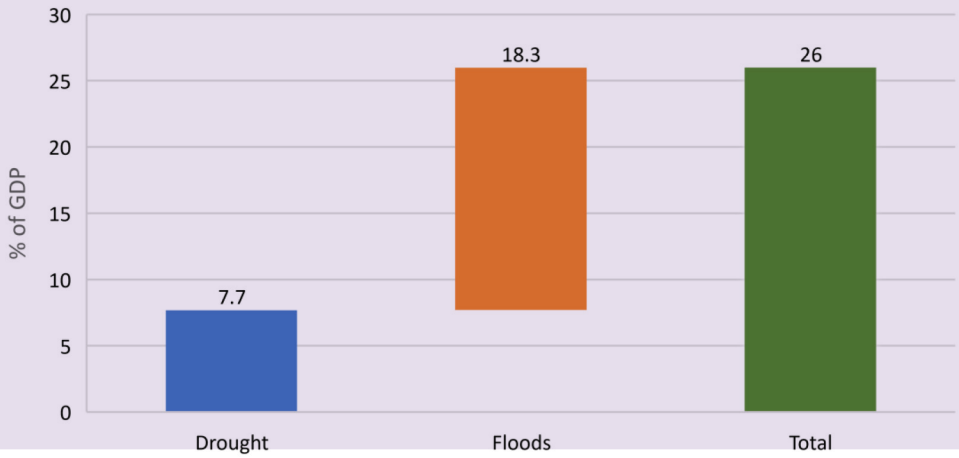
5 International Renewable Energy Agency (IRENA,2022). Eswatini Energy Profile.
6 United States Agency for International Development (2022). Eswatini Power Africa Factsheet.
7 https://data.worldbank.org/indicator/ER.H2O.FWST.ZS?locations=SZ

Figure 3: Components of Eswatini's GGI (2010-2021)



Source: Staff calculations based on the Global Green Growth Institute database

Figure 4: Upfront Private Investment Potential to Adapt to Droughts/Floods in Eswatini (% of GDP)



Source: Bari and Dessus (2022)

international partners. Assessments show that to adapt to the effects of floods and drought in Eswatini will require around 26% of its GDP over 2021-2024, with flood mitigation accounting for a greater share (18.3%) (Figure 4)

Eswatini has demonstrated significant political commitment to tackle climate change, as witnessed by its adoption of the institutional, policy and legislative framework for driving green growth and climate action. Eswatini's NDC process is spearheaded by the Ministry of Tourism and Environmental Affairs and the Ministry of Economic Planning and Development, with support from the NDC Partnership and development partners including the United Nations Development Programme, Food and Agriculture Organization, International Renewable Energy Agency (IRENA), United Nations Environment Programme, World Resources Institute, United National Economic Commission for Africa, Commonwealth Secretariat and Common Market for Eastern and Southern Africa. The Bank has supported climate change considerations through mainstreaming climate change in all its operations.

Table 2: Climate Financing by Source, Sector and Use - annual averages for 2019 and 2020

(a) Institution Type		
INSTITUTION TYPE	**USD M**	**%**
Private	**0.5**	**1.5%**
Commercial bank	-	0%
Commercial FI	-	0%
Corporation	-	0%
Funds	-	0%
Household individuals	-	0%
Institutional investors	0.1	0.2%
Unknown	0.4	1%
Public	**31.3**	**98.5%**
Bilateral DFI	0.0	0%
Export Credit Agency ECA		0%
Government	6.6	21%
Multilateral Climate Funds	0.8	2.4%
Multilateral DFI	23.9	75%
National DFI	-	0%
Unknown	-	0%
SOE/SOFI*	-	0%
TOTAL (Public + Pvt)	**31.7**	**100%**

(b) Sector and Use		
SECTOR	**USD M**	**%**
Agriculture, forestry, other land uses and fisheries	2.2	7%
Buildings & infra-structure	0.0	0.01%
Energy systems	7.6	24%
Industry	-	0%
ICT	-	0%
Others & cross-sec-toral	4.6	15%
Transport	-	0%
Water, wastewater and waste	17.3	55%
Total	**31.7**	**100**
USE	**USD M**	**%**
Adaptation	16.9	53%
Mitigation	9.7	31%
Multiple objectives	4.9	15%
Unknown	0.3	1%
Total	**31.7**	**100**

Source: Climate Policy Initiative (CPI, 2022)
**State Owned Enterprises/State Owned Financial Institutions*

3.2 PRIVATE SECTOR FINANCE FLOWS, GAPS AND NEEDS FOR GREEN GROWTH AND CLIMATE ACTION

3.2.1 Current flows of finance in Eswatini

Finance towards climate action is dominated by multilateral development finance institutions (75%), with government and the private sector accounting for 21% and 1.5%, respectively.

Over the 2019/2020 period, Eswatini is estimated to have received USD31.7 million on average towards climate change action with 98.5% of resources being contributions from public sources and 1.5% private (Table 2). Public climate finance resources were dominated by multilateral development finance institutions' (DFIs) traditional instruments, comprising 75% concessional finance and grants. Government contributions accounted for 21% of the total climate finance resources. Due to the limited fiscal space to adequately meet the country's NDC implementation needs, governments often seek for concessional finance from multilateral DFIs to augment national resources. Although multilateral DFI concessional finance generally offers below-market rates, the associated increase in the debt-to-GDP ratio[8] may raise

8 39.3% in 2023 against 17.29 in 2015(IMF, 2023).

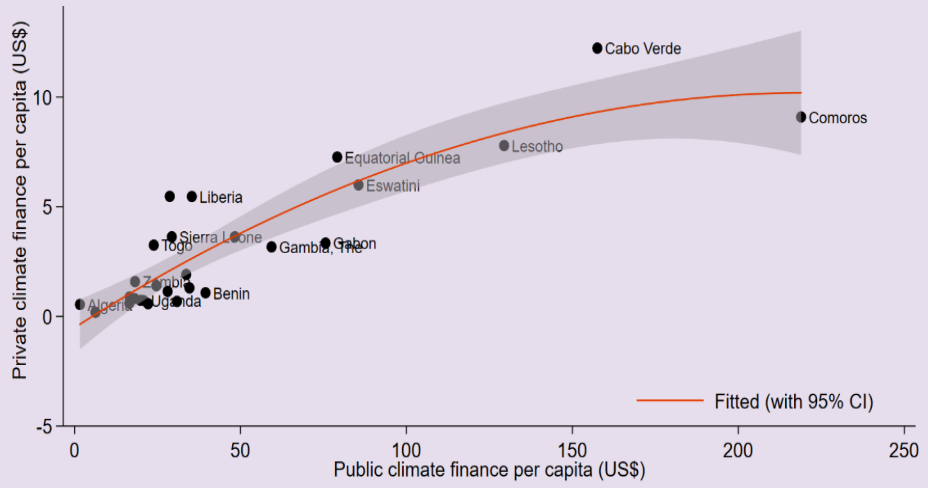
debt sustainability concerns in the long run. This calls for more private sector participation and financing in supporting climate action.

While 53% of Eswatini's total climate finance is allocated to adaptation and 31% to mitigation, there remains a need for greater focus on infrastructure and agriculture sectors. Currently, 55% of climate finance is directed towards water, wastewater, and waste, followed by the energy sector (24%), and cross-sectoral (15%) e.g disaster risk reduction. However, the agriculture, forestry, land use, and fishery sectors received only 7%, and building and infrastructure projects received 0.01%. Given the significant impact of climate change on both agriculture and infrastructure in Eswatini, it is crucial to prioritize investment in these sectors, particularly through private sector financing, to effectively implement the NDP and the NDC.

