2018

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Structural transformation, employment, production and society STEPS

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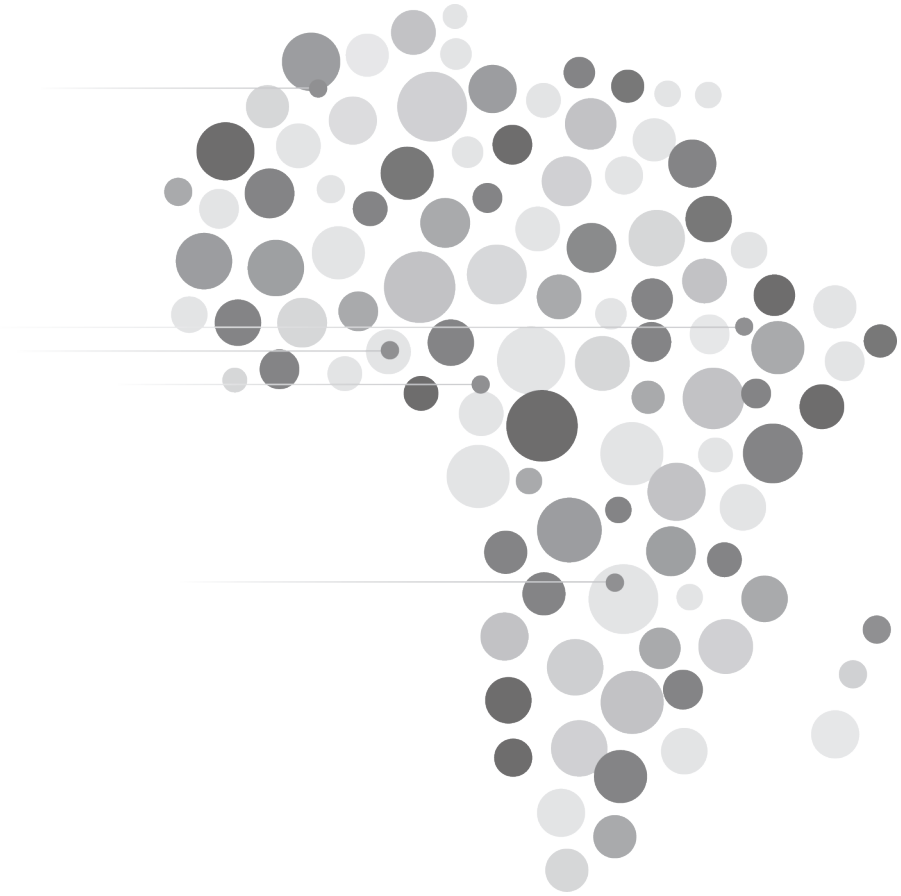

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Content

List of figures

Definition of structural transformation

The Economic Commission for Africa defines structural transformation as the fundamental changes in economic and social structures that advance inclusive and sustainable development* This definition addresses three key questions:

a) What is structural transformation? It is a fundamental and multidimensional process observed in all countries reaching high levels of development;
b) How is it achieved? It requires profound economic and social transformation, such as economic diversification and technological upgrading, the creation of decent and productive employment and equitable social welfare;
c) Why does it matter? It is crucial for implementing the 2030 Agenda for Sustainable Development and Agenda 2063: The Africa We Want.

Within the core objective of accelerating structural transformation (ST), there are three inherent dimensions to be assessed: employment (E), production (P), and society (S). This speaks directly to the need to fundamentally change economic and social structures, with employment playing a key role in linking economic growth (production) and social development (society), in both directions. It is useful to keep in mind the ultimate objective of the analytical framework, namely, to achieve inclusive and sustainable development through accelerated structural transformation. Hence, structural transformation, employment, production and society for sustainable development (STEPS 4 SD) is the framework that shapes the design and implementation of the profiles (see figures I and II).

Figure I: Structural transformation, employment, production and society for sustainable development (STEPS 4 SD)

Employment	Production	Society
Labour productivity	Diversification	Demography
Decent work	Linkages	Health
Education and skills	Technology	Poverty and inequality

Within each of the three dimensions considered, there are three outcome areas that are crucial to accelerate structural transformation. With regard to production, the attention is on (supporting) diversification, (strengthening) linkages and (upgrading) technology. For employment, the focus is on (increasing) labour productivity, (promoting) decent work and (enhancing) education and skills. With respect to society, the emphasis is on (managing) demography, (improving) health and (reducing) poverty and inequality. For each outcome area,

* The terms "structural transformation" and "structural change" are often used interchangeably. Narrow definitions are centred on the measurement of the economic gains accrued by shifting labour from lower-productivity to higher-productivity sectors, while broader definitions go beyond shifts in economic structures, such as production and employment, by also encompassing within-sector productivity improvements and changes in other aspects of society. For the purposes of the present document, the use of structural change is avoided and a broad perspective, as described by the STEPS framework, is adopted.

there is a set of core outcome indicators. They illustrate the results (outputs) that are expected to be observed in order to accelerate structural transformation. These are complemented by other metrics pertaining to the relevant outcome area. Given that structural transformation is a gradual process, indicators are tracked over a long period of time: from 20 to 25 years, whenever possible. Below is a brief rationale for each outcome area.

Diversification

Economic diversification is a key feature of countries that have achieved high levels of development. Concentrated economic structures undermine structural transformation by promoting rent-seeking (in mining) and commodity traps (in agriculture). They are also typically associated with high vulnerability to price and demand shocks. Expanding the range of goods and services that are produced and exported, especially towards higher value addition, is therefore an important factor behind structural transformation.

Linkages

Deeper integration into the global economy can contribute to increased value addition and productivity growth, especially through participation in global value chains. A more interconnected economy, with strong backward and forward linkages throughout sectors and firms, can also help to overcome critical structural constraints, sustain economic gains and encourage innovation.

Technology

Technological progress is a catalyst for structural transformation. The creation, improvement, and adoption of technologies contributes to accelerating productivity growth and adding value to production processes. Technological change can be supported through the development of domestic technological capabilities and/or through the importation of foreign technologies, such as those embedded in foreign investment.

Labour productivity

Labour productivity is at the heart of structural transformation. In fact, the academic literature often measures structural transformation as the economic gains accrued by shifting labour from lower-productivity to higher-productivity sectors, also known as between-sector effects, as opposed to within-sector productivity improvements. Positive employment dynamics are therefore necessary to generate these benefits. Labour productivity not only depends on skills and health, from the worker's perspective, but also relies on existing technology and other firm-related characteristics. It is therefore central to this framework. Crucially, labour productivity improvements are necessary to enable economic (and household income) growth and thus help to raise living standards.

Decent work

Decent work entails employment opportunities that provide reasonable levels of remuneration, security and safety. Precarious work conditions, such as low pay and job insecurity, are a key obstacle to raising living standards and often undermine labour productivity. Creating decent work opportunities is critical to engender positive structural transformation, given that economic and social structures may change in ways that do not always promote sustainable development.

Education and skills

An educated and skilled workforce is critical to accelerate structural transformation. Formal and informal education systems provide a range of skills for work and life. In particular, improved skill levels facilitate the reallocation of labour towards higher-productivity sectors. Enhancing demand-driven and work-relevant skills is key to reducing existing skill gaps and mismatches.

Demography

Demographic change can boost structural transformation through the considerable impact that it has on the economy and society. For example, changes in the age composition of the population can yield a significant demographic dividend by easing the economic burden on the working-age population. Urbanization and migration can also produce large economic benefits, although they may also entail significant costs if not adequately managed.

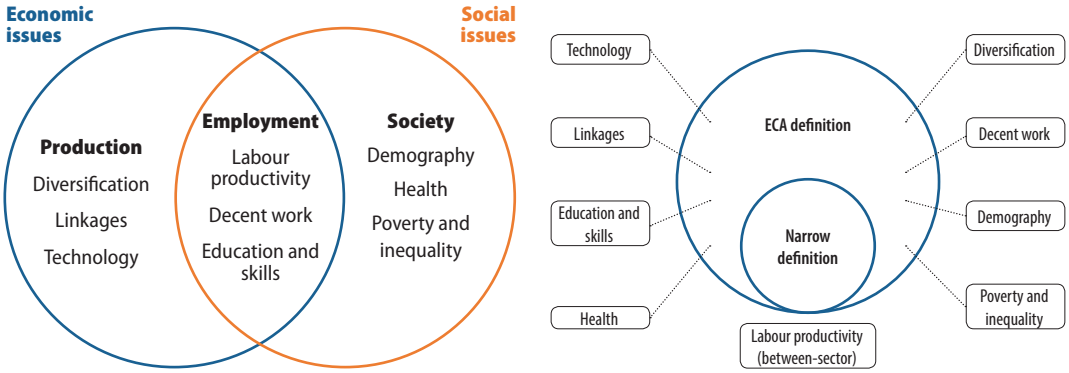
Health

A healthy workforce is central to expanding human capital and enhancing structural transformation. A high prevalence of diseases and other medical conditions undermines economic activity and labour productivity, especially through its impact on an individual's physical and emotional well-being.

Poverty and inequality

Poverty often undermines access to nutritious foods, health care, education and jobs, which, in turn, leads to malnutrition, a high disease burden, low skills and underemployment. Moreover, inequality contributes to economic, social and political instability, which curtails economic growth. Poverty and inequality can therefore prevent people from fully contributing to the transformation of economic and social structures.

Figure II: Economic and social issues relating to structural transformation



Data considerations/implications

When compiling data for the profiles, preference was given to official national sources, such as national statistics offices, central banks and government ministries. It should be noted, however, that data collected from national sources may not be comparable among countries owing to the use of different terminology, methods and classification systems. International sources were therefore used whenever national data either were not available or there was a need to contextualize the analysis with cross-country comparisons. The use of harmonized data from international sources, such as those produced by many United Nations agencies, is key to enabling consistent comparisons among countries. Whenever feasible and pertinent, data have been disaggregated by age, gender and location. Given that structural transformation is a gradual process, the analysis tracks changes over a relatively long period, usually by contrasting values or averages for the periods 1990-1999 and 2000-2009 with those for 2010 onwards.

Acknowledgements

The main objective of the structural transformation, employment, production and society (STEPS) profiles is to produce country-specific data analysis and policy recommendations for structural transformation that will promote sustainable development. The profiles are produced by the subregional offices of the Economic Commission for Africa (ECA), with data validation conducted by the African Centre for Statistics.

Koffi Elitcha was the lead author of the Eswatini profile and a significant contribution to the report was made by Innocent Bayai. Both of them work for the Subregional Office for Southern Africa. The profile was prepared under the overall coordination and substantive guidance of the Deputy Executive Secretary for Knowledge Delivery of ECA, Giovanie Biha, the direct leadership of the Director, Subregional Office for Southern Africa, Said Adejumobi and the supervision of the Chief, Subregional Initiatives of the Subregional Office for Southern Africa, Sizo Mhlanga.

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1

Overview

The Vision of the Government of Eswatini, as encapsulated in the National Development Strategy for the period 1997-2022, is to position the country by 2022 in the top 10 per cent of the medium human development group of countries, founded on sustainable economic development, social justice and political stability. Progress towards achieving the Government Vision 2022 has been hampered by slow implementation, and a number of challenges, including among others, epidemics such as HIV/AIDS and tuberculosis, climate change and variation, fiscal difficulties and sluggish economic growth. Achieving the long-term sustainable development objective of the country requires significant changes in the country's economic and social structures. The process of structural transformation has stalled in recent years, notwithstanding the substantial progress made in some key areas, such as education, health and infrastructure development.

