CENTRAL BANK OF ESWATINI
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Bek'e-Langa
Re-imagining Central Bank for a sustainable future



Eswatini Urban Forum - Governor's Position Paper:

Sustainable Revenue Streams: Financing the Future of Eswatini's Local Authorities and Unlocking Local Government Financing

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1. Introduction

According to a report by African Cities Research Consortium 2025, municipalities in Africa are faced with persistent mismatch between the growing demand for urban infrastructure and services and the financial resources available to local governments. Although municipalities play an important role in delivering services such as waste management, streetlighting and local infrastructure, many responsibilities, including health, education, housing and transport, are either shared with or largely controlled by central government. Consequently, municipalities often have limited fiscal autonomy and depend on resources allocated by higher levels of government.

Intergovernmental fiscal transfers constitute the principal source of revenue for most African municipalities. While these transfers support essential service delivery, their conditionality and unpredictability can constrain municipalities' ability to address local priorities. Own-source revenue, including property taxes, business licences, market fees, parking charges and service tariffs, offers an opportunity to diversify municipal revenue. However, revenue mobilisation remains constrained by incomplete property registers, outdated valuations, weak collection systems, limited administrative capacity, political resistance and the prevalence of informal economic activity. Furthermore, African municipalities have yet to fully exploit land-based financing instruments, such as land leasing, land sales and betterment levies, which could enable them to capture increases in land values arising from public infrastructure investments.

Access to long-term financing is another major challenge. Municipal borrowing remains relatively uncommon, largely because of restrictive legal frameworks, limited fiscal autonomy, weak financial management and inadequate creditworthiness. Although development partners and multilateral financial institutions provide important funding for infrastructure, access to climate finance and capital-market financing remains limited. The report therefore emphasises the need to strengthen municipal revenue mobilisation, improve financial governance, establish enabling borrowing frameworks and ensure that intergovernmental transfers adequately support local responsibilities. Ultimately, sustainable municipal financing requires a balanced combination of predictable government transfers, stronger own-source revenues and responsible access to long-

term finance. These reforms are essential for addressing infrastructure deficits, improving service delivery and supporting inclusive and sustainable urban development across Africa.

2. The Eswatini Context

The future of Eswatini's economic transformation will increasingly be influenced by the ability of its municipalities and local authorities to finance and deliver sustainable infrastructure, efficient public services and inclusive economic opportunities. As urban centres continue to expand, local governments face growing demands to invest in roads, water supply systems, sanitation infrastructure, waste management facilities, public transport networks, marketplaces, housing developments and digital infrastructure.

Meeting these requirements will require financing solutions that extend beyond traditional sources of municipal revenue. Existing funding mechanisms, while important, are unlikely to be sufficient to address future infrastructure requirements on the scale needed to support a modern and competitive economy.

The challenge facing local government is therefore fundamentally about building a sustainable municipal finance ecosystem capable of mobilising long-term capital, strengthening revenue generation, attracting private investment and ensuring accountability in the management of public resources. Sustainable municipalities are not merely service delivery institutions; they are critical drivers of economic growth, investment attraction, employment creation and improved quality of life.

For Eswatini, strengthening municipal finance should therefore be viewed as a strategic national priority rather than solely a local government concern. Strong municipalities contribute directly to national development outcomes, making municipal finance an important pillar of the country's broader economic transformation agenda.

3. The Financing Challenge Facing Local Governments

Local governments occupy a central position in economic development by providing infrastructure and services that support commerce, investment, tourism, industrial

development and job creation. However, like many municipalities across developing economies, local authorities in Eswatini face a range of structural challenges that constrain their financial capacity and limit their ability to respond to growing service delivery demands.

These challenges include limited own-source revenues, infrastructure backlogs, rising maintenance costs, urbanisation pressures, weak collection of rates and service charges, dependence on government transfers and limited access to affordable long-term financing.