According to the 2023 AEO, African countries with higher public climate finance per capita and those with higher income per capita are more likely to crowd in private climate investments (Figure 5). Hence, increased public sector interventions and policies that result in high public climate finance commitments send positive signals to the private sector about the attractiveness of green investments.

Although information on private sector climate finance in Eswatini is not well documented, the 2021 Climate Public Expenditure and Institutional Review for the country indicates that most private sector entities in Eswatini are still in their infancy stage in the development of climate change-related projects, hence the need for greater engagement.

Figure 5: Complementarity between public and private climate finance in Africa



Source: Staff calculations based on CPI Landscape of Climate Finance in Africa database, the World Bank's World Development Indicators and Worldwide Governance Indicators, International Country Risk Guide dataset, German Watch's Global Climate Risk Index dataset, and others.

3.2.2 Private sector finance needs for the future

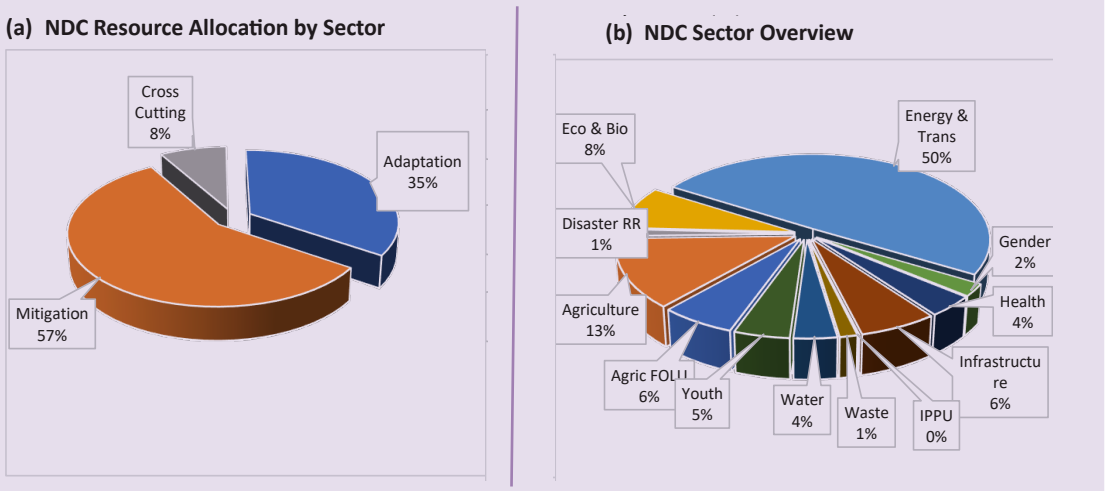
Eswatini will need around USD1.3 billion over 2021 – 2030 to meet its climate change targets and USD127 million annually to meet its green growth objectives.

Eswatini's updated NDC implementation plan narrative articulates the contributions required in the adaptation, mitigation and cross-cutting areas of gender, youth and disaster risk reduction. These include 33 outcomes, 96 outputs and 270 key performance indicators across 12 sectors/ areas with a total cost of US$1.27 billion over 2021 – 2030, which translates into USD127.3 million annually over the ten-year period. Of the total amount, 57% will be earmarked for mitigation, 35% for adaptation and 8% on

cross-cutting sectors (Figure 6a). Overall, energy and transport require the largest costs (50%), followed by agriculture (13%), and ecosystems and biodiversity (8%) (Figure 6b).

Eswatini's successful implementation of the NDC is conditional on receiving finance, capacity-building and technology development and transfer. The percentage of costs required for

Figure 6: Proportion of NDC Implementation costs by sector (%)



Source : Eswatini NDC Implementation Narrative (2023)

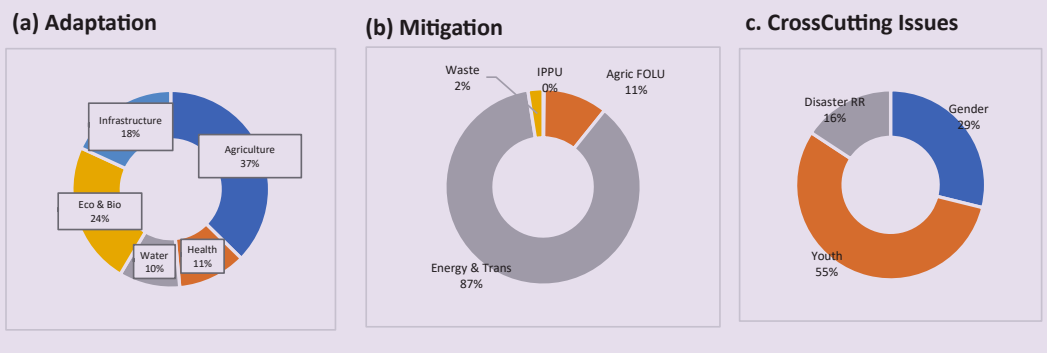
adaptation, mitigation and cross-cutting areas are provided in Figure 7 below.

Eswatini recognizes that while the cost of climate action is substantial, the cost of inaction is even higher. The country, therefore, needs significant investment for implementing its adaptation and mitigation measures. The private sector is, thus, an indispensable partner to support the government's efforts in its endeavor to achieve green growth and its climate action objectives.

Given the recent trends in global private climate finance flows to Eswatini, the private sector could contribute up to 25% of the country's climate financing needs. For such a 25% contribution, which represents a conservative level, the private sector would need to increase its financial contribution by USD8.7 million annually, leaving a financing gap of about USD10.2 million. For a still moderate 50% contribution to climate financing needs, the private sector financing would need to grow by USD15.8 million per annum. For a 75% contribution to financing

The private sector is an indispensable partner to support the government's efforts in its endeavor to achieve green growth and its climate action objectives

Figure 7: Proportion of costs by sector for NDC implementation

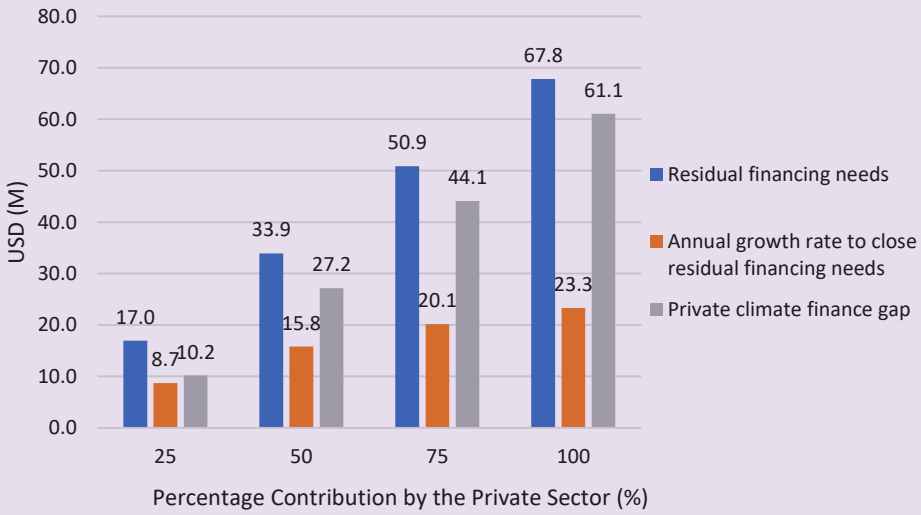


Source : Eswatini NDC Implementation Narrative (2023)

climate-related needs, which is more ambitious, the private sector would need to increase its contribution by USD20.1 million per annum. In the unlikely scenario where the private sector contributed 100% to climate finance, then its contribution would need to grow by USD23.3 million, with a financing gap of about USD61.1 million (Figure 8).