Production: Contributions from agriculture and industry have been declining in total gross value added (GVA), counterbalanced by an increase in the contribution of services. Over the period 1990-2017, the contribution of agriculture decreased from 13 per cent to 8 per cent and the share of industry declined from 42 per cent to 39 per cent, while that for the services increased from 45 per cent to 53 per cent. In particular, the country has experienced a process of premature deindustrialization since 2005/2006, which has not benefited the high productivity and knowledge intensive service sector. While the distribution of the country's export basket is spread across a relatively large number of products, the overall trade structure still greatly diverges from the world pattern, mainly because of the low complexity of the product space. Primary exports, sugar, essential oils, chemicals, wood products, fruits, and clothing items are located at the periphery of the product space, and accordingly, tend to be weakly connected with the more sophisticated and intricately linked core products exported at the global level. Strengthening linkages with countries at the subregional and continental levels through effective participation in subregional value chains could help to boost export competitiveness and raise the level of sophistication of production. Investment in physical capital and human capabilities is fundamental. The share of gross capital formation in gross domestic product (GDP) has substantially decreased in recent years, despite government efforts to boost investment, especially foreign direct investment (FDI). Net FDI inflows have fluctuated substantially

recently, but they have generally been on a downward trend since 1998. Even though the manufacturing sector has drawn the bulk of foreign investment in the country, the level of technology embedded in the manufacturing processes is still relatively poor. Enhancing productive and technological capabilities, therefore, could significantly help accelerate the pace of industrialization and structural transformation. To maintain a sustainable and inclusive industrialization process, the country must continue on its path to improving energy efficiency, thereby reducing the intensity of carbon dioxide (CO_2) emissions.

Employment: The agriculture sector has remained the largest employer, accounting for 69 per cent of total employment in 2016, down only 2 percentage points from the share recorded in 1991. The most striking development has been the contraction of the manufacturing sector whose employment share declined from 13 per cent in 2005 to 10 per cent in 2016. The traditional service sector, including, in particular, commerce, education, health, government and community services absorbed the largest proportion of labour shifts from agriculture and manufacturing. On average, over the period 1991-2016, aggregate labour productivity grew at a very low annual rate of 0.9 per cent, of which only 35 per cent was the result of structural change in the economy. Aggregate productivity growth has been primarily realized through productivity gains within key sectors of the economy, especially within the manufacturing clusters. The evolution of the labour market structure by employment status of workers suggests that there have been scant improvements in the quality of jobs, as captured through the "vulnerable" nature of employment. Limited job creation explains the small reduction in the type of jobs generally associated with vulnerability and informality. Youth unemployment and time-related underemployment, the situation in which the hours of an employed person are insufficient in relation to an alternative employment situation in which the person is willing and available to engage, have been pervasive. The lack of investment and job creation, and poor economic growth performance, constitute key factors behind the negative trends in youth unemployment in recent years. Nevertheless, skills enhancement strategies and policies are needed to address the critical issue of labour underutilization. Although literacy rates have increased considerably since 2000, current levels of access and completion of secondary education remain too low to supply the country with the skills required to complement technology or to stimulate innovation and productivity. Overall, the country has maintained a reasonable level of quality education, but there still remains significant potential for improvements across all educational sectors, especially within the technical and vocational education and training system. Diversification towards more complex products requires the availability of highly skilled personnel, which could boost aggregate labour productivity by supporting a wide range of economic sectors.

Society: The country's total fertility rate has declined considerably since 1990, from 5.6 births per woman in 1990 to 3.1 births in 2017. This can be attributed to a number of factors, including, among them, the increased use of contraception methods, rising living standards, and more effective sexual and general education. A corollary of the decline in fertility rates is that the number of young dependents relative to the working population has fallen. With fewer people

to support and more people in the labour force, resources may become available for investment in productive sectors of the economy. To experience a demographic dividend, however, the country needs to invest effectively in the empowerment, education and employment of its large and young working population. The level of urbanization is relatively low, but it has been growing rapidly in recent years. One of the factors supporting urbanization is the economic decline, which has led to migration to urban areas. The share of the urban population living in slums has decreased, but it is still relatively high – recently estimated at 32.7 per cent compared to 50.8 per cent for Lesotho and 33.2 per cent for Namibia. Life expectancy at birth has substantially increased, mainly because of significant improvements in child survival and expanded access to antiretroviral drugs for treatment of HIV. The latter also explains the sharp decline in the burden of disease caused by communicable, maternal, neonatal and nutritional disorders. There is, however, an increasing burden of non-communicable diseases. Reducing the burden of disease is critical to improving the quality of life and boosting labour productivity. Poverty remains pervasive, especially in rural areas. Almost two thirds of the population were living below the national poverty line (461 emalangeni (E) per month or approximately $1.1 per day) as of 2009. There is a high level of inequality in the income distribution, with the top 20 per cent of households accounting for approximately 60 per cent of total income. Gender disparities are particularly noticeable in the labour market. Female labour force participation rates remain considerably lower than the rates for male labour force participation; women are disproportionately underrepresented in high-skill occupational groups, and are typically more prone to vulnerable and informal employment. For instance, in 2016, the gender ratio in labour force participation was estimated at 0.65, far below the parity value of 1. In addition, the share of women working as employees in the formal sector as a percentage of total female employment, has remained unchanged, estimated at 70 per cent, while that for men increased from 83 per cent in 1991 to 86 per cent in 2016, resulting in a deteriorating gender ratio from 0.83 to 0.81. Sustainable and inclusive development requires accentuated efforts aimed at reducing gender and rural-urban divides.

Clearly, rapid sustainable economic growth led by profound structural changes in the economy has yet to materialize. The pace of structural transformation has been rather slow, but there have been a number of positive developments and achievements that can be built on. Overall, it is critical for the Government to collaborate closely with the private sector, research institutions, regional and continental bodies and development partners to accelerate the implementation process of sectoral and development strategies, including key programmatic areas of the National Development Strategy.

2

Context

The Kingdom of Eswatini[1] is a small landlocked country in Southern Africa bordering South Africa and Mozambique. The country is the last remaining absolute monarchy in Africa. It is ruled by King Mswati III, who ascended to the throne in 1986 following the death of his father, King Sobhuza II, and a period of regency. A largely mountainous country, covering a total area of 17,364 square kilometres, the population of Eswatini is estimated to be 1,132,657, according to the 2016 Populations Projections 2007-2030 conducted by the country's Central Statistical Office. The country has long been a stable and peaceful "monarchical democracy" in which absolute power rests with the monarch, while traditional and parliamentary systems run concurrently. The 2017 Ibrahim Index of African Governance[2] ranks Eswatini thirty-second out of 54 African countries, with an overall score of 48.7 out of 100. This score is below the continental average of 49.9, and significantly lower than the subregional average of 57.1 for Southern Africa. In particular, the country continues to register very low scores (less than 28) in the participation and human rights category.

Posting a gross national income (GNI) per capita estimated at $2,960 in 2017, Eswatini is classified as a lower middle-income country, as per the World Bank classification of economies by income levels. Poverty levels, however, have remained at high levels in recent years, with 39.7 per cent of the population estimated to be living under the international $1.90 a day poverty line in 2016 and 2017. The country belongs to several regional economic blocs in Southern Africa, namely the Southern African Customs Union (SACU), the Common Market of Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). In particular, it has close economic linkages to South Africa, which has been its main trading and investment partner, not only in the subregion and the continent, but also from a global perspective. The country is also a

1 Formerly known as Swaziland, the country, was renamed the Kingdom of Eswatini at the 50/50 Jubilee celebrating 50 years of independence and the fiftieth birthday of King Mswati III. The name change came into effect on 19 April 2018. In his announcement, the King indicated that the new name is to give true meaning to the country's independence – at 50 years, as the name "Swaziland" was given by the British.

2 See mo.ibrahim.foundation/iiag/.

member of the Common Monetary Area in which its currency – the lilangeni – is pegged to the South African rand.

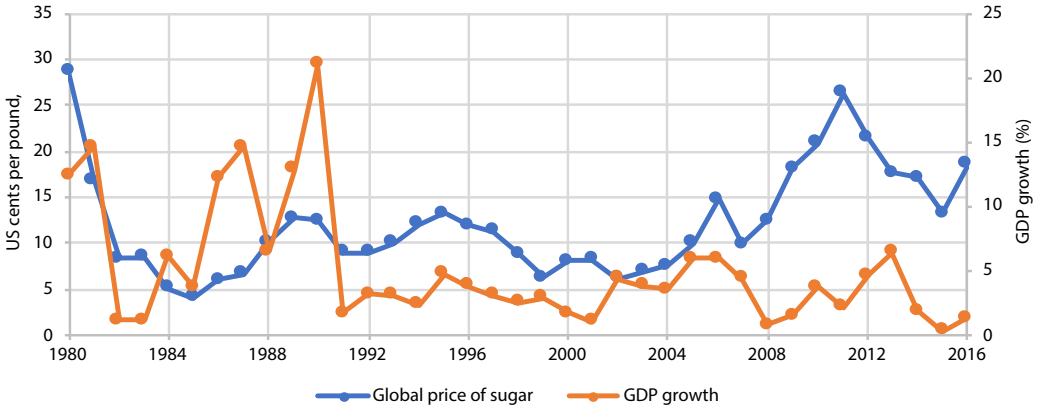
The Kingdom relies predominantly on agriculture. The sector is the main source of income for more than 70 per cent of Swazis, particularly in rural areas. Smallholder agriculture remains the backbone of rural livelihoods. Rural poverty is mainly the result of small landholdings and low productivity, compounded by frequent droughts, which results in crop failure and loss of livestock. Agriculture also plays an important role in providing raw materials for the largely agro-based manufacturing industries. The country has a dual system of land management: Title Deed Land and Swazi Nation Land. Agricultural production on Swazi Nation Land is primarily for subsistence. Farming techniques are usually traditional, employing predominantly family labour. Commercial agricultural production is carried out mainly on Title Deed Land and is dominated by sugar and sugar-related products. The Eswatini Water and Agriculture Development Enterprise has been implementing a number of projects that allow smallholders on tracts of Small Nation Land to coordinate and engage in commercial-scale production. While the concentration has been principally on sugar cane production, other high value crops, including horticulture, are under consideration. These initiatives appear to have a positive impact on the productivity of land and smallholder family incomes. Sugar is the country's major export; sugar production accounts for 18 per cent of GDP, 35 per cent of total wage employment, with 18 per cent of total employment engaged in sugar processing industry (see Dhlamini and others, 2016). Accordingly, the heavy dependence on sugar cane and related products increases the country's vulnerability to the vagaries of the global commodity markets.

Figure 1 shows the trends in the country's annual economic growth together with the global prices of sugar for the period 1980-2016. It confirms to a certain extent the positive correlation between sugar prices in the world market and the growth performance of Eswatini. Despite having one of the best growth records in Africa over a long period of time, a major challenge for the country is that economic growth has been trending downwards. Real GDP growth has dropped from an average of 8.7 per cent in the 1980s, to 4.9 per cent in the 1990s, 3.3 per cent for the decade 2000-2009, and an average of 2.8 per cent for the period 2010-2016.

Low agricultural productivity, high occurrence of severe droughts,[3] the devastation of the labour force by HIV/AIDS, weak institutional capacity and an inefficient government sector explain a significant part of the downward trend. Projection estimates by the World Bank suggest a downturn of about -0.6 per cent in 2018 from the 2 per cent economic growth in 2017, reflecting the weak aggregate demand and low supply in most sectors, resulting from worsening fiscal challenges and the depressed regional outlook.

3 In 2015/2016, the country experienced a severe El Nino-induced drought, which was deemed the worst in 50 years. It adversely impinged on agricultural production. GDP growth in 2015 and 2016 were 0.39 and 1.36 per cent respectively.

Figure 1: Annual economic growth and annual historical sugar prices, 1980-2016 (not seasonally adjusted)



Source: Federal Reserve Economic Data, and World Development Indicators, World Bank.

The country has developed a comprehensive long-term development agenda for the period 1997-2022, which is encapsulated in its National Development Strategy[4] document, Vision 2022. The Vision is to position Eswatini in the top 10 per cent of the medium human development group of countries founded on sustainable economic development, social justice and political stability by 2022.[5] The main objective of the National Development Strategy is to improve the standard of living of the people of Eswatini through access to quality services, wealth creation and employment opportunities.[6] The key areas of intervention highlighted in the strategic document are sound economic management, economic empowerment, human resource development, agricultural development, industrialization, research for development and environment management, all of which are essential for the structural transformation process. Progress towards achieving Government Vision 2022, however, has been hampered by slow implementation, and a number of challenges, including epidemics such as HIV/AIDS, the effects of climate change, in particular the recurrent droughts, the fiscal crisis of 2010-2011, and heavy dependence on the SACU revenue, which has been very volatile. Importantly, the Government developed, in 2014, the Swaziland Development Index,[7] which is intended to facilitate measurement of progress towards achievement of the Vision's goals. The index is used to track outcomes in eight focal areas: economic prosperity; agriculture and environmental

4 See www.snat.org.sz/New%20Page/The-National-Development-Strategy.pdf.

5 The Eswatini Human Development Index value for 2017 is 0.588 – which puts the country in the medium human development category – positioning it at 144 out of 189 countries and territories. This value is below the average of 0.645 for countries in the medium human development group, but above the average of 0.537 for sub-Saharan African countries (United Nations Development Programme (UNDP)), 2018.