As towns and cities expand, these pressures become increasingly pronounced. While property rates, service charges, government grants and development partner funding remain important sources of financing, they may not be sufficient to support future investment requirements. Municipalities will therefore need to gradually diversify their funding base and explore innovative financing mechanisms that can support sustainable infrastructure development.

4. Why Municipal Finance Matters for Economic Growth

Municipal finance is often viewed through the narrow lens of local government administration. In reality, it has profound implications for national economic performance.

Well-financed municipalities are able to invest in infrastructure that improves business productivity, enhances investor confidence, facilitates trade, supports industrial growth and expands economic opportunities. Reliable roads improve logistics and connectivity. Water and sanitation infrastructure support public health and enterprise development. Efficient transport systems improve labour mobility. Digital infrastructure enhances competitiveness and service delivery.

Conversely, poorly financed municipalities can become constraints to growth. Infrastructure deterioration, inadequate services and delayed investments increase the cost of doing business and reduce the attractiveness of urban centres to investors.

Municipal finance should therefore be regarded as a national development issue. The ability of municipalities to mobilise resources and finance productive infrastructure directly supports broader objectives such as economic diversification, competitiveness, industrialisation, employment creation and sustainable growth (UN-Habitat, 2015; OECD, 2022).

5. Unlocking Domestic Capital Markets for Municipal Development

One of the most significant opportunities available to Eswatini lies in the mobilisation of domestic savings toward productive infrastructure investment.

Eswatini possesses sizeable pools of long-term capital through pension funds, insurance companies, collective investment schemes, banks and other institutional investors. Many of these institutions seek long-term investment opportunities that can generate stable returns while contributing to national development. The challenge is often not the availability of capital but the limited supply of investable infrastructure projects and financing instruments. A deeper municipal finance market can help bridge this gap.

Potential financing instruments include municipal and infrastructure bonds, green and sustainability-linked financing instruments, public-private partnerships and various blended finance solutions that combine public and private capital.

These instruments can provide municipalities with access to long-term funding for roads, water infrastructure, sewerage systems, energy projects, housing developments, urban regeneration initiatives and other strategic investments.

A practical illustration of the potential of municipal financing through Public Private Partnership can be seen in the proposed development of the Ntshakabili Road connection to the national highway network. Such a project could be structured as a collaboration between government and private investors, with public authorities providing planning, policy and regulatory support while the private sector contributes financing, technical expertise and project delivery capabilities.

The benefits extend far beyond improved connectivity. Beyond reducing congestion and improving mobility, the project would enhance tourism access, stimulate property development, improve logistics efficiency and increase the attractiveness of the Ezulwini economic corridor for private investment.

Ultimately, access to capital markets depends on investor confidence. Investors must have confidence in municipal governance, financial reporting, project selection processes and revenue-generating capacity. Building this confidence is not an event but a sustained process that requires consistent transparency, accountability and fiscal discipline.

6. Municipal Financing as a Catalyst for Capital Market Development

Municipal finance should not be viewed solely as a mechanism for funding infrastructure. It also presents a unique opportunity to deepen Eswatini's domestic capital markets.

The recent launch of the Eswatini Stock Exchange's *Kwakhanya 2030* strategy reflects a national ambition to develop a more diversified and inclusive capital market ecosystem. Municipal bonds, infrastructure bonds and green bonds could contribute significantly to this vision by expanding the range of investment products available to institutional and retail investors.

By bringing municipalities into the capital market ecosystem, Eswatini can simultaneously address infrastructure financing needs while broadening market participation, increasing liquidity and creating new investment opportunities.

The development of a credible municipal financing market would therefore generate benefits that extend beyond local government financing. It would support capital market deepening, encourage domestic investment and strengthen the mobilisation of local savings for national development purposes.

7. Foundations for Sustainable Municipal Finance

For municipalities to successfully access capital markets and secure long-term financing, several foundational requirements must be in place. These requirements not only

improve the ability of local authorities to raise funds but also ensure that borrowed resources are managed responsibly and deliver sustainable development outcomes.