Eswatini is highly committed to enhance partnerships with development partners and the private sector to facilitate an increased flow of climate finance into the country. Eswatini recognizes that while the cost of climate action is substantial, the cost of inaction is even higher.

Figure 8: Private financing inflows, residual financing needs and the financing gap (US$ million)



Source: 2023 African Economic Outlook Database

3.2.3. Emerging innovative private sector financing mechanisms for green growth and climate action

Eswatini has ample opportunities to explore innovative instruments for mobilizing private sector finance towards green growth and climate action.

Given the limited financing dedicated to climate change adaptation and mitigation from traditional financiers, innovations to diversify climate financing are critical. In the first instance, incentives should be offered to the private sector, including portfolio investors, corporations, banking institutions, life insurance companies, pension funds, sovereign wealth funds and endowments to make debt and equity climate investments. Eswatini ought to embrace emerging sources of finance including green climate performance bonds, carbon credits/markets, debt-for-nature/ debt-for-climate swaps, climate-related risk management initiatives, green and blue bonds, and possibly a national climate fund. Furthermore, the country can tap into several global climate change funds available including the UNFCCC's Special Climate Change Fund, the AfDB's Adaptation Benefits Mechanism, and the African Adaptation Acceleration Program. The country should, however, also strengthen its capacity to prepare bankable projects to be able to maximize the benefits from these funds.

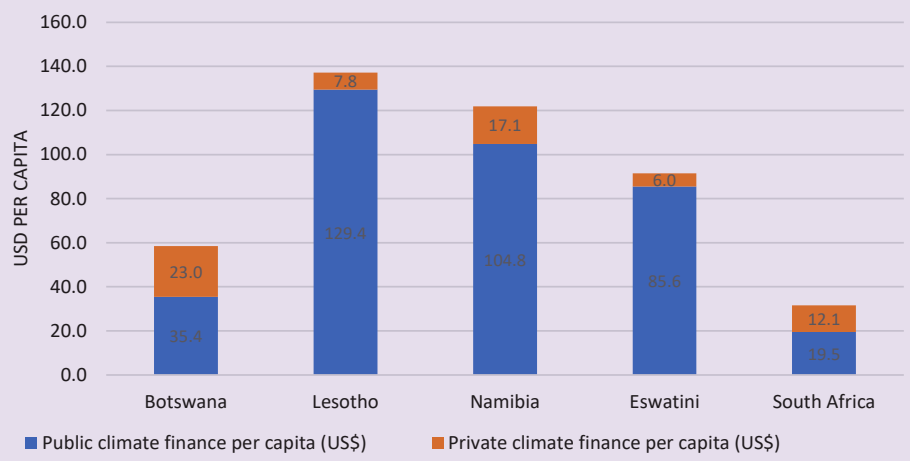
3.3. OPPORTUNITIES AND BARRIERS FOR MOBILIZING PRIVATE SECTOR FINANCE FOR GREEN GROWTH AND CLIMATE ACTION IN ESWATINI

3.3.1 Opportunities for private sector investments in Eswatini

The level of private sector climate finance in Eswatini is relatively low in comparison to its SACU peers.

Analyses carried out for the 2023 AEO concluded that public sector finance investment (proxied by public finance investment per capita), were generally a significant determinant of private investment[iii]. For Eswatini, data reveals that the country mobilizes the least private sector finance per capita in the SACU region, with Botswana attracting the highest private sector finance per capita, followed by Namibia and South Africa. This is despite Eswatini having the median public climate finance per capita in the sub-region. This may imply that the extant data is insufficiently robust to assess the extent to which public finance on climate action in Eswatini can be used to leverage or catalyse private sector investments for green investments (Figure 9).

Figure 9: Comparison between public and private climate finance in the SACU region



Source: 2023 African Economic Outlook

Opportunities for private sector investments in green growth and climate action in Eswatini cut across several sectors in the economy.

Agriculture: Agriculture presents immense opportunities for private sector investment. Specific opportunities include investments in conservation agriculture and the promotion of drip and micro irrigation technologies, especially in the sugar industry. Eswatini is the fourth largest sugar producer in Africa. Enhancing the diversification of the sugar value chain in Eswatini is crucial. Other opportunities include conservation tillage, crop diversification, greenhouse farming, hydroponics, livestock selective breeding, micro-irrigation, and organic farming. For the forestry sector, agroforestry and conservation of genetic resources have been prioritized as adequate technologies for adaptation. Agroforestry can improve the resilience of agricultural production to current climate variability as well as long-term climate change using trees for intensification, diversification and buffering farming systems.

Renewable energy: The NDC commits to increase the share of renewable energy in the electricity mix to 50% by 2030 through the adoption of solar, wind, biomass, hydro, installation of building envelope insulation, or solar water heater technologies. The main barrier to the uptake of solar PV systems is the lack of net metering and its high set-up cost. With net metering, individual households and institutions can invest in solar PV, leading to an increased availability of skills and lower equipment prices. The NDC also commits to introduce the commercial use of bioethanol (10 % blend) in petrol, for use in all petrol vehicles. The Government's Independent Power Producer Policy of 2015 aims to create an enabling environment to promote the establishment of sustainable renewable energy and independent power generation sources.

Infrastructure sector: The private sector, as designers, financiers, constructors and maintainers of infrastructure, has a huge role to play in advancing climate action. Public-private partnerships (PPPs) are key to promoting investment in climate-smart infrastructure. PPPs can provide well-informed and well-balanced risk allocation between partners, offering long-term visibility and stability for the duration of a contract, compensating climate change uncertainty through contractual predictability. Eswatini has a Public Private Partnership Policy dating back to 2008 but lacks a dedicated PPP law. This hampers the country's ability to effectively deploy and implement PPP projects, including conducting legal due diligence for PPP procurement and setting prices, especially in sectors related to climate and green growth priorities. As a result, there are challenges in closing financial gaps for such projects.

Water sector: Opportunities exist for the private sector in wetlands restoration and protection and rainwater harvesting technologies.

Waste: Private sector opportunities in the waste sector include waste sorting and composting. Waste sorting facilities can be self-sustaining operations by selling the waste to downstream users of separated waste. They can also be paid for reducing the quantities of waste that go to landfill. On the other hand, composting reduces the production of methane (a major source of GHG) and provides a series of economic and environmental benefits. Target markets for composts may include local government, farms and neighbourhoods and also involves the setting up of laboratories to certify the compost fertilizer produced.

Agroforestry: Investment in agroforestry can be profitable. However, forestry is often difficult for traditional investors to finance, given that a large majority of the income comes with the final harvest, which can take seven or more years. Private actors should therefore focus on commodities with the greatest potential to expand in agroforestry. Development of the entire value chain is key to encourage private sector investment.