6 In 2010, His Majesty the King presented to the country his aspiration for Eswatini to become a first world country and that progress towards that vision should be evident by 2022. The definition given to "first world country" is one where all citizens are able to sustainably pursue their life goals, and enjoy lives of value and dignity in a safe and secure environment. This also implies equitable access to sufficient resources, education, health, food security, quality infrastructure and services, as well as good governance.

7 Further details are discussed in the Programme of Action 2013-2018, available at suedafrika.ahk.de/fileadmin/ahk_suedafrika/SADC_Info/Swaziland_Government_Programme_of_Action_for_the_Year_2014-2018.pdf.

sustainability; education; health; government service delivery; infrastructure; governance; and corruption. Prior to initiation of the process to use the Swaziland Development Index, there was no government-wide system for monitoring development objectives.

In 2018, the Government completed the review of the National Development Strategy, with the key objective of integrating the targets contained in the 2030 Agenda for Sustainable Development and Agenda 2063: The Africa We Want, of the African Union, into the national planning frameworks. The soon-to-be-launched revised National Development Strategy is based on the theme, "The development strategy for Eswatini – promoting sustainable development and inclusive growth". The revised National Development Strategy will become the overarching framework and serve as a platform for conducting structural transformation and attaining sustainable development in Eswatini. In conducting the review process, special attention has been devoted to a number of key issues, namely maintaining macroeconomic stability and accelerating economic diversification; boosting strategic infrastructure; and unlocking human capacity, including through investment in science, technology and innovation related industries. Clearly, the vision of the Kingdom will be difficult to achieve without a stable macroeconomic environment, a favourable investment climate and careful considerations of environmental sustainability issues. Deeper integration of the country into regional value chains is also critical to achieve its structural transformation and sustainable development aspirations.

In addition to the adverse effects of repeated droughts, the country has been experiencing significant fiscal challenges, which have undermined considerably its growth performance and socioeconomic development efforts. Over the past few years, the Government's balance sheet has been rapidly deteriorating. The deterioration has occurred on both the liability and the assets sides. In 2010/2011, the country faced a serious fiscal crisis, which stemmed from structural imbalances in government expenditures and revenues. The sharp decline in SACU revenue inflows and limited expenditure adjustments in the aftermath of the global financial crisis resulted in extreme fiscal stress. The fiscal deficit rose to 10.5 per cent of GDP in 2011 (see SADC Statistics Yearbook, 2014). The fiscal crisis disrupted government programmes for two consecutive years. It decimated private sector confidence and negatively affected investment decisions. After a short recovery, the budget balance swung into a deficit in 2015, which widened sharply to double digits in 2016 following a sharp decline in SACU revenue and an upward adjustment of public sector wages. SACU transfers significantly declined from 14.8 per cent of GDP in 2015 to 12.3 per cent in 2017, reflecting the challenges faced by South Africa, which led to a decline in government revenue of the same magnitude. The 2017 budget had a slightly lower deficit of 8.48 per cent of GDP, owing primarily to a surge in SACU revenue. The deficit is partly financed through the accumulation of domestic arrears and running foreign reserves, which, in turn, is weakening financial sector stability, and negatively affecting private sector activities. The level of government debt, however, remains generally sustainable, despite the rapid increase in recent years, raising concerns of macroeconomic instability. Government debt rose from 14 per cent of GDP in 2014 to 18.8 per cent in 2015, and to 28.4 per cent of GDP at the end of 2017 (International Monetary Fund (IMF), *World Economic Outlook: Challenges to Steady Growth*, 2018).

The prolonged expansionary fiscal stance ultimately affected the current account balance, which deteriorated from 10.4 per cent of GDP in 2015 to 0.7 per cent in 2016 and 0.3 per cent of GDP in 2017. On the monetary side, the policies of the Central Bank have generally been effective in stabilizing inflation rates – in most cases, due to change in food prices – at reasonable levels, while protecting the currency peg to the South African rand. Inflation was estimated at about 6.2 per cent in 2017, slightly above the upper threshold target of 6 per cent set by the Central Bank. Overall, it is critical for the Government to improve its fiscal management and maintain a rigorous fiscal discipline in order to enable a favourable macroeconomic environment that is key for sustainable economic development.

Stable macroeconomic conditions – fiscal stability and transparency, low inflation and exchange rate policies – as well as political stability all support the private sector by promoting clarity, reducing risk and uncertainty and sending appropriate economic signals. Strong institutions, including good governance systems and well-developed infrastructure, constitute other key ingredients of a conducive investment climate. Perceptions of corruption continue to negatively affect the country's reputation within and outside the subregion, prompting attempts by the Government to address it. For instance, corruption is a stand-alone key pillar in the 2013-2018 Government Programme of Action, and additional resources were provided towards combating the scourge. The country is ranked 85th out of 175 countries, according to the 2017 Corruption Perception Index[8] reported by Transparency International. Its score of 39 on a scale of 0 to 100 – the same as Argentina, Benin, Kosovo, Kuwait and Solomon Islands – is below the world average of 43, although above the sub-Saharan Africa regional average of 32. Interestingly, the Anti-Corruption Commission of Eswatini published a report[9] in 2017 in which it suggested that 79 per cent of a sample of 3,090 respondents in a national survey believed that corruption within government was "rife". The survey also indicated that corruption was perceived to take place mostly in rural councils. The perceived major causes of corruption were poverty (59 per cent of respondents), unemployment (54 per cent) and greed (41 per cent). Government effectiveness and regulatory quality also remain key binding constraints to attracting private investment. Weak transparency in regulatory systems and a lack of clarity regarding government policies and implementation are key impediments to private sector development. Eswatini was ranked 117th among 190 economies on the World Bank Ease of Doing Business Index[10] for the 2018 benchmark year. It attained a score of 58.95 (out of 100), which was above the regional average (51.61) for sub-Saharan Africa. The country, however, was the worst ranked among SACU member States.[11]

The Government has adopted several strategies and policies to attract investment and foster private sector activity, such as the Private Sector Development Strategy, the Investor

8 See www.transparency.org/news/feature/corruption_perceptions_index_2017?gclid=Cj0KCQiA_4jgBRDhARIsADezXci1-I10liE6yX34t8IOZaPlsDeB4QqteCHUqirMqf_g675LsjyO55gaAmP-EALw_wcB.

9 A version of the 2017 National Corruption Perception Report is available at acc.gov.sz/images/AbridgedNationalReportACCV240617Final.pdf.

10 See www.doingbusiness.org/en/rankings.

11 South Africa is ranked 82, Botswana 86, Lesotho 106, and Namibia 107h.

Road Map and the Economic Recovery Strategy. In that regard, a stronger commitment and leadership are needed to accelerate the pace of implementation of these initiatives. FDI is highly regarded by the Government as a means to advance the country's economic growth, obtain access to foreign markets and improve international competitiveness. The Swaziland Investment Promotion Authority is tasked with designing and implementing strategies for attracting foreign investors.[12] In February 2018, the Government enacted the Special Economic Zone Act in an effort to attract FDI.

Good infrastructure is key for private sector operations and to attract FDI. The country is relatively well endowed with road infrastructure. The main network covers more than 3,000 kilometres of roads, more than one third of which is paved. The Government has also prioritized the energy sector, especially the renewable energy sector, and has developed a grid code and the Renewable Energy and Independent Power Producer Policy to create a transparent regulatory regime and attract investment. Currently, about 70 per cent of households have access to the distribution network, but access is limited to only 24 per cent in rural areas. There is significant opportunity to improve rural access through renewable options, such as solar photovoltaic systems, which are almost comparable to traditional sources in terms of cost-effectiveness. Information and communications technology (ICT) is another emerging sector. The country has embarked on a number of initiatives to spur growth of this sector, such as e-governance and the construction of the Royal Science and Technology Park. The digital migration programme of the International Telecommunications Union (ITU) offers immense ICT opportunities in Eswatini. The country successfully switched off analogue transmitters on the 31 December 2016. Digital broadcasting has the potential to contribute significantly towards reducing the digital divide and information gaps in the Kingdom and building a knowledge society through education and employment creation.

Eswatini recognizes that environmental management is a necessary condition for sustainable and inclusive development. Accordingly, it is a key strategic area of the National Development Strategy and one of the eight focal areas of the Swaziland Development Index 2022 and Programme of Action 2013-2018. The Government is committed to the concept of sustainable development and to the implementation of Agenda 21 – the Action Plan of the United Nations with regard to sustainable development, as underscored by the theme and focus of the recently revised National Development Strategy. The country is very vulnerable to the impacts of climate change and variability. Recurring events, such as droughts, cyclones, bush fires and floods, threaten, among other things, water resources, food security and health, thereby impeding the country's progress towards economic transformation and sustainable development. Water resources and biodiversity are recognized as resources in Eswatini at risk from climate change. In 2015, the Kingdom initiated the development of the National Climate Change Strategy and Action Plan for the period 2015-2020. The Plan

12 The Swaziland Investment Policy is available at sipa.org.sz/images/documents/pdf/Swaziland_Investment_Policy_2012_2.pdf.

was used to formulate the National Climate Change Policy, which was adopted in 2016. The National Climate Change Policy provides a framework for addressing national climate change challenges through an integrated and participatory approach. The sustainable and optimal use of the country's vast forest resources is another major challenge. One of the key strategies of the Government to address this issue is centred on the production of detailed maps outlining forest coverage and biodiversity resources, with the aim to enable more effective monitoring of the resources and guide efforts on forestry management. The Government emphasis on renewable sources as a means to increase energy generation is also a strong indication of its commitment to mainstreaming environmental sustainability considerations into national policies and programmes.

Participation of African countries in regional value chains is viewed as a pragmatic stepping stone towards effective and superior participation in global value chains, as it provides opportunities for them to boost their competitiveness and export high value added and sophisticated products, which is central to the structural transformation process. On the other hand, deeper integration into regional and continental markets is required for market players across the different countries to be able to operate effectively along the various value chains in the subregion and the continent. The small Kingdom of Eswatini is relatively well integrated within Southern Africa, belonging to several economic blocs in the region, in particular SADC and COMESA. The pace of integration in Southern Africa has, however, been relatively slow, and overlapping membership of a number of States – including Eswatini – to multiple regional blocs has to a certain extent, impeded the integration process. According to the Africa Regional Integration Index[13] developed by ECA, the African Development Bank and the African Union Commission, Eswatini performs relatively well with respect to meeting its commitments towards the regional integration agendas of SADC – and to a lesser extent, COMESA. The country is also one of the signatories of the Tripartite Free Trade Area Agreement between COMESA, SADC and the Eastern African Community (EAC). Eswatini has also deposited its instrument of ratification of the Agreement Establishing the African Continental Free Trade Area, with the African Union Commission. The African Continental Free Trade Area is much more than a market access initiative. It is a tool for driving African industrialization, economic diversification and development and presents a unique opportunity to leverage trade for structural transformation, economic growth and job creation on the continent. For resource rich countries, such as Eswatini, the African Continental Free Trade Area will create additional opportunities for adding value to natural resources and for diversifying into new productive activities by further lowering intra-African tariffs on intermediates and final goods. In addition, the Agreement is set to include provisions on trade facilitation, transit and customs cooperation, which will provide particular benefits to landlocked or land linked countries. Clearly, the potential for the African Continental Free Trade Area to accelerate the Kingdom's structural transformation is enormous.