7.1 Governance and Institutional Capacity

Strong governance is the cornerstone of successful municipal finance. Investors are significantly more willing to provide long-term capital to local authorities that demonstrate transparency, accountability and sound financial management practices.

Municipalities must therefore strengthen financial management systems, improve internal controls, maintain credible financial reporting frameworks, enhance procurement processes and develop robust debt management capabilities. Strong institutions reduce investment risk, improve investor confidence and support sustainable access to financing.

7.2 Project Preparation and Cost-Benefit Analysis

Borrowing should be reserved for projects capable of generating measurable economic, social or environmental benefits.

Rigorous project appraisal enables municipalities to prioritise investments with the greatest public value, assess affordability, evaluate repayment capacity and minimise the risk of unsustainable debt accumulation. Long-term financing is most appropriate for infrastructure assets whose benefits extend well into the future and contribute to economic productivity and social welfare.

7.3 Technology and Digital Transformation

Technology offers significant opportunities to strengthen municipal finances and improve service delivery.

Digital property valuation systems, automated billing platforms, electronic payment systems, real-time financial reporting tools and digital citizen engagement platforms can improve efficiency, reduce leakages, strengthen accountability and increase revenue collection performance.

More predictable and efficient revenue streams ultimately improve municipal balance sheets and enhance investor confidence (OECD, 2022).f

7.4 Financial Innovation and Fintech

Financial technology is creating new opportunities for raising capital, increasing market participation and improving efficiency in financial markets.

Electronic securities trading platforms, improved settlement systems and enhanced retail investor access have the potential to expand the investor base available to municipalities while reducing financing costs. However, innovation must be implemented within appropriate regulatory frameworks that safeguards financial stability, market integrity, investors and consumer protection (Financial Stability Board, 2024).

7.5 Climate Resilience and Sustainable Development

Municipal financing frameworks must increasingly support investments that improve environmental sustainability and climate resilience.

Potential investment areas include renewable energy infrastructure, water conservation systems, climate-resilient roads and bridges, sustainable transport systems, waste management facilities, energy-efficient buildings and urban resilience initiatives.

As global investors increasingly prioritise Environmental, Social and Governance (ESG) considerations, municipalities that integrate sustainability into their planning and financing strategies are likely to attract a broader range of funding sources.

7.6 Revenue Strength and Creditworthiness

Ultimately, access to finance depends on a municipality's ability to generate stable and predictable revenues.

Municipalities must strengthen billing systems, improve collection rates, update valuation rolls, broaden revenue bases and minimise revenue leakages. A stronger revenue foundation improves financial sustainability, enhances creditworthiness and increases borrowing capacity.

8. Potential Municipal Financing Opportunities in Eswatini

A wide range of municipal investment opportunities could potentially benefit from long-term financing.

In the water and sanitation sector, financing could support treatment plants, pipeline rehabilitation and expanded service connectivity. Transport-related financing could facilitate the construction and upgrading of urban roads, public transport terminals and traffic management systems.

Municipal markets, logistics hubs and informal trading facilities present opportunities for supporting SME development and local economic growth. Renewable energy investments could include solar street lighting, municipal solar farms and energy-efficient public facilities. Housing projects may focus on serviced residential land, mixed-income housing developments and affordable housing initiatives.

Digital infrastructure investments, including smart city technologies and digital revenue collection platforms, also offer significant potential to improve service delivery and financial management.

9. Lessons from South Africa's Municipal Finance Experience

South Africa provides valuable lessons on the potential of municipal borrowing to finance infrastructure development.

The City of Johannesburg became the first South African municipality to issue a municipal bond in the early 2000s, raising long-term funding for infrastructure projects including roads, electricity, water systems and urban development. The programme demonstrated that municipalities with sound governance and credible revenue streams could successfully access capital markets without relying solely on intergovernmental transfers (World Bank, 2009).