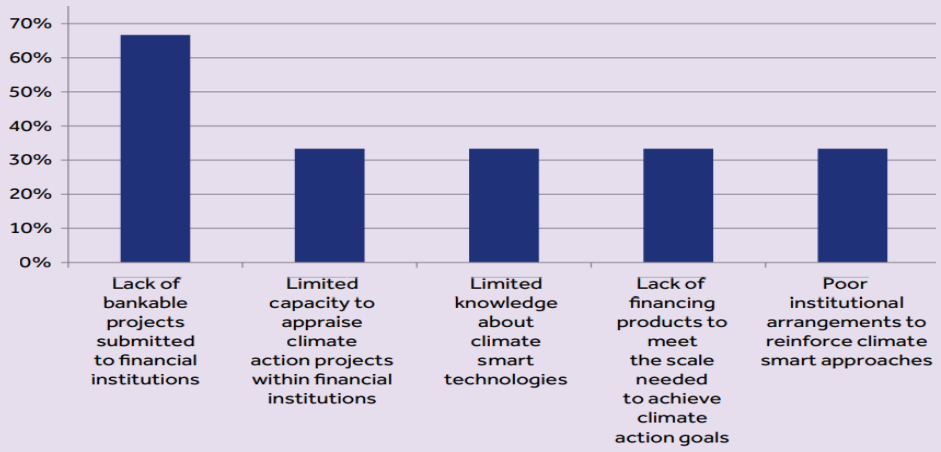
3.3.2 Barriers to private sector investments

Eswatini's economic structure shifted from private sector-led growth to government-driven low productivity growth. Micro and small enterprises in the private sector are predominant and face constraints in skills, land, and finance[9]. Their engagement in climate-related action is limited, with several barriers hindering their participation which largely stem from the lack of enabling policy and financial incentives to reduce investment risks and increase the willingness of the private sector (Figure 10).

Surveyed financial institutions indicated that the lack of bankable projects, the absence of financial products such as government guarantees, tax benefits and risk-sharing mechanisms, as well as limited knowledge and awareness on climate-smart technologies, represented the main barriers to financing green projects.

9 IFC (2022). Eswatini Strengthening the Private Sector to Grow Export Markets and Create Jobs. Eswatini Country Private Sector Diagnostic.

Figure 10: Barriers to private sector investments in climate action in Eswatini



Source: Strategy to Enhance Private Sector Engagement in Eswatini NDC Actions

3.3.3 Pathways to mobilizing private sector finance for green growth and climate action

There are several pathways that Eswatini can follow to enable and incentivize the necessary level of private sector engagement in the pursuit of NDC commitments.

Deepening domestic financial markets to mobilize finance for green growth. Through a deep and well-functioning interbank market, primary and secondary market for treasury securities, and a well-capitalized and sound financial system, the private sector can access local currency liquidity and reduce the risks of expensive currency mismatches. The capital market industry in Eswatini is relatively small but has been growing, with stock market capitalization standing at around 6% of GDP (2023). The development of capital markets in Eswatini faces challenges inherent to small countries, including a small number of securities, and a narrow investor base. Pension funds account for 74%[10] of total funds and therefore play an important role in ensuring the sector realizes its potential of becoming a source of long-term capital for firms, including SMEs. Supportive regulations should, therefore be developed simultaneously to incentivize these funds into long-term climate action investments.

Enhancing engagement with multilateral green finance institutions for an expanded pool of sustainable finance instruments is an important step. Eswatini needs to continue harnessing the mechanisms of the Paris Agreement to mobilize resources and fill climate financing gaps. National climate funds are among the best ways to mobilize climate finance at the country level. These are catalytic financing mechanisms, driven by the country and designed to stimulate private investment. National ownership of international climate finance should be scaled up by increasing the number of national institutions, which can then provide the funds and technical expertise to private sector players for large-scale strategic climate action projects. Such linkages will also strengthen the country's capacity in understanding the policies and approaches of global sustainable and green facilities and institutions.

10 World Bank, Eswatini Country Private Sector Diagnostic.

Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) are key to unlocking private sector climate action finance in Eswatini. The DFIs and MDBs provide concessional finance for green infrastructure projects, which have the potential to be refinanced later in the project cycle by commercial investors. DFIs and MDBs can also attract commercial investments by facilitating risk-adjusted returns for green growth projects through risk mitigation tools such as guarantees, first-loss equity, grants, and insurance products. Non-market instruments, such as the African Development Bank's Adaptation Benefits Mechanism, can support the channeling of private sector finance into adaptation and has the potential to speed up Eswatini's transformation to low-carbon, resilient and sustainable development by valuing resilience. Risk-sharing is critical to encourage private sector investment, therefore instruments that help manage risk remain relevant.

Enhance skills and capacity: Adopting new business processes, developing new products or services and implementing new technologies for increased resilience require technical skills to understand and use climate data and information as well as to integrate climate risk management into standard business operations. These skills and expertise may themselves require upfront investment. Large companies may easily access this technical expertise but MSMEs may face more significant challenges to acquire this knowledge in the context of their ongoing business ventures. Moreover, a perceived lack of technical expertise in implementing adaptation and mitigation solutions can hinder external investors from directing capital towards climate risk management ventures. Increased capacities are therefore required to integrate climate risks into investment portfolios and financing products, and to better quantify and track the returns on investments. Capacity-building is required in the techniques, technologies and equipment needed to invest in climate-friendly businesses, as well as in developing bankable projects and the business models needed to commercialize new products and services.

Availability of climate change-related data, information and information-sharing. Better data management and accessibility would allow businesses to make use of this data to: (i) assess their own business risks from climate change (based on information about climate change observations and projections for specific sectoral and geographic needs, as well as their associated impacts); and, (ii) identify new business opportunities or services – for example, insurance providers will be able to develop better climate index-based products based on this information.

Adequate policy, regulatory and institutional arrangements. In order to promote private sector engagement in NDC action, the Government of Eswatini must work to ensure that the legal and policy framework, together with appropriate institutional arrangements, is in place to support investment in NDC action and facilitate dialogue among national and subnational decision-makers, private enterprises and private financiers. The government should ensure that the legal and regulatory framework within the country is conducive to businesses engaging in climate action.

Use of innovative financial instruments for private investment in climate action. Many of the existing financing instruments are traditional investment products such as debt financing, equity investments and grants. In order to attract the private sector, innovative financial instruments could be used to de-risk investments, such as on-lending schemes or concessional financing from local banks. It is also essential for the public sector to create further incentives in the form of subsidies, taxes or reward schemes. Making use of the opportunities offered by the green bond market may also help bring down (re-) financing rates.

4. NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH

Eswatini is a small landlocked country with an area of 17,364 km2 and a population of 1.1 million people. Despite its small size, the land and climate are diverse with four agroecological zones, ranging from humid and near temperate climates, to arid climates. Although not classified as resource rich, the country is nevertheless endowed with an array of natural resources including arable land, rangelands, coal, and wildlife, forests, livestock, and scenic terrain.

4.1 THE EVOLUTION OF NATURAL CAPITAL

Natural capital is usually clustered into three groups: (a) renewable capital, consisting of forest timber, forest non-timber, mangroves, fisheries, protected areas, cropland, and pastureland; (b) non-renewable assets separated into oil, natural gas, coal and minerals. In addition, non-measured forms of natural wealth that are reviewed qualitatively include renewable energy potential from solar, wind and hydro-resources, landscapes, and marine assets. In this report, we will assess Eswatini's natural capital endowments relative to its peers in the SACU region with findings summarized in Tables 3 and 4. The following observations are based on this data:

- The renewable assets in the SACU region increased by 21.9% in total value over 1995 – 2018, which is far more than the African average (6%). Eswatini's increase over this period was 30%.
- In per capita terms, the fall in renewable natural capita in the SACU region (26.3%) is less than that of the African continent as a whole at around 43%. In the SACU sub-region, the fall is largely attributed to declines in almost all categories except forests and timber, cropland, and mangroves. The largest fall is in the per capita value of fisheries (96.9%), and pastureland (37.4%)
- The SACU region is better endowed with non-renewable capital than the average for the continent. It has USD4,819 of such capital per capita in 2018 compared with USD1,084 for the whole of Africa. There has been a large percentage increase in the value of non-renewables assets (36.6%), driven by increases in oil, natural gas and coal.
- An indicator of sustainable growth proposed by the AEO report is to have an increase in natural capital in per capita terms. In this respect, the sub-region has not met this proposed threshold, as natural capital per capita declined by 23% between 1995 and 2018, slightly more than the continent's decline in per capita natural wealth of 21%. However, Eswatini, natural capital per capita increased by 6%, a better performance than the SACU sub-region and Africa as a whole.