13 See www.integrate-africa.org/.

3

Production

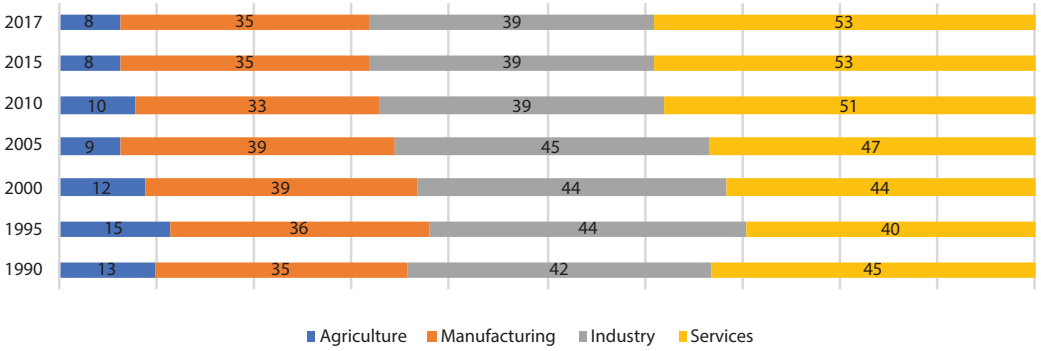
3.1 Diversification

The most prominent stylized fact of modern development and structural transformation is a secular decline in the share of agriculture in GDP, with the consequent increase in the combined shares of industry, in particular manufacturing and services. The experience of Eswatini is no exception, albeit with some limitations. Figure 2 shows the change in the production structure of the country over the period 1990-2017. Specifically, it shows the evolution of the contribution of each of the main sectors of the economy, agriculture, industry (including manufacturing) and services, to GVA. A number of key observations emerge. While the agriculture sector has represented the backbone of the Kingdom's economy, it has had the lowest contribution to GVA, far behind the industry sector – of which manufacturing is the major component – and the service sector. The evolution of the composition of GVA by sector can be examined through three subperiods over the timespan 1990-2017: the periods 1990-1995, 1995-2005 and 2005-2017.

Between 1990 and 1995, the contribution of agriculture and industry to total GVA increased at the expense of the service sector. The contribution of agriculture increased from 13 per cent of GVA to 15 per cent, while the contribution of industry rose from 42 per cent to approximately 44 per cent of GVA, mainly because of the increase in manufacturing's share from 35 per cent of GVA to 36 per cent. During those years, Eswatini registered relatively high economic growth rates on average, excluding the prosperous period of the 1980s, as shown in figure 2. Annual GDP growth was at its highest level in 1990, at about 21 per cent. It reached a relatively solid rate, 5 per cent, in 1995, following a sharp decline to approximately 2 per cent in 1991.

Between 1995 and 2005, the contribution of agriculture decreased to about 9 per cent of GVA, the service sector's share increased by 7 percentage points, and the contribution of industry almost remained unchanged. It is interesting to note, however, that despite the almost stagnant share of industry in GVA, the contribution of the manufacturing sector increased significantly, by around 3 percentage points over the same period. Incidentally, the 1995-2005 period coincides with the trade liberalization episode within SACU resulting from the democratization process in South Africa and the country's reintegration

Figure 2: Gross value added by sector, 1990-2017 (per cent)



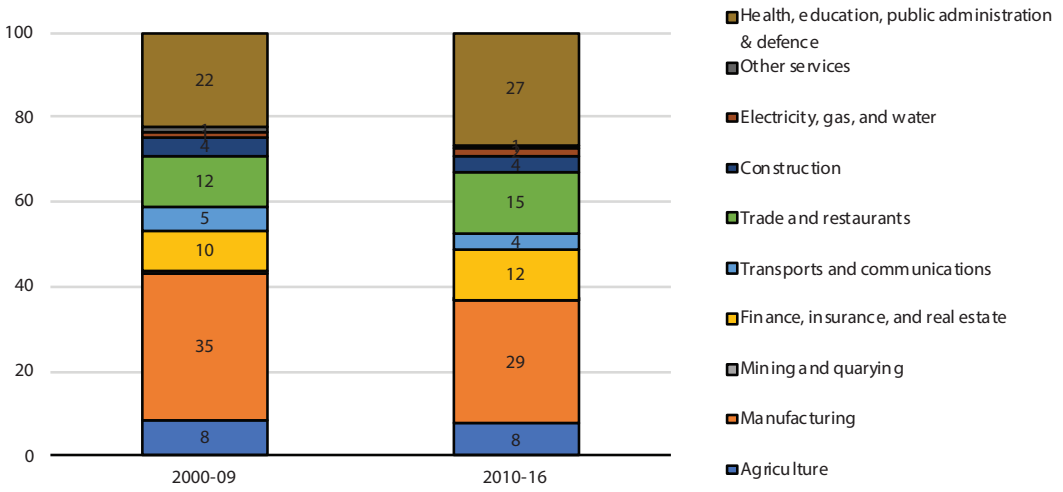
Source: African Development Bank Socioeconomic Database (dataportal.opendataforafrica.org/bbkawjf/afdb-socio-economic-database-1960-2019).

into the world economy. Since the World Trade Organization (WTO) Uruguay round in 1994, SACU countries, led by South Africa, have reformed and simplified their common tariff structure. Tariff rates have been reduced from a simple average of more than 20 per cent to 5.8 per cent. This new economic environment has exposed producers in the customs union to greater competition in a manner similar to what occurred in Chile (Pavcnilk, 2002). As indicated by Edwards and Behar (2006), regarding South African manufacturing firms, import competition increased domestic establishments' access to new foreign technology, which, in turn, improved their innovative and productive capacity. Accordingly, trade liberalization led to the loss of domestic producers' market shares in the region and to an expansion of foreign output induced by exploitation of economies of scale, in particular in the larger trading partner's market. Accordingly, a substantial movement of primary inputs and market shares from low productivity to high productivity sectors could, in principle, be reasonably expected.

The recent period of 2005-2017 has been rather characterized by a process of deindustrialization, and increasing shares of services' value added in total GVA, while the agriculture sector's contribution has remained stagnant at about 8 per cent of total GDP. The share of industry in GVA decreased from 45 per cent in 2005 to 39 per cent in 2017, while the share of its main component, manufacturing, declined from 39 per cent to 35 per cent during the same timespan. Manufacturing activities have been on the wane, as in most of African countries. In addition, the country's manufacturing sector is concentrated in low value-added products that are principally related to agriculture. For example, the main manufacturing products being produced are sugar, confectionery, soft drinks, textiles, canned fruit, refrigerators and forestry products.

While the documented movement from agriculture and manufacturing activities towards services is a key feature of an advanced structural transformation process, in the context of Eswatini this shift can be misleading. Most of the advanced economies in the world, including the United States of America and European Union countries, are also deindustrializing, but they are doing so at higher levels of per capita GDP. This is because their economies tend

Figure 3: Gross value added by activity, 2000-2016 (per cent)



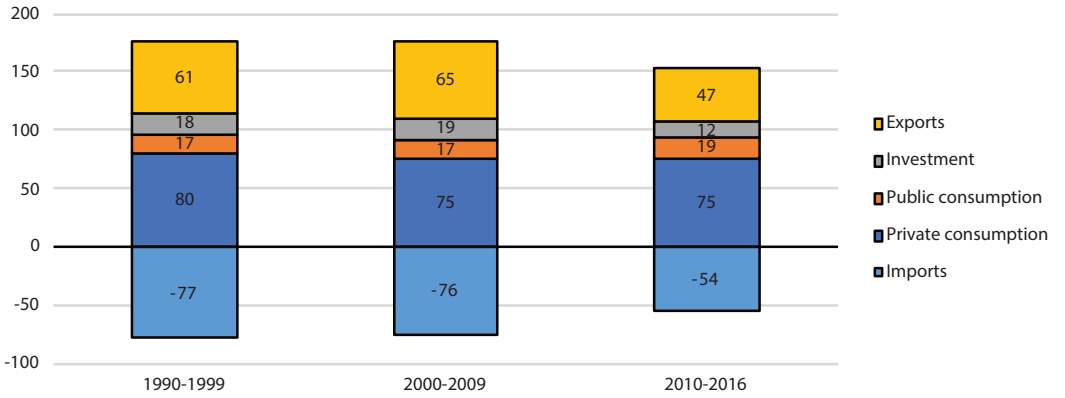
Source: African Development Bank Socioeconomic Database (dataportal.opendataforafrica.org/bbkawjf/afdb-socio-economic-database-1960-2019).

to not just increase their concentration into services, but to focus in particular on the high-tech and knowledge-intensive service sector. Overall, the experience of Eswatini has been dissimilar. For illustration purposes, figure 3 shows a comparison of the average contribution of GVA by activity for the periods 2000-2009 and 2010-2016.

The emerging pattern is generally consistent with insights from figure 2. More interestingly, the figure suggests that the substantial increase in the contribution of the service sector to total GVA essentially comes from the rise in the share of fundamental services, such as health, social work, public administration and defence, which are predominantly government services, and retail, wholesale trade and food service activities. For education, health, social work, public administration and defence as a group, the value-added contribution increased by 5 percentage points between the two time periods, while for commerce and food activities, the contribution increased by 3 percentage points. On the other hand, transports and communications' value added in GDP declined from 5 per cent to 4 per cent, while for finance, insurance and real estate activities, the contribution increased by 2 percentage points. Clearly, the downward trend in manufacturing activities in the kingdom have not been primarily for the benefit of the high productivity knowledge-intensive service sector.

Increasing agriculture productivity, while at the same time fostering and strengthening a diversified manufacturing base and transitioning into high-tech service activities, requires sustainable capital investment, either local investment or FDI. Although the Government of Eswatini has strongly encouraged investment during recent years, the effectiveness of its policy has yet to be clearly realized. There is a need to accelerate the pace of implementation of the various investment strategies and programmes. Up until 2012, the country did not have a single policy on investment. Investment facilitation had been spread across various

Figure 4: Gross domestic product by type of expenditure, 1990-2016 (per cent)



Source: UNdata (data.un.org/).

ministries and could be found in their relevant policies. Figure 4 shows the composition of GDP by type of expenditure, over subperiods between 1990 and 2016.

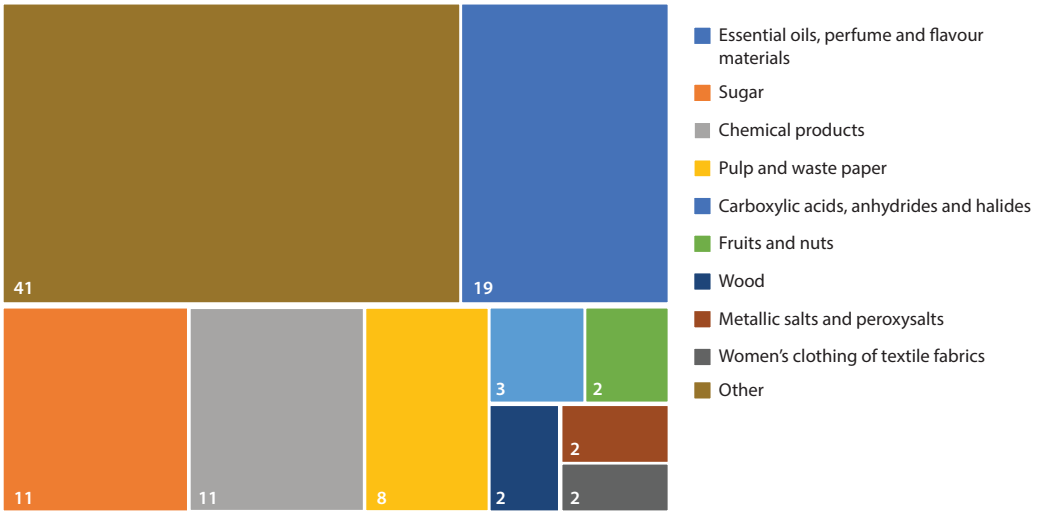
Based on the above figure, the investment share in GDP has substantially decreased in recent years, from an average of 19 per cent for the decade 2000-2009 to an average of 12 per cent for the period 2010-2016. The rise in the share of public consumption, from 17 per cent to 19 per cent between the same periods, is not surprising considering the expansionary fiscal stance taken in recent years. While private consumption has remained the key driver of the economy, its share in GDP has stagnated since 2000. That, coupled with the decline in gross capital formation, is the main factor behind the poor growth performance in recent years. Most notably, the share of exports in GDP dramatically decreased by 18 percentage points between the periods 2000-2009 and 2010-2016. The downward trend was precipitated by the fiscal crisis of 2010-2011. The role of external and exogenous factors, such as foreign demand of goods and services, and climate variation, especially with regard to agriculture-based export products, cannot be ignored. The highlighted negative dynamics is also attributable to the decline in manufacturing activities over the same timespan.