City of Cape Town has used bond issuances and innovative financing structures to support investments in water security projects, electricity distribution networks,

transport infrastructure and climate resilience investments. The city of Tshwane issued one of Africa's first municipal green bonds to finance environmentally sustainable infrastructure. Projects included energy-efficiency upgrades, renewable energy initiatives, sustainable transport projects (Rees, 2013).

These real-life examples underscore the growing role of municipal borrowing as a catalyst for climate adaptation and ESG financing. By attracting both domestic and international investors, municipalities have demonstrated the ability to access long-term capital for sustainable development projects while strengthening their environmental credentials. This experience provides a compelling model for the future issuance of green municipal bonds and the development of a more robust sustainable finance market.

10. Policy Priorities for Eswatini

Unlocking sustainable municipal financing will require coordinated action across multiple areas of policy and institutional reform.

Priority should be given to strengthening revenue mobilisation, improving municipal governance, enhancing financial management systems and developing a comprehensive regulatory framework for municipal borrowing. Efforts should also focus on deepening domestic capital markets, promoting digital transformation and creating an enabling environment for responsible financial innovation.

Importantly, municipal financing reforms should balance infrastructure investment objectives with fiscal sustainability considerations to ensure that access to debt contributes to long-term development rather than financial distress.

11. Towards a Municipal Financing Framework for Eswatini

The long-term development of municipal finance markets will require a clear and comprehensive policy framework. Such a framework should define eligible borrowing entities, permissible financing instruments, disclosure requirements, prudential

borrowing limits, debt sustainability standards, investor protection measures and mechanisms for managing municipal financial distress.

A transparent and predictable regulatory environment would increase investor confidence, promote responsible borrowing practices and safeguard financial stability. It would also help position municipalities as credible participants in the country's financial markets while ensuring that infrastructure investments remain aligned with national development priorities.

12. Conclusion

The discussion on municipal finance is ultimately a discussion about Eswatini's future economic competitiveness. As urban centres continue to grow and development needs become more complex, municipalities will require access to sustainable, diversified and long-term sources of financing. Traditional funding mechanisms alone will not be sufficient to support the scale of infrastructure investment needed to build productive, resilient and inclusive cities.

The challenge therefore extends beyond raising additional funding. It is about creating a modern municipal finance ecosystem built upon strong governance, effective revenue mobilisation, sound financial management, technological innovation and prudent fiscal oversight. Municipalities must be empowered not only to maintain essential services but also to become catalysts for investment, enterprise development, job creation and economic transformation.

For Eswatini, municipal finance presents a strategic opportunity to align local development priorities with broader national objectives. The same reforms that strengthen municipal finances can simultaneously deepen domestic capital markets, create new investment opportunities for institutional investors, broaden financial participation and mobilise private sector resources for infrastructure development. Properly structured municipal financing can transform domestic savings into productive national assets while accelerating infrastructure delivery.

The Eswatini Stock Exchange's *Kwakhanya 2030* strategy provides a timely platform for advancing this vision. By creating the conditions for municipal bonds, infrastructure bonds, green bonds and other innovative financing instruments, Eswatini can unlock new sources of long-term capital while strengthening the depth, sophistication and resilience of its capital markets.

The experience of successful municipalities across Africa demonstrates that access to capital markets is achievable where strong institutions, predictable revenues and sound governance are present. The opportunity now exists for Eswatini to establish the policy, regulatory and institutional foundations required to embark on a similar journey.

The choice before us is therefore not whether municipalities require financing. Rather, it is whether we will build the institutions, markets and partnerships capable of financing the future we envision. With the right reforms, local authorities can evolve from service providers into engines of investment, innovation and sustainable growth.

Municipal finance therefore represents far more than an alternative source of funding. It is a strategic instrument for transforming local economies, accelerating infrastructure development, deepening capital markets and unlocking national prosperity. If properly structured and governed, municipal financing can convert domestic savings into productive investment, transform municipalities into centres of growth and innovation, and position Eswatini's cities and towns as engines of sustainable economic development. The opportunity before us is therefore not simply to finance municipalities, but to finance the future of Eswatini itself.

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