In terms of renewable natural resources, Eswatini recorded a 30% increase in the value of natural capital between 1995 and 2018 (Table 4). There was a marked increase in values of all categories, led by forests and timber (51%), cropland (40%), protected areas (11%), pastureland (2%) and forest ecosystems

Table 3: Evolution of Natural Capital in SACU countries

SACU Countries	Total US$ (Mn)			Per Capita, constant 2018 USD		
	1995	2018	*% Increase*	1995	2018	*Increase %*
Renewable natural resources	212,829	259,514	21.9	36,753	27,087	-26.3
Forests, timber	46,090	63,163	37.0	4,288	5,754	34.2
Forests, ecosystem services	30,103	38,508	27.9	7,740	7,021	-9.3
Mangroves	2	211	10450.0	0	4	
Fisheries	24,301	940	-96.1	6,252	194	-96.9
Protected areas	8,894	13,778	54.9	3,514	2,942	-16.3
Cropland	46,442	67,756	45.9	3,660	4,105	12.2
Pastureland	56,996	75,159	31.9	11,299	7,068	-37.4
Non-renewables/Sub-soil Assets	138,972	189,800	36.6	4,654	4,819	3.5
Oil	247	435	76.1	6	8	33.3
Natural gas	186	2,401	1190.9	4	42	950.0
Coal	76,601	138,593	80.9	2,115	2,846	34.6
Metals and minerals	61,938	48,371	-21.9	2,529	1,924	-23.9
Total (Natural Capital)	351,801	449,314	27.7	41,408	31,906	-22.9

Source: World Bank 2021

Table 4: Evolution of Natural Capital in Eswatini

Kingdom of Eswatini	Total US$ (Mn)			Per Capita, constant 2018 USD		
	1995	2018	*% Increase*	1995	2018	*Increase %*
Renewable natural resources	6,388	8,283	*30%*	6,892	7,290	*6%*
Forests, timber	2,255	3,406	*51%*	2,433	2,997	*23%*
Forests, ecosystem services	1,164	1,189	*2%*	1,256	1,046	*-17%*
Mangroves	0	0	..	0	0	..
Fisheries	0	0	..	0	0	..
Protected areas	80	89	*11%*	87	79	*-9%*
Cropland	1,681	2,347	*40%*	1,814	2,065	*14%*
Pastureland	1,207	1,252	*4%*	1,302	1,102	*-15%*
Non-renewables/Sub-soil Assets	77	100	*30%*	83	88	*6%*
Oil	0	0	..	0	0	..
Natural gas	0	..	..	0	..	..
Coal	77	100	*30%*	83	88	*6%*
Metals and minerals	0	0	..	0	0	..
Total (Natural Capital)	6,465	8,383	*30%*	6,975	7,378	*6%*

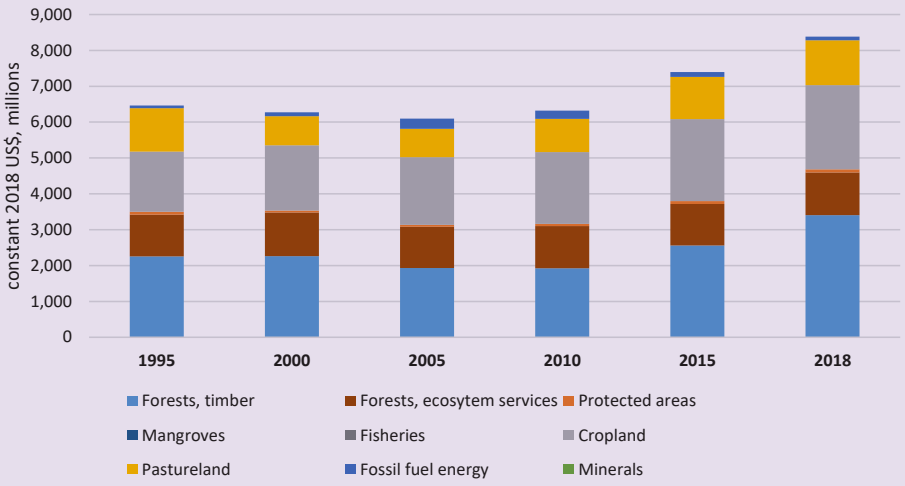
Source: World Bank 2021

services (2%). Eswatini did not experience growth in the value of mangroves and fisheries. Eswatini does not have large endowments of non-renewables or sub-soil assets and its key asset is coal, which increased its value by 30%. The country did not have known deposits of oil, natural gas or metals and minerals by 2018. Between 1995 and 2018, natural renewable resources per capita increased by 6%, led by forests and timber (23%) and cropland (14%). Significance declines were recorded in per capita forest ecosystem services (17%) and protected areas (9%). Overall, per capita non-renewables resources increased by 6%, with coal, the only non-renewable resource contributing 6%. Figure (11) shows evolution of the major natural capital components in Eswatini.

According to the World Bank, the proportion of Eswatini's agricultural land (defined as *"share of land area that is arable, under permanent crops, and under permanent pastures"*)[11], to total land area was maintained at 71% between 1995 and 2018[12]. Arable land *("land under temporary crops [double-cropped areas are counted once], temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow")* is estimated at 10.7 % of total land in 2018. Eswatini's permanent cropland area increased to 0.9% of total land area in 2018, from 0.7% in 1995[13]. The per capita value of cropland increased by 14%, from USD1,814 to USD2,065, which is in line with the increased value of cropland from USD1.7 billion to USD2.3 billion. The value of cropland significantly increased by 40%, which may indicate significant improvements on land through investment in irrigation infrastructure. The Government has supported farmers by facilitating the funding and development of irrigation schemes by the installation of climate-smart irrigation systems (drip irrigation) to increase productivity and mitigate against the effects of climate change. The Government has also invested significantly in irrigation in the form of scoop dams, weirs and canals, small earth dams as well as large dams for agricultural irrigation smallholder schemes. The Lower Usuthu Smallholder Irrigation Projects (LUSIP I and II) are enhancing the irrigation coverage in Eswatini and converting the country's drought-prone areas to productive land. Forest cover includes natural forests of mostly wattle forests and commercial plantation forests.

The Government has supported farmers by facilitating the funding and development of climate smart irrigation schemes (e.g. drip irrigation) to increase productivity and mitigate against the effects of climate change.

Figure 11: Natural Capital in Eswatini



Source: World Bank 2021.

11 https://databank.worldbank.org/metadataglossary/africa-development-indicators/series/AG.LND.AGRI.K2 Land under permanent crops is land cultivated with crops that occupy the land for long periods and need not be replanted after each harvest, such as cocoa, coffee, and rubber. This category includes land under flowering shrubs, fruit trees, nut trees, and vines, but excludes land under trees grown for wood or timber. Permanent pasture is land used for five or more years for forage, including natural and cultivated crops.
12 Agricultural land (% of land area) - Eswatini | Data (worldbank.org)
13 Permanent cropland (% of land area) - Eswatini | Data (worldbank.org)

Natural capital in Eswatini is dominated by timber forests, cropland, pastureland and ecosystem forests. The World Bank estimates that Eswatini's forestry sector accounts for about 1.3% of GDP, 5.9 % of exports, and 14% of formal employment, and the forestry sector productivity is relatively high[14]. The percentage of forest area increased from 27.2% in 1995 to 28.8% in 2018, which is in tandem with the increase in value of forests from USD2.3 billion to USD 3.4 billion during the same period. This can be partly attributed to increased afforestation as big private companies bought more forest hectares e.g. Silulu farmers, Montigny and Shiselweni Forest improved the forest area in Eswatini. The country aims to conserve and restore the use of terrestrial ecosystems such as wetlands, forests, drylands and mountains for future generations. There is potential to increase per capita forest area by restoring and rehabilitating degraded forest landscapes, coupled with actions to reduce further loss of natural habitats and biodiversity, both of which are critical for sustainable development.