The private sector, in particular the domestic private sector, can play a key role in boosting investment levels, which, in turn, may stimulate private consumption from the supply side and strengthen the country's export base. The country's private sector is relatively small. It is characterized by a low level of domestic entrepreneurship and a constraining business environment. The Government intervenes in the economy through State-owned enterprises, a large number of which operate in such sectors as agriculture, transport, finance, tourism and housing. As such, State-owned enterprises may compete directly with private businesses, which can result in conflicts of interest in several sectors. In addition, some State-owned enterprises are also regulators of their sectors, which may create further uncertainty among investors. Notwithstanding, the Government is making efforts to enhance the private sector's competitiveness and improve the overall business environment. For instance, under the

Industrial Development Policy 2015-2022, the Government is developing the 301-hectare Sidvokodvo Industrial Estate in order to alleviate the shortage of land available to investors. It has also reviewed the small-scale loan guarantee scheme to align it with the graduate enterprise programme, which assists graduates to start business projects. Furthermore, conducting cross-border trade is easier following the implementation of a web-based customs data management platform, ASYCUDA World. Nevertheless, much remains to be done, especially with regard to empowering the domestic private sector and enabling it to propel sustainable economic growth in the country. Efforts to achieve private sector-led growth should not be disproportionately geared towards attracting foreign investors. In fact, special emphasis needs to be placed on expanding and strengthening the domestic private sector. The Government should endeavour to create an enabling environment for the development of fully integrated national business classes, which can facilitate a smooth transition to larger partnerships and investments at the subregional, continental or even the global levels through effective participation in regional and global value chains. For instance, the Government should strengthen safeguards for protection of domestic investors, including tackling restrictions on private participation in infrastructure development. Another measure to consider is to allow the private sector to participate on an equal and complementary footing with public providers by improving the corporate governance and efficiency of State-owned enterprises, and adopting sound competition and pricing policies.

Snapshots of the merchandise exports and imports by main product for the period 2010-2016 are provided in figures 5 and 6, respectively.

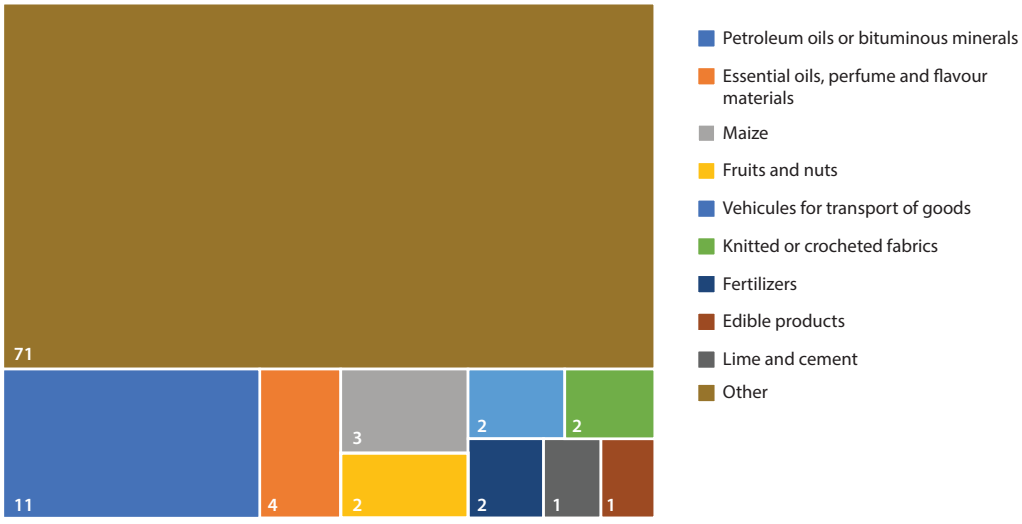
Figure 5: Merchandise exports by product, 2010-2016 (per cent)



Source: United Nations Conference on Trade and Development (UNCTAD) (unctadstat.unctad.org/EN/).

The exports structure of the country, in terms of the distribution of products, is moderately diversified, as compared to most sub-Saharan African countries. This is also evidenced by its relatively low export concentration index, which stood at about 0.25 for the entire period 1995-2017 (see UNCTAD, 2018a). The index measures the extent to which a large share of exports is accounted for by a small number of product groups. It has a value of 1 when an economy exports only one group of products and a value of 0 if all product groups are equally represented.[14] Sugar, the most prominent export product of Eswatini, represented only about 11 per cent of total exports on average for the period. The export basket is dominated by the product group of essential oils, perfume and flavour materials, which altogether accounted for 19 per cent of total exports. A group of merchandise classified as "miscellaneous chemical products", and pulp and waste paper, constituted the next two major export product groups, representing 11 per cent and 8 per cent, respectively, of total exports. The "miscellaneous chemical products" include substances, such as tall oil, residual lyes from the manufacture of wood pulp, rosin, gum, wood tar oils and resin acids. The clothing and textile industry in Eswatini is also vibrant, and has been historically linked to international markets. The sector significantly benefited from the African Growth and Opportunity Act, giving the country preferential treatment in the United States market during the period 2001-2014. The product group of women's clothing of textile fabrics contributed a non-negligible share (2 per cent) of total exports for the period 2010-2016. Although the distribution of the country's export basket is fairly spread across a large number of products, the structure still greatly diverges from the world pattern, as suggested by a diversification index[15] of about 0.75 for the period

Figure 6: Merchandise imports by product, 2010-2016 (per cent)



Source: UNCTAD (unctadstat.unctad.org/EN/).

14 For most African countries, especially resource-rich countries, the value of the index is above 0.5.
15 The diversification index takes value between 0 and 1. A value closer to 1 indicates greater divergence from the world structure.

1995-2017 (see UNCTAD, 2018a). The primary reason is the relatively low complexity of the exported goods.

The main manufactured goods of Eswatini, sugar, essential oils, pulp, waste paper and other wood products, are either agro-based or forest products, which do not result from deep transformation or technology-intensive manufacturing processes. Accordingly, it appears critical not only to diversify the export base, but also, and perhaps more importantly, to strengthen the manufacturing space by increasing the level of complexity of products. This will help to reinvigorate the industrial sector, and reverse the rapidly declining share of exports in GDP, as shown in figure 4. In addition, it will contribute to greater diversification of destination markets, and consequently, reduce the country's vulnerability and reliance on the South African economy. Evidently, this also includes building on and leveraging the country's comparative advantage in agriculture and forestry activities. For instance, there is still ample room for expansion in the food processing industry, including fish processing and preservation, jams chutney, vegetable atchar, chili sauce, canned fruits and meat processing. Ultimately, this will drive efforts to improve food security in this small country, which has consistently been a net food importer. Investment in human and physical capital is key to achieving these objectives.

3.2 Linkages

The analysis of the structure of trade by end use category complements that of product diversification. In particular, the dynamics of international trade in capital goods are crucial to understanding industrialization and economic development processes. While the world's production of capital equipment is generally concentrated in a very small number of countries, the benefits may spread around the world through exports of capital goods that embody new technology. A country's productivity then depends on its access to these investment goods and its willingness and ability to make use of them. Clearly, international trade should enable less developed countries, such as Eswatini, to access capital goods produced in more advanced economies. Accordingly, trade barriers may result in less capital accumulation, and, in turn, a slower pace of economic transformation.

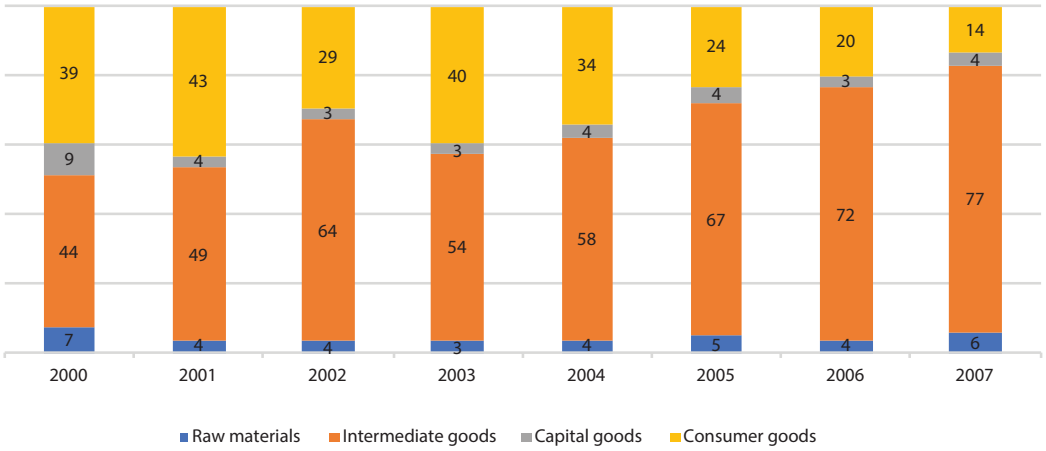
Figures 7 and 8 show the evolution of the country's merchandise exports and imports, respectively, by end use category, over the period 2000-2007.[16] The country's export mix was dominated by intermediate goods, followed by consumer products. While the share of intermediate goods rose significantly from 44 per cent in 2000 to 77 per cent in 2007, the proportion of consumer goods, on the other hand, trended downwards, from 39 per cent in 2000 to 14 per cent in 2007. Not surprisingly, exports of capital goods represented a very small share of merchandise exports, averaging approximately 4 per cent over the period. This is typical of a developing economy with an underdeveloped industrial base. The above figures

16 Aggregated time series data of trade of Eswatini by end use from the World Integrated Trade Solution are unfortunately only available for the period 2000-2007. Clearly, a time period covering recent years would have provided more precise evidence on the dynamics.

combined with the almost stagnant share of exports of raw materials (approximately 5 per cent, on average) suggest some, but relatively little, value addition to primary products. More intriguing was the relatively low and decreasing share of merchandise imports of capital goods. From 27 per cent in 2000, capital goods only represented 15 per cent of total merchandise imports just prior to the global financial crisis, even though the majority of capital goods are imported duty free, and the Government's investment policy exempts import duty for capital goods for new investors. Reversing that trend is crucial to support the country's structural transformation efforts.

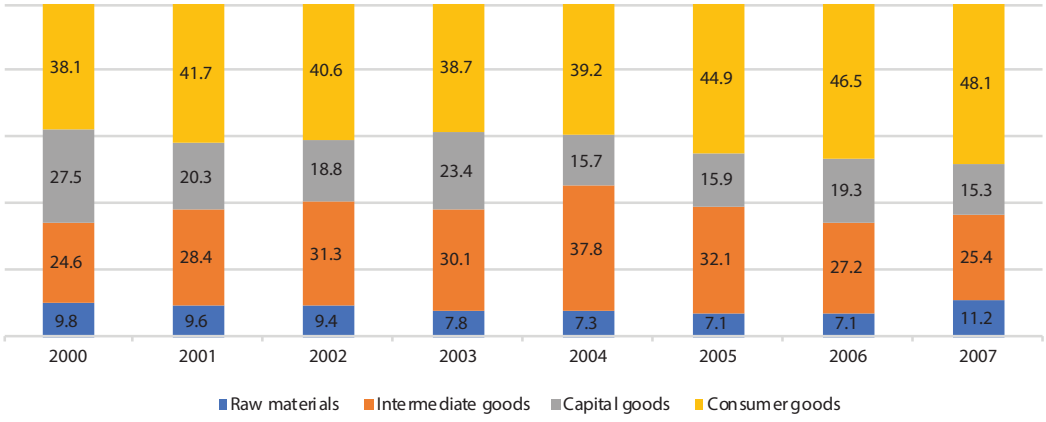
Integration into global value chains is often considered as a key pathway to sustainable industrialization in Africa, driving private sector development and modernization, and, in turn,

Figure 7: Merchandise exports by end use, 2000-2007 (per cent)



Source: World Integrated Trade Solution (wits.worldbank.org/).

Figure 8: Merchandise imports by end use, 2000-2007 (per cent)



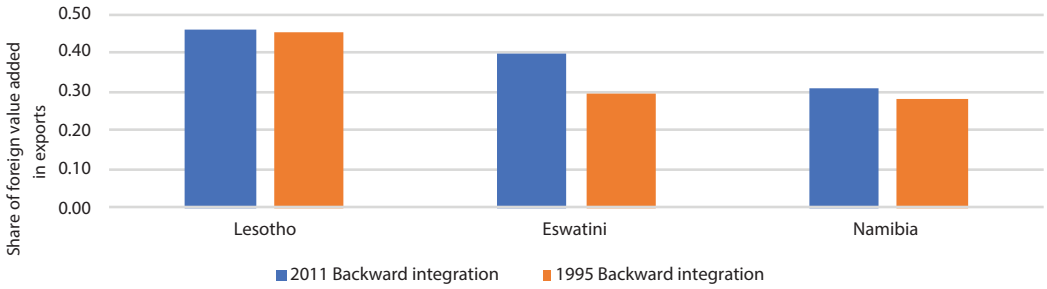
Source: World Integrated Trade Solution (wits.worldbank.org/).

fostering job creation and greater participation in the global economy through forward and backward linkages. It is also generally acknowledged that superior and effective participation in global value chains is what matters most. Integration into global value chains could accelerate structural transformation in African countries only if it is effectively combined with upgrading and profound value addition. Economic upgrading is defined as "moving up" the value chain into higher-value activities, which enables firms to capture a higher share of value in the global value chain and enhances competitiveness (see Gereffi and others, 2005; Humphrey and Schmitz, 2002). Trade in intermediate goods in its broader sense – that is, including raw materials and semi-finished products – gives some indication of a country's participation in global value chains. However, the share of foreign value added in a country's exports – termed "backward integration" – and the share of a country's value added in other countries' exports – known as "forward integration" – are more accurate and key measures of a country's participation in global value chains.

Figure 9 shows a comparison of the evolution of backward integration in Eswatini with those of two other lower middle-income countries in Southern Africa (Lesotho and Namibia) between 1995 and 2011, and figure 10 shows the same comparison for forward integration.

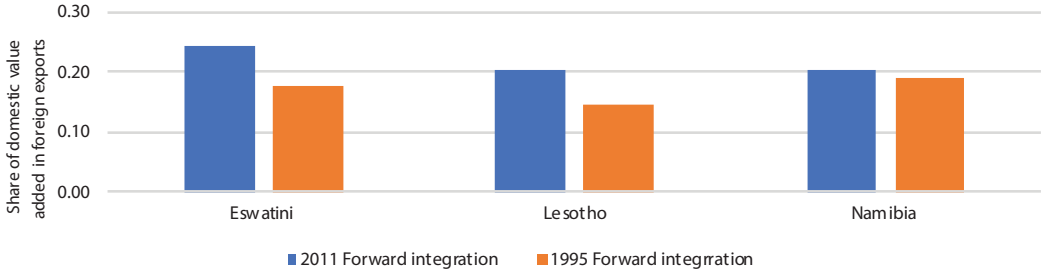
Overall, both figures suggest that Eswatini is relatively well integrated into global value chains. In fact, the country was one of the five African countries – others being Lesotho, Seychelles,

Figure 9: Share of foreign value added in exports, 1995-2011



Source: African Development Bank and others, (2014).

Figure 10: Share of domestic value added in foreign exports, 1995-2011



Source: African Development Bank and others, (2014).

the United Republic of Tanzania and Zimbabwe – among the world's top 30 countries in terms of global value chain participation (see African Development Bank and others, 2014). Backward and forward integrations also grew in Lesotho and Namibia between 1995 and 2011, but to a greater extent in Eswatini. Backward integration was more important and grew significantly more rapidly in Eswatini, as compared to the two other countries and compared against forward integration. Specifically, the share of foreign value added in exports from Eswatini increased from 30 per cent in 1995 to almost 40 per cent in 2011, while the share of the country's domestic value added in foreign exports increased from 18 per cent in 1995 to approximately 24 per cent in 2011. With regard to backward integration, the bulk of the foreign value added embedded in the exports from Eswatini originated in South Africa. For instance, the Kingdom sourced 26 per cent of its intermediates from South Africa in 2011 (see African Development Bank and others, 2014).

African countries' forward integration has been generally concentrated around primary products, including fuel, agricultural and mineral resources. In 1995, Namibia, a country with more resources than Eswatini, had a slightly greater share of domestic value added in foreign exports (19 per cent against 17 per cent for Eswatini). Forward integration in Eswatini, however, grew relatively faster between 1995 and 2011, to reach a level of 24 per cent, while the share of Namibia remained almost unchanged at 20 per cent. The Kingdom's share of exports of raw materials did not grow significantly within the period (see figure 7). This suggests that a significant part of its forward integration emanated from exports of semi-finished materials. Despite this, there is still untapped potential for the country to upgrade into higher value addition activities, which will help to reap the full benefits of integration into global value chains. Strengthening linkages with regional countries through effective participation in regional value chains appears to be a viable strategy in this respect, and will certainly contribute towards raising the level of sophistication of exported products.

Figure 11 depicts the evolution of the product space in Eswatini from 2000 (top) to 2016 (bottom). It contains a map of the country's exports for the products from which a comparative advantage is "revealed", as a subset of all the world's exported products. A comparative advantage is "revealed", as shown in international trade data when the revealed comparative advantage index, also called the Balassa index (Balassa, 1965), is greater or equal to one (1).[17] The brightly coloured circles (as opposed to grey circles) represent products for which Eswatini had a revealed comparative advantage, and the size of a circle is proportional to the country's export in the associated product.[18] In essence, the product space representation depicts the connectedness between products, based on the similarities of know-how required to produce them. Products at the periphery of the network tend to be weakly connected with the rest of the products in terms of the common capability requirements. They essentially

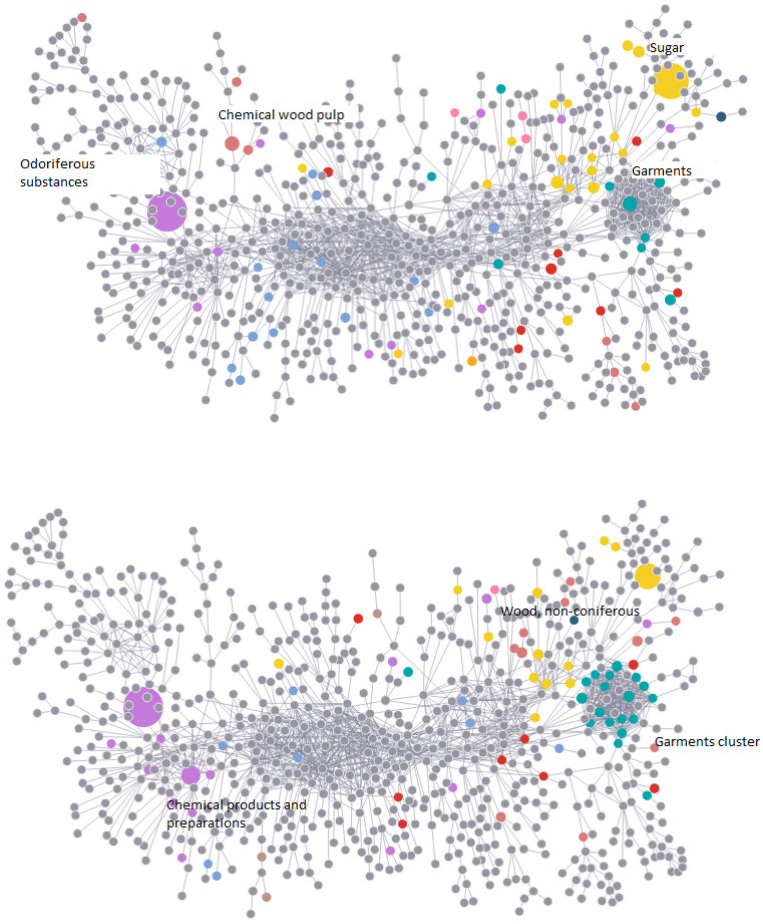
17 In other words, a country has a "revealed" comparative advantage in a particular product when the product's share in the country's total exports is larger than the share of the product in the world's exports.

18 Data from the Atlas of Economic Complexity suggest that Eswatini did not enjoy a revealed comparative advantage in any exported product prior to the year 2000. Data from 1980.

include petroleum and primary products of mining, agriculture, forestry and fisheries, and lightly manufactured items. The products at the core, on the other hand, are very complex and are closely related to each other. Accordingly, they require superior human capability and expertise. There are also some clusters in which the products are closely related to each other within the cluster, but not to the rest of the network. These clusters typically include garments and electronic products (see Abdon and Felipe, 2011).

The diagram shows that the primary exported products of Eswatini have been mainly at the periphery of the product space. These include sugar, beet and cane, essential oils, perfume and flavour materials (odoriferous substances), chemical and wood products, and fruits and clothing items. No products have been at the core of the network, with the exception of

Figure 11: Product space, 2000-2016 (exports)



Source: Atlas of Economic Complexity, Harvard University (atlas.cid.harvard.edu/).

welding, brazing, cutting and textile machinery and appliances, which are represented by the blue circles in the centre. The number of products with revealed comparative advantage (about 80 classified products) remained practically unchanged between 2000 and 2016, suggesting little or no diversification over the period. More importantly, the configuration of the product space in 2016 differed very little from that in 2000. Although there were relatively fewer products at the periphery in 2016, it did not translate into a breakthrough in production of more sophisticated products at the core of the network. In fact, the number of relatively complex products closer to the core also slightly decreased.

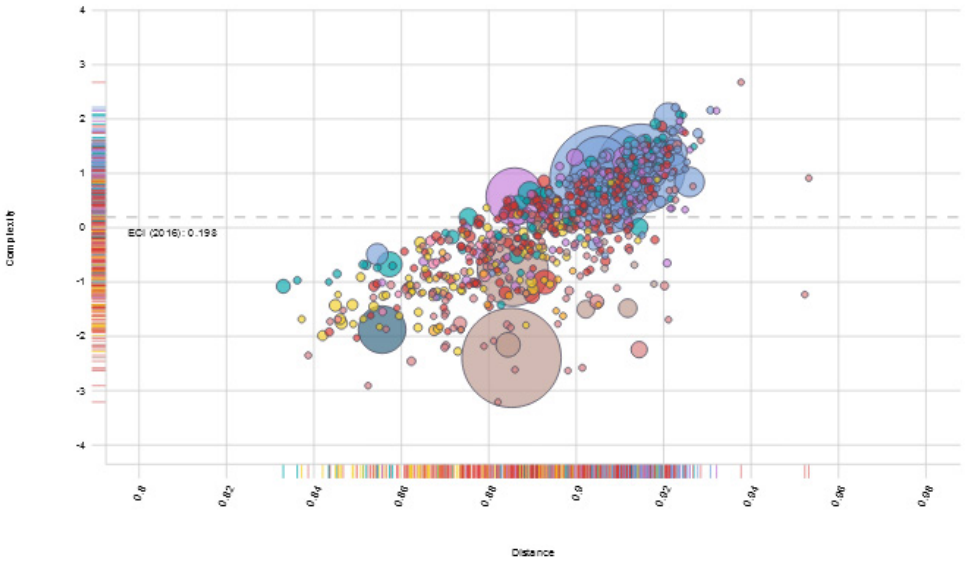
The most striking change seen in the product space was the diversification that occurred in the closely-knitted garments cluster (depicted by the green circles). For Eswatini to be able to make significant leaps in the more complex and intricately linked core products, which will expedite its structural transformation process, it needs to invest extensively in building its human and physical capital arsenals.

Figure 12 illustrates the product feasibility of Eswatini, as of 2016. It provides an overview of how the country's export structure is likely to evolve, given its set of acquired productive capacities. In other words, the chart displays the country's opportunities for diversification towards more complex products, based on the structure of its exports in 2016.