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The AEO 2023 report noted that the categories of natural capital evaluated do not cover all sources of such capital on the continent. The Kingdom benefits from sunshine, wind and hydro resources that can generate clean energy. Eswatini's geothermal energy potential is not known although the country also has several several hot springs, which could make a contribution to increasing local energy and contribute to the low carbon pathway. Together with Kenya, in 2022 Eswatini was nominated to lead a coalition of Commonwealth member states that will collaborate to develop and execute strategies on geothermal energy. The contribution of natural capital to the flow of goods and services from the sources of natural wealth, however, has not been estimated, which unfortunately undermines an understanding of their true contribution to the economy.

As of 2022, Eswatini's domestic electricity generation stood at 194.9MW. The proportion of renewable local installed energy capacity stands at about 98.9% distributed as follows: hydropower (31%), biomass (53.9%), solar (14%). The mix of domestic energy production is skewed toward bagasse and hydropower, with the former generated almost exclusively for the sugar sector. The 2034 Energy Masterplan suggests that the timber industry could potentially increase the supply of woodchips and forestry waste, which could be used to generate about 40 MW.

The country recognizes tourism as an engine for economic growth and many strides have been taken to promote the tourism industry which currently accounts for 2.8% of Eswatini's GDP (2021). There is a great potential to boost the sector, which centres on the natural environment including the waters of the dams, nature parks and game reserves. The climate, landscape, fauna and flora can form a strong basis for ecotourism. Recurrent droughts and flash floods are however, likely to affect these resources significantly.

Aquaculture is another sector that depends on the country's natural resources and has good potential to contribute to rural incomes. According to the World Bank, the total fisheries production in Eswatini increased from 60MT in 2008 and peaked at 269MT in 2010 before declining to 165MT in 2021[15]. However, as a landlocked country with limited water bodies such as lakes, commercial fishing is under-developed. Lack of water in most regions hinders the rapid uptake of commercial fish farming. Inadequate equipment for pond construction has been a barrier to fish farming programmes, hence fish production remains low. Development bottlenecks include inadequate local fry (small fish) supply, high cost of imported fish feed and the shortage of technical training. According to the 2022 Second Voluntary National Review Report on the SDGs for Eswatini, to accelerate growth in this industry, the country constructed a fish hatchery and continues to bring more

14 International Financial Corporation. Creating Markets in Eswatini: Strengthening the Private Sector to Grow Export Markets and Create Jobs - Country Private Sector Diagnostic, page v.
15 https://data.worldbank.org/indicator/ER.FSH.PROD.MT?locations=SZ

farmers into fingerling production by raising awareness and providing extension services. In addition, the Aquaculture Strategy launched in 2020 aims to regulate fish harvesting and to prevent overexploitation. Eswatini committed to implement international instruments aimed at combating illegal, unreported and unregulated fishing. A Bill is now in place, which seeks to increase fines for such illegal activities and ultimately reduce the prevalence of the offence. and regulations to implement the Bill are already developed. Furthermore, Eswatini's Fisheries and Aquaculture Act of 2019 and supporting regulation also seeks to combat illegal, unreported and unregulated fishing.

Eswatini has been successful in increasing the terrestrial environment covered by protected areas, whose value increased from USD80 million in 1995 to USD89 million in 2018. These are areas which are recognized, dedicated and managed to achieve long-term nature conservation. This can be attributed to improved conservation measures implemented in the country which included maintenance of global diversity, such as identifying key biodiversity areas. Safeguarding these areas is critical for maintaining genetic, species and ecosystem diversity, and conserving in turn the benefits they provide to people.

4.2 ESWATINI'S PERFORMANCE ON COLLECTING NATURAL CAPITAL RENTS

Between 2010-2020, Eswatini's total natural resource rents were largely derived from forestry and coal rents as the country does not have oil, natural gas or mineral rents (Annex 1). The total natural resources rents increased from 2.2% of GDP in 2010 to 3.3% of GDP in 2015. Following a fall in total natural resources rents to 3% of GDP in 2018, the total rents recovered to 3.4% and 3.9% of GDP in 2019 and 2020, respectively. Forest rents averaged 3% of GDP, accounting for a large share of total natural resources rents, against coal rents which averaged 0.1% of GDP. The performance of the total natural resources rents trended with the forest rents.

4.3. OPPORTUNITIES FOR ENHANCING THE CONTRIBUTION OF NATURAL CAPITAL IN ESWATINI

There is clear potential to increase the productivity of renewable natural capital while also sustaining natural resources. With the right human capital and industrial policies, Eswatini's physical assets and ecosystems could provide a higher value of output without compromising environmental quality. The channels could be both domestically and internationally driven actions. There is a further need to strengthen governance in managing the returns from natural capital and in bringing together physical and human capital to add value to exports where such opportunities are available. There is a special role for using international agreements on climate change and biological diversity to finance higher returns from the country's substantial endowments of natural assets. Eswatini's NDP (2023-27) has thus prioritized a strategic position that seeks to strengthen the legislative and institutional framework to ensure a more equitable, inclusive and appropriate management of renewable and non-renewable natural resources.

4.3.1. Non-Renewable Resources

Currently coal is the main non-renewable resource exploited in Eswatini. With the global fight against climate change and drive towards clean energy, use of coal in energy generation is set to decline. However, further opportunities for growth in non-renewable resources remain. To gain a firm understanding of the types, amounts, qualities, locations and depths of the minerals in Eswatini, in 2022 the Government completed Phase I of the Multi-Disciplinary Geoscience Mapping exercise. As a result, it announced the discovery of four major minerals in the country: gold, iron ore, diamond, and copper-nickel-platinum group

elements[16]. Phase II and III of the exercise are yet to be conducted to explore in more depth. According to the NDP 2023-2027, legislation in the mineral sector has hindered investment due to the share ownership structure, hence the Government has committed to review the legislative framework. An unpacking of the mining regulation and greater promotion of the sector internationally could attract far greater potential investment. While the extraction of raw materials will support the country's green economy, even greater benefits can flow where resources such as minerals are processed locally. Under its strategic roadmap, the Government has committed to unlock the mineral sector's fullest potential.

4.3.2. Renewable Resources

Renewable resources are at the heart of sustainable development in Eswatini and there are a number of ways in which they can be exploited more effectively and sustainably. The environment sector remains strategic to the country for the growth and development of tourism, environmental sustainability and climate change. It is also critical to the need for sustainable management of natural resources– sustainable forest management, conserving wildlife and culture – meteorological services and building a climate-resilient nation for sustainable growth and development for the present and future generation. Eswatini has great potential to boost tourism which depends on the natural environment from the waters of the dams to nature parks and game reserves, creating a unique potential for adventure yet to be fully exploited. As discussed early, Eswatini experienced a marked increase in values of all the categories led by forests and timber (51%), cropland (40%), protected areas (11%), pastureland (2%) and forest ecosystems services (2%).