The vertical axis shows the product complexity and is calculated based on the ubiquity of the product, namely, the number of countries that export the given product with a revealed comparative advantage. The intuition is that products requiring superior capabilities will be accessible to fewer countries (that is, less ubiquitous), while countries that have more capabilities will have what is required to make more products – that is, will be more diversified (see Hausmann and Hidalgo, 2010). The horizontal axis shows the likelihood of a country producing a given product, which is determined by how far that product is from the country's existing productive capabilities (see Hausmann and others, 2011). In other words, a product distance (from 0 to 1) captures the extent of a country's existing capabilities to make the product, as measured by how closely related a product is to its current exports. If for instance Eswatini exports most of the products that are connected to a given product, that particular product would be located relatively closer to 0 on the horizontal axis. Otherwise, it would be positioned closer to 1. A product is represented by a circle whose size is proportional to world trade in the specific product. For instance, the big light brown circle at the bottom of the diagram is for crude petroleum oils, which incidentally, has a very poor product complexity of -2.28. The economic complexity index of Eswatini in 2016 was estimated at 0.198,[19] as shown by the horizontal dotted line in figure 10. The upward slope of the product distribution

19 The economic complexity index is computed through an iterative algorithm, based on the diversity of the country's exports in 2016 and the ubiquity of the exported products. It is more of a predictive tool than a descriptive one, and is usually used for economic growth and development projections. In 2016, Japan was ranked first (out of 127 countries) with an economic complexity index value of 2.16, while Papua New Guinea was at the bottom of the ranking with a value of -1.73. The best ranked sub-Saharan African country was South Africa with an economic complexity index value of -0.181. Eswatini, however, was not ranked because of concerns on the reliability of its data.

Figure 12: Product feasibility, 2016



Source: Atlas of Economic Complexity, Harvard University (atlas.cid.harvard.edu/).

suggests that existing productive capabilities of Eswatini (as of 2016) are less likely to support the production of more complex products.

The products located above the horizontal dotted line are generally more complex than the "average complexity" of the products exported by the Kingdom in 2016. Accordingly, it is interesting to identify a few of the products that the country can feasibly develop capacities to export, with a revealed comparative advantage – that is, those in which the associated distance measure in the feasibility chart is closer to 0 than 1. Among them are medicaments (including veterinary medicaments); processed animal food, such as sausage and meat, meat offal or animal blood; structures and parts of aluminium, iron, steel; plates and rods; varnishes and lacquers; wadding, wicks and textile fabrics for use in machinery or plants; paper and paperboard cut to size or shape; furniture; construction materials of asbestos-cement; products manufactured from mineral materials; printed matter; builders' carpentry and joinery; glazes, dryers and putty; plastic plates, sheets, films, foil and strips; machinery for soil preparation or cultivation; dairy machinery; plastic sanitary and toilet articles; and other chemicals, such as phenoplasts and heterocyclic compounds, which are produced by the country, but not with a revealed comparative advantage. All the above products come with significantly positive opportunity gains, suggesting that their development will ultimately open up links to increasingly complex products.

Accordingly, its relatively high estimated economic complexity index value of 0.198 (displayed in the figure), should be taken with caution, and is likely to provide only an upper bound of the actual value.

3.3 Technology

Technological advancements are a driving force for development and structural transformation. In particular, they are key to industrial upgrading, diversifying and increasing the complexity of the product space. FDI is arguably one of the most important channels through which developing countries can improve their productive capabilities and develop their export markets. For this reason, it is not surprising that the Government of Eswatini views FDI as a means to drive the country's economic growth, obtain access to foreign markets for its exports and improve international competitiveness. Accordingly, the Government, through the Eswatini Investment Promotion Authority, has put in place strategies and action plans in its national investment policy document in order to attract foreign investors. In principle, FDI comes with considerable benefits, including technology transfers, know-how and managerial expertise, that may diffuse into the host economy. Consequently, it can boost total factor productivity growth through technology spillover and adoption. However, the mixed empirical evidence on the technology transfers from FDI, found in the literature,[20] suggests that a number of other factors may influence the relationship between FDI, technological progress and economic development in host countries. Among them are the incentives of foreign firms and the destination sector of their investment,[21] the technology absorptive capacity of the host country and the cooperation between multinationals and local firms.

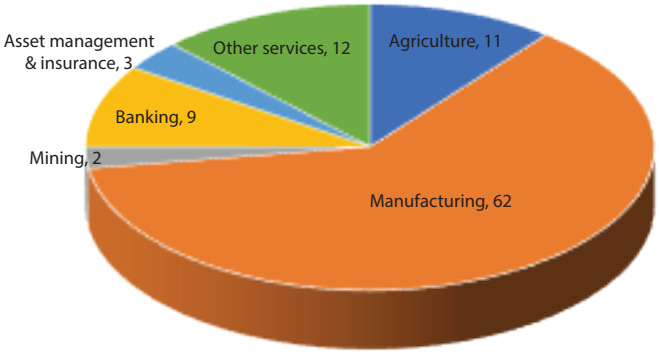
Although net FDI inflows to Eswatini have fluctuated substantially in recent years, data from the World Bank Development Indicators, show that they have been on a downward trend since 1998. From almost 10 per cent of GDP in 1998, they only represented a meagre 0.72 per cent in 2016. FDI flows decreased strongly under the effect of the global economic slowdown and have remained very low. According to the *2018 World Investment Report* of UNCTAD, net FDI inflows were estimated at -$137 million in 2017, down from their value of $21 million in 2016 (see UNCTAD, 2018b). These figures correspond to -34.3 per cent and 4.6 per cent of gross fixed capital formation of the respective years. FDI in Eswatini is primarily oriented towards the industries of sugar, paper pulp, textiles, and non-alcoholic beverage concentrates; the main investors are from South Africa, the United Kingdom of Great Britain and Northern Ireland, Denmark, the Netherlands, Taiwan, Province of China, the United States of America and Japan.

Figure 13 provides a snapshot of the sectoral decomposition of FDI for the period 2010-2015. The manufacturing sector has been by far, the largest recipient of FDI in Eswatini since 1990; it represented approximately 62 per cent of total FDI for the period 2010-2015. The next largest recipient was the service sector in its broader sense, which includes banking (9 per cent), asset management and insurance (3 per cent) and other services (12 per cent), comprising essentially wholesale and retail trade, and transport and communications. The

20 See Rodrik (1999) for a review of some of the key studies.

21 For instance, the study by Elitcha and Zidouemba (2018) provides empirical evidence that the positive effect of FDI on total factor productivity growth in developing countries decreases with rents associated with natural resources, suggesting the existence of a resource curse.

Figure 13: Foreign direct investor by sector, 2010-2015 (per cent)



Source: Central Bank of Eswatini.

agriculture sector alone, accounted for a significant 11 per cent of FDI in the country, while mining only received about 3 per cent of FDI.

The substantial investment into high-value and strategic sectors, such as manufacturing, agriculture and financial services, is a positive development in the country's structural transformation process. This should boost agricultural productivity and create enabling conditions for accentuated value addition and diversification activities through technology enhancement. There is still, however, a need to promote actively sound partnerships and business relationships between foreign and domestic firms for the latter to be able to internalize the knowledge and technology available through FDI inflows.

Another key channel, through which FDI can positively advance technology in the host country, is its effects on research and development and innovation activities. In 2015, gross domestic research and development expenditures in Eswatini, which include expenditures by the Government, business enterprises and higher academia and research institutes, only represented a very modest 0.27 per cent of GDP.[22] For comparison purposes, this value was greater than the share of Lesotho of 0.05 per cent for the same year, and lower than the value of 0.34 per cent for Namibia for 2014. While it is not clear to what extent FDI has contributed to the level of research and development and innovation activities in Eswatini, the Government must continue to provide a conducive environment for innovation through strategic policies, including policies to increase knowledge transfer and adoption from multinational and foreign companies, investments in science, technology and innovation, robust education systems and institutional capacity-building, and the promotion of university-industry linkages.[23]

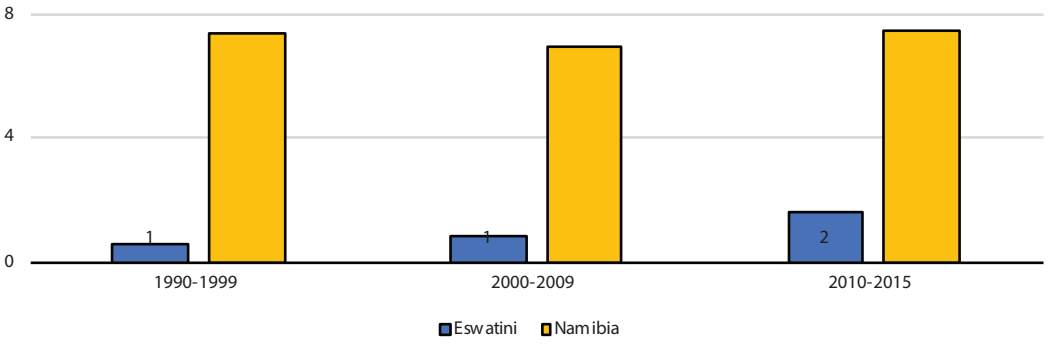
22 Data taken from the United Nations Educational, Scientific and Cultural (UNESCO) Institute for Statistics. See data.uis.unesco.org/Index.aspx?DataSetCode=SCN_DS&lang=en.

23 His Majesty King Mswati III has, on numeral occasions, made the call for the country to firm up its investment on innovation-related activities. In addition, under the revised National Development Strategy the establishment of a science, technology and innovation-powered manufacturing sector is explicitly called for.

Even though the manufacturing sector has drawn the bulk of foreign investment in the country, the level of technology embedded in the manufacturing production is still relatively poor. According to data from the World Bank World Development Indicators, the share of medium and high-tech products as a percentage of total manufacturing exports has remained constant at 29 per cent since 2007, although it has increased from its value of about 14 per cent for the decade 1990-2000. In fact, the share of high technology exports alone fell gradually from 0.8 per cent in 2001 to 0.1 per cent in 2007,[24] and during that period, the proportion of medium and high-tech exports rose from 7 per cent to 29 per cent.[25] These figures suggest that the manufacturing sector has virtually not benefited from high research and development innovation activities, whether through technology spillovers from FDI or other means, such as technology imports and the country's own investment in science, technology and innovation. This is also evidenced by the relatively low level of complexity of the product space, as shown earlier.

Figure 14 shows a comparison of the evolution of the share of medium and high technology in total manufacturing added, focusing specifically on manufacturing engineering, with that of Namibia, over the period 1990-2015. Although the superior technological content of manufacturing value added in Namibia was stagnant, at 7 per cent, over the period, it was much higher than that of Eswatini, which barely increased from an average of 1 per cent for the subperiod 1990-2009 to approximately 2 per cent over the period 2010-2015. Clearly, there is need for the country to catch up on its industrial technological capabilities. In support of this, under the revised National Development Strategy, the issue of science, technology and innovation in manufacturing processes is addressed in particular, which is certainly a key step in the right direction. The implementation of a comprehensive action plan focused on continuous enhancement of productive and technological capabilities will significantly help the country in its quest for structural transformation, industrialization and sustainable development.

Figure 14: Medium and high technology in total manufacturing value added, 1990-2015 (per cent)



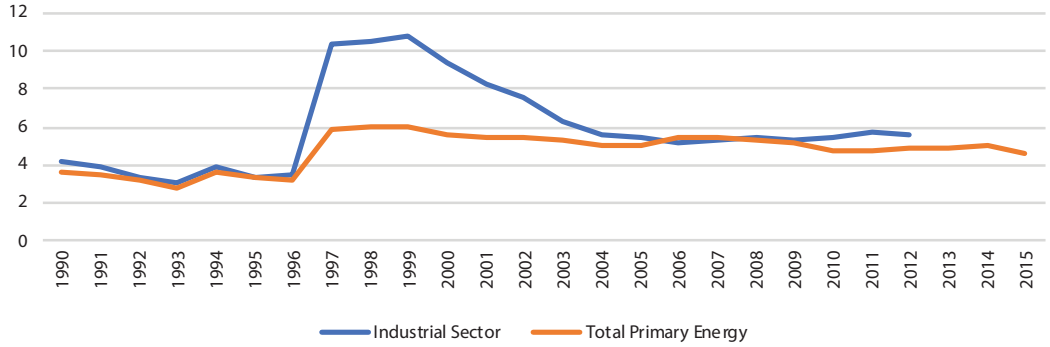
Source: United Nations Industrial Development Organization Competitive Industrial Performance Index (www.unido.org/data1/Statistics/Research/cip.html).