16 https://eswatinipositivenews.com/2022/10/19/gold-other-minerals-discovered-in-manzini-and-hhohho-regions-2/

5. CONCLUSION AND POLICY RECOMMENDATIONS

5.1 CONCLUSION

Mobilizing finance for green growth and climate action in Eswatini to meet the estimated need will require the private sector to play a major role. Action should be taken to leverage the opportunities to engage private sector investments in adaptation and mitigation of climate change, while reducing the existing barriers to private sector investments. This will involve tapping into the emerging innovative private sector financing mechanisms for green growth and climate action.

5.2 POLICY RECOMMENDATIONS RELATING TO MACROECONOMIC PERFORMANCE AND OUTLOOK

- Eswatini should continue to implement its fiscal consolidation programme to promote macroeconomic stability and debt sustainability.
- The country needs to rebuild its reserves buffers to further strengthen its external position.

5.3. POLICY RECOMMENDATIONS FOR PRIVATE SECTOR FINANCING FOR CLIMATE CHANGE AND GREEN GROWTH

5.2.1 National Government

Private sector mapping and identification of key private sector actors should be undertaken: There is a need to map the private sector actors who could engage in advancing the NDC implementation process. The Government should prioritize them according to their actual or potential contribution to NDC implementation with a focus on major contributors to GDP such as the agro-processing sector (mainly sugar, maize commodities), textile and wood products industries and their related value chains. Large firms that are major power consumers or those affected by a specific issue, such as firms that require large amounts of water, should also be prioritized. Finally, engaging banks, microfinance and the insurance sector is a key element in building the financial structures for financing adaptation measures.

Strengthen collaboration and coordination with the private sector: The Government should strengthen collaboration and coordination with the private sector to help encourage private actors to incorporate climate change issues into their decision-making and also promote multi-stakeholder partnerships and ongoing collaboration. Such a participatory approach can help create a certain degree of ownership and motivation with regard to private sector participation in NDC implementation. Specific coordination actions may include:

- Improving vertical and horizontal coordination in climate change between national, regional and local government (leadership at sub-national level is fundamental, and should include counselors and local Chiefs), across the different government silos, and with the private sector.
- Involving the private sector in the design and implementation of national climate change policies and projects, to better understand investment barriers and jointly explore opportunities – for example in national adaptation and mitigation planning.

- The Government, working with apex business bodies such as Business Eswatini can promote the establishment of dedicated committees or learning events that will promote peer exchange among companies undertaking green projects.
- Supporting and working with business associations, such as chambers of commerce or smaller, more local, associations of individuals, like farmers or miners. These are important institutions for reaching private sector actors. Other private sector groups to consider are the Architects, Engineers, Surveyors and Allied Professionals Registration Council, environmental consultants in Eswatini and companies selling vehicles, including electric vehicles.
- Promoting greater public–private dialogue on climate finance through regular forums and institutions. These can include sectoral associations, investor platforms and public consultations. Increasing public–private dialogue can lead to increased understanding of climate change opportunities within the private sector, as well as having a greater appreciation of investment barriers and how these can be addressed.

Improve communication with the private sector: The government should develop communication approaches that speak to business. Because of the mismatch between "business language" and "development language," the relevance of climate change and more specific issues, such as the definition of climate risks, are not always clear to companies. The key to enhancing understanding between the public and private sectors may therefore lie in more effective communication. Speaking the language of business (e.g. focusing narratives on mutual benefits for businesses and providing sound climate data) will help build strong relationships based on trust. Messaging should, in turn, be conveyed through the most appropriate communication channels for the audience. Outreach to relevant private actors, including domestic enterprises, financiers, multinational corporations and SMEs, is often best done through business associations, cooperatives or chambers. These institutions are often a more efficient vehicle for reaching a broad audience with knowledge products, climate information or training. They, in turn, through their internal processes, can transfer information and knowledge on to their members. If the mining sector, for example, is prioritized for engagement in the NDC, given its significant impacts on domestic water and energy resources, the Government could engage key players through the Chamber of Mines as an easier and more cost-effective means of reaching often geographically dispersed stakeholders. Early communication with private sector stakeholders should focus on informing them about the NDC process and the business case for investing in climate action. Eventually, these channels can be used to communicate how the private sector can become involved, how it can invest in climate action and the enabling conditions that should encourage and facilitate these investments.

5.2.2 MDBs and DFIs

Secure direct access to international climate funds for national and sub-national institutions. MDBs and DFIs can become less risk averse by further engaging with the Government to identify ways to provide affordable capital for green growth and climate change investments. A limited number of international funds already allow direct access, including the GCF, the Adaptation Fund, the Global Environment Fund and the European Commission Directorate-General for International Co-operation and Development.

- Screen national institutions, especially financial institutions, against the accreditation requirements for the relevant fund or funds, to identify potential eligible institutions and the resources required to fully meet the accreditation requirements.
- Selected institutions apply for accreditation for direct access to international green funds. Develop funding proposals that can be submitted to bilateral and MDBs for possible financing.

Enhancing opportunities for blended concessional financing is crucial for MSMEs in Eswatini. With the domestic private sector mainly composed of MSMEs facing challenges related to size and collateral, accessing sufficient guarantees becomes difficult. Introducing blended concessional finance, including guarantee schemes offered by Multilateral Development Banks (MDBs), can help mitigate risks and improve MSMEs' access to finance. This is particularly important for sectors like agribusiness, sugar, forestry, beef, textile and apparel which have significant export growth potential and are highly vulnerable to the impacts of climate change.

Integrating technical assistance into MDB-blended concessional finance for climate-smart skills development in Eswatini's SMEs enhances climate change and green growth ambitions. It equips SMEs with the necessary skills to adopt sustainable practices, fostering their participation in green initiatives.

5.2.3 Domestic and international private sector

Collaborate with the national Government, MDBs and DFIs and other private sector actors to identify key risks to investments and propose ways of addressing these risks.

5.2.4 Developed country governments.

As shareholders of MDBs and DFIs, developed country governments can encourage these institutions to be less risk averse when financing green growth in Africa and provide additional capital to support the green economy.

5.3 POLICY RECOMMENDATIONS FOR INCREASING THE CONTRIBUTION OF NATURAL CAPITAL TO CLIMATE FINANCE AND GREEN GROWTH

Despite its limited natural wealth, Eswatini can design a strategy for natural resource wealth management that will help to drive inclusive and sustainable development. This will help to address governance issues, including internalizing environmental opportunity costs associated with the exploitation of natural resources and investment in natural capital. This requires natural capital to be mainstreamed in development planning and integrating its accounting in the national system to better track the contribution of natural resources to GDP. This could inform the way rents from natural capital are used and distributed. Increased investment in natural capital and reform of land-use policies can be a useful way to expand the productivity of agriculture, forestry, and related value chains, and contribute to building climate smart cities and green infrastructure.

The Government can promote and enforce stricter policies and regulations protecting forests and preventing illegal logging. Sustainable forestry practices such as selective logging and reforestation should also be promoted through instruments such as performance bonds for forest lessees as short-term measures. Longer-term, the Government can also become part of the growth in carbon sequestration of nature-based solutions related to forestry and land use, agriculture and soil sequestration, and blue carbon. This can be done by developing new offsets and ensuring the integrity of certification of voluntary carbon markets. Development partner support will be critical in achieving these goals. Governments and development partners should work together to exploit international agreements in a number of areas including the creation of a single market for the trade of emissions credits (under Article 6 of the Paris International Agreement), which will raise the price of carbon credits in forests; and increased participation in the voluntary market, where new opportunities are arising through the Post-2020 Global Biodiversity Framework.

Increased participation in regional integration and trade, natural resource management, energy, transport corridors, mineral exploration and capacity-building are all important priorities for Eswatini to expand value addition to its products and foreign currency earnings, including for climate financing. Aligning national

natural resource development frameworks with best governance practices to eliminate illicit resources trade and illicit financial flows is critical. Talent development and talent retention are key in the areas of international negotiations, design, and implementation of regulations as well as entrepreneurship to increase value addition.

The potential also exists to increase per capita forest area by restoring and rehabilitating degraded forest landscapes, coupled with actions to reduce loss of natural habitats and biodiversity which are critical for sustainable development. The climate, together with the landscape, fauna and flora, form a strong basis for tourism. Eswatini has a great potential to boost tourism complemented by the natural environment – from the waters of the dams to nature parks and game reserves.

Although Eswatini's geothermal energy potential is not known, the country has several hot springs, which if harnessed could make a contribution to increasing local energy and thus contribute to the low carbon pathway.

5.4. POLICY RECOMMENDATIONS ON NATURAL CAPITAL RENTS.

Despite few natural resource rents sources, Eswatini can still use appropriate natural resource policies and instruments to finance sustainable and green economic growth. For example, in the forestry sector, the Government can employ fiscal instruments to increase resource revenues and linkages with industrialization; increase local content and value addition to natural resources and utilization along value chains; promote in-country value creation and resource retention including curbing deforestation.

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Annex 1: Selected Economic Indicators

Indicators	Unit	2010	2015	2018	2019	2020	2021	2022 (e)	2023 (p)	2024 (p)
National Accounts										
GNI at Current Prices	Million US $	3,685	4,196	4,120	4,246	3,967	4,352	...	...	...
GNI per Capita	US$	3,350	3,700	3,550	3,630	3,360	3,650	...	...	...
GDP at Current Prices	Million US $	4,499	4,205	4,576	4,577	4,128	4,664	5,040	5,350	5,574
GDP at 2010 Constant prices	Million US $	4,499	5,192	5,480	5,629	5,541	5,978	6,191	6,406	6,717
Real GDP Growth Rate	%	3.5	2.2	2.4	2.7	-1.6	7.9	3.6	3.5	4.9
Real per Capita GDP Growth Rate	%	3.0	1.5	1.6	1.9	-2.5	6.8	2.8	2.7	3.9
Value Added: Mining and quarrying	Million US $	5	2	8	6	9	6	7	...	...
Value Added: Mining and quarrying	% GDP	0.1	0.0	0.2	0.1	0.2	0.1	0.1	...	...
Value Added: Fishing	Million US $	51	42	50	56	46	51	54	...	...
Value Added: Fishing	% GDP	1.1	1.0	1.1	1.2	1.1	1.1	1.1	...	...
Prices and Money										
Inflation (CPI)	%	4.5	5.0	4.8	2.6	3.9	3.7	4.8	5.5	5.1
Exchange Rate (Annual Average)	local currency/US$	7.3	12.8	13.2	14.5	16.5	14.8	16.4	17.2	17.8
Government Finance										
Total Revenue and Grants	% GDP	30.4	30.6	26.2	25.5	27.4	29.0	25.0	26.8	27.5
Total Expenditure and Net Lending	% GDP	33.8	31.6	33.7	32.4	33.9	33.6	29.6	31.9	30.4
Overall Deficit (-) / Surplus (+)	% GDP	-3.4	-1.0	-7.6	-6.9	-6.5	-4.6	-4.6	-5.1	-3.0
External Sector										
Terms of Trade Growth	%	-2.3	11.1	0.0	-1.2	2.0	-4.4	-20.6	0.3	0.1
Current Account Balance	Million US $	-388	527	42	175	281	126	44	72	30
Current Account Balance	% GDP	-8.6	12.5	0.9	3.8	6.8	2.7	0.9	1.3	0.5
Debt and Financial Flows										
Debt Service	% exports	52.4	11.4	16.8	17.6	16.6	14.5	13.0	14.4	16.0
External Debt	% GDP	17.9	13.8	18.8	20.5	22.5	22.2	25.5	25.7	25.8
Net Total Financial Flows	Million US $	64	126	124	108	126	63	...	...	...
Net Official Development Assistance	Million US $	91	93	121	71	105	125	...	...	...
Net Foreign Direct Investment	Million US $	120	41	36	130	41	126	...	...	...
Demography										
Total Population	Millions	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Population Growth Rate	%	0.5	0.7	0.8	0.8	0.9	1.0	0.8	0.8	0.9
Urban population	% of total	24.6	27.1	28.5	29.0	29.5	29.9	30.4	30.9	31.4
Life Expectancy at Birth	Years	46.6	55.0	59.4	60.5	59.7	57.1	56.4	57.7	61.6
Fertility Rate	births per woman	3.4	3.1	3.0	2.9	2.9	2.8	2.8	2.8	2.7
Poverty and Income Distribution										
Pop. living below national poverty line	% of total population	...	...	...	...	...	...	...	...	...
Population living below $2.15 a day	% of total population	...	...	...	...	...	...	...	...	...
Gini Index	%	...	...	...	...	...	...	...	...	...
Labor Indicators										
Labor Force participation (total)	%	51.7	51.3	51.0	50.9	50.4	50.3	50.5	50.6	...
Labour Force participation (youth)	%	26.9	25.5	24.3	24.0	23.6	23.6	23.8	23.9	...
Unemployment rate (total)	%	26.4	23.3	22.8	22.8	25.1	24.6	24.4	24.7	24.7
Unemployment rate (youth)	%	53.5	48.0	47.2	47.3	51.9	50.0	49.8	50.1	50.1
Natural Resources rents										
Total natural resources rents	% GDP	2.2	3.3	3.0	3.4	3.9	...	...	...	...
Oil rents	% GDP	...	...	...	...	...	...	...	...	...
Natural gas rents	% GDP	...	...	...	...	...	...	...	...	...
Mineral rents	% GDP	...	...	...	...	...	...	...	...	...
Forest rents	% GDP	2.0	3.2	2.9	3.3	3.8	...	...	...	...
Coal rents	% GDP	0.2	0.1	0.1	0.1	0.1	...	...	...	...
Natural Capital Renewable Resources										
Arable land	1000 hectare	175.0	175.0	175.0	175.0	175.0	...	...	...	...
Agricultural land	1000 hectare	1,222.0	1,222.0	1,222.0	1,222.0	1,222.0	...	...	...	...
Other land	1000 hectare	12.6	6.5	2.9	1.7	0.4	...	...	...	...
Forest land	1000 hectare	485.4	491.5	495.1	496.4	497.6	...	...	...	...
Planted Forest	1000 hectare	122.5	112.2	106.1	104.0	101.9	...	...	...	...
Annual freshwater withdrawals, total	% of internal resources	40.5	40.5	40.5	40.5	...	...	...	...	...
Total Fisheries Production	metric tons	269.0	165.0	165.0	165.0	160.0	...	...	...	...
Climate Finance and Green Growth										
Total Climate Finance*	Million US $	...	...	...	...	103.2	...	...	...	...
Green Growth Index**	%	40.9	42.8	42.6	42.7	42.7	42.6	...	...	...

Source : AfDB Statistics Department: African; IMF: World Economic Outlook,April 2023 and International Financial Statistics, April 2023; AfDB Statistics Department: Development Data Portal Database, April 2023. United Nations: OECD, Reporting System Division.

Notes ... Data Not Available (e) Estimations (p) Projections Last Update: June 2023

** Source: Climate Policy Initiative (www.climatepolicyinitiative.org)*

***Source: Global Green Growth Institute (GGGI). The scores for the Green Growth Index range from 1 to 100, with 1 having the lowest or very low performance and 100 having the highest or very high performance*

Endnotes

iThis is according to the 2021 Labor Force Survey for Eswatini.

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