24 Eswatini data on high-tech exports are only available for the period 2000-2007.
25 See databank.worldbank.org/data/source/world-development-indicators.

To achieve economic growth and sustainable development, environmental issues must be considered in economic development strategies, including through the adoption of clean and environment-friendly technologies. This is important because industrialization and economic growth are usually associated with higher energy consumption, which increases the pressure exerted by energy production and consumption on the environment. Decoupling energy consumption from economic growth can help in achieving simultaneously economic and environmental goals. The decoupling may either result from reducing the demand for energy services, or by using energy in a more efficient way, or a combination of the two. Energy intensity – broadly defined as the ratio between energy consumption and GDP – is used to identify to what extent there is decoupling between energy consumption and economic growth. It is an indicator of how much energy is used to produce one unit of economic output. Accordingly, lower ratios suggest that energy is used more efficiently in production processes.

Figure 15 depicts the trends in the energy intensity of the industrial sector and total primary energy intensity,[26] over the period 1990-2015[27] in Eswatini. Not surprisingly, the evolution of primary energy intensity fairly mirrored the dynamics of energy intensity in the industrial sector. Total energy intensity has been decreasing gradually since 1999, owing to the decline in energy intensity in the industrial sector. Primary energy intensity decreased by about 18 per cent between 1999 and 2012, while for the industrial sector, energy intensity was reduced by almost 50 per cent over the same period. There was, however, a sharp increase in energy intensity in the sector from 1996 to 1999 because of the significant increase in manufacturing value added (as shown in figure 2).

Figure 15: Energy intensity of primary energy and industrial sector, 1990-2015 (megajoules per unit of GDP)



Source: Global Tracking Framework, World Bank and International Energy Agency.

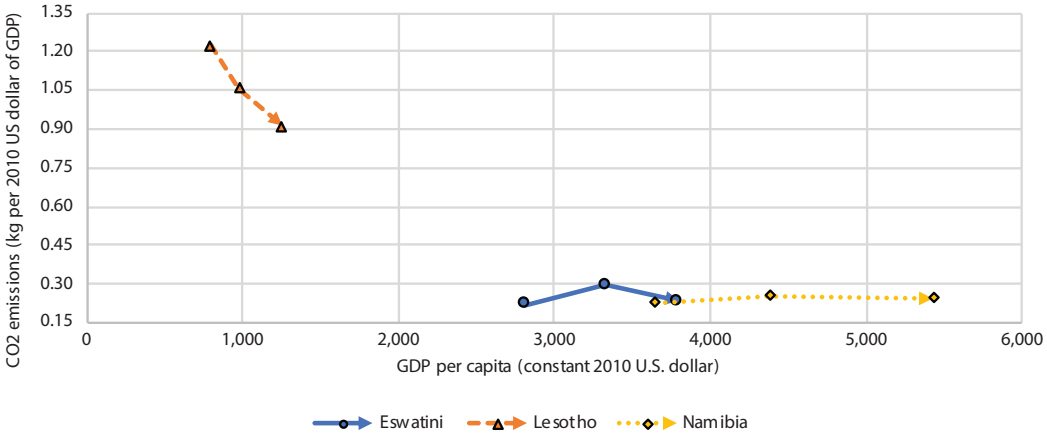
26 Energy intensity level of primary energy is the ratio between total energy supply, including renewable and non-renewable energy, and GDP (measured at purchasing power parity of 2011 United States dollars), while energy intensity of industrial sector is the ratio between energy consumption in industry and industry sector value added measured at purchasing power parity of 2011 United States dollars.

27 Data on energy intensity in industrial sector are only available for the period 1990-2012.

The pulp, paper and printing industry, one of the key manufacturing subsectors in Eswatini, is among the top industrial energy consumers in the world, and can play an important role in the transition to a low-carbon energy system. The reduction of total primary energy intensity has been influenced by improvements in energy efficiency and structural changes within the economy, including, in particular a shift from industry towards services. In Eswatini, however, the high productivity knowledge intensive service sector has not benefited from this. The overall level of primary energy intensity in 2015 was estimated at about 4.61 megajoules (MJ) per GDP, lower than the averages of 5 MJ and 7 MJ per GDP for lower middle-income countries (same as the world average) and sub-Saharan African countries, respectively. It is important, however, that the country improve or (at least) maintain its level of energy efficiency as it endeavours to upgrade its manufacturing production and the complexity of the product space.

Improving energy efficiency, especially energy supplied from fossil fuels, will ultimately translate into reduced CO_2 emissions. Figure 16 is a scatter plot of GDP per capita and the intensity of CO_2 emissions, which shows the different patterns of evolution in Eswatini, Lesotho and Namibia over the period 1990-2013. The three dynamically displayed points for each country represent average values for the subperiods 1990-1999, 2000-2009 and 2010-2013, respectively. While there appears to be a negative relationship between intensity of CO_2 emissions and per capita GDP in Lesotho, the level of intensity of CO_2 emissions remains relatively high in that country. This may be explained by the relatively high primary energy intensity, which was estimated at 9.72 MJ per GDP in 2015 (against corresponding values of 4.61 MJ and 3.26 MJ in Eswatini and Namibia, respectively). The pattern of Namibia, however, tends to be flat, with the intensity of CO_2 emissions virtually insensitive to economic development over the period. On the other hand, the experience of Eswatini points to an

Figure 16: **Gross domestic product per capita and intensity of carbon dioxide emissions, 1990-2013**



Source: World Development Indicators, World Bank.

inverted-U relationship, consistently with the trend in total primary energy intensity shown in figure 15.

The country's intensity of CO_2 emissions has been gradually decreasing since 1997 following a sharp increase of about 240 per cent between 1996 and 1997. More specifically, from an estimated figure of 0.121 kg per GDP in 1996 with an associated GDP per capita of $2,881, the intensity of CO_2 emissions of Eswatini rose to 0.412 kg per GDP in 1997 with an associated GDP per capita of $2,905, before progressively dropping to 0.215 kg per GDP in 2013 with a corresponding GDP per capita of about $3,978. The special priority accorded by the Government to renewable sources as a means to increase energy generation has played a key role in bringing about these positive developments.

4

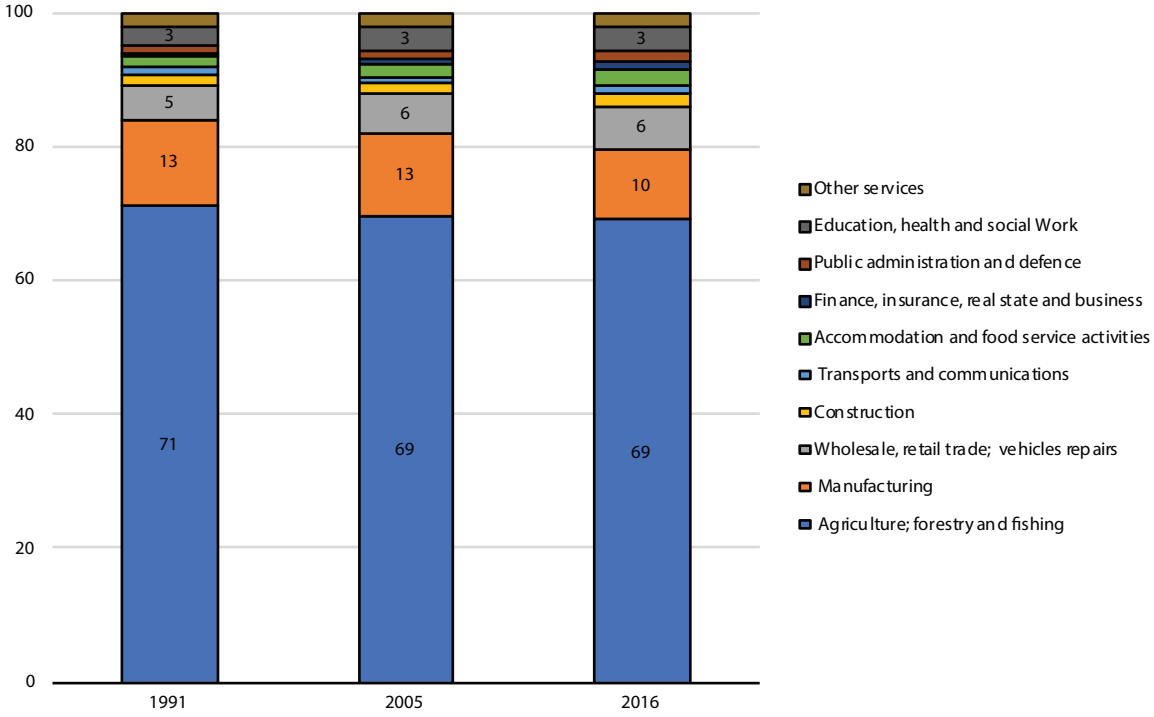
Employment

4.1 Labour productivity

A key component of the analysis of structural transformation is the study of labour market dynamics across sectors of the economy. It is generally understood that structural change is associated with an increasing share of employment in manufacturing and high productivity services, and a declining share of employment in the primary or agriculture sector. Figure 17 shows the sectoral composition of total employment in Eswatini over the period 1991-2016. The overall structure of employment has not significantly changed over the years. The agriculture sector has remained the largest employer, accounting for 69 per cent of total employment in 2016, only down by 2 percentage points from the share in 1991. The employment share in the manufacturing sector contracted from 13 per cent of the workforce in 2005, to 10 per cent in 2016, consistent with the deindustrialization process that started in around 2005 or 2006. This has been the most striking change in the sectoral employment pattern. On the other hand, there was a very marginal movement of labour towards the modern, high productivity services, such as the financial and communications sectors. Specifically, the employment shares in the financial sector (finance, insurance, real estate and business) and the communications sector were estimated at 0.51 per cent and 1 per cent of total employment in 1991, respectively, against 1.16 per cent and 1.45 per cent of the total workforce in 2016. The traditional service sector, including, in particular, commerce, education, health, government and community services, absorbed the largest proportion of employment contractions in agriculture and manufacturing.

Figure 18 provides a snapshot of employment shares and labour productivities across key sectors of the economy for 2016. Labour productivity is measured as the annual GVA per worker. A sector is represented by a bar whose width is proportional to the labour share in the corresponding sector. The large share of employment in the agriculture sector significantly contrasts with its very weak labour productivity, which partly explains the relatively low value-added contribution of the sector; agricultural labour productivity was estimated at $1,600 per worker in 2016. Considering that wages are generally paid at a level equal to the marginal revenue product of labour, these figures are also consistent

Figure 17: Employment by sector, 1991-2016 (per cent)



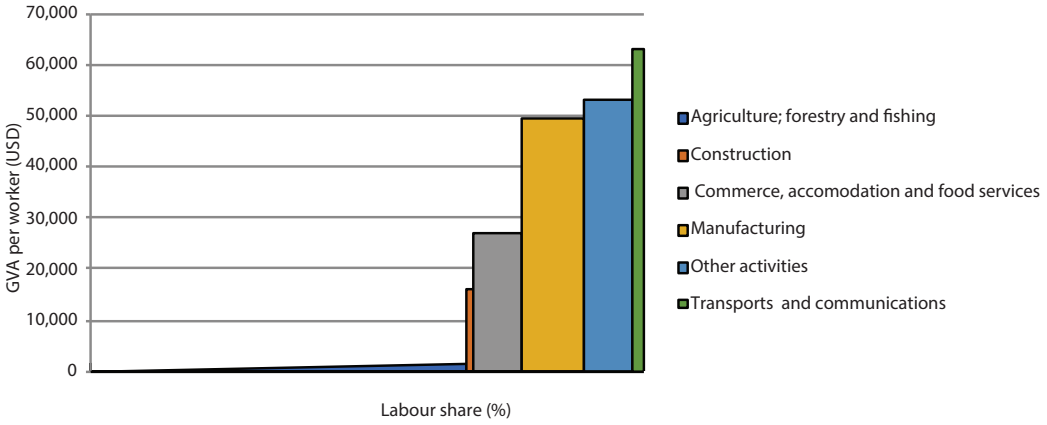
Source: Computed based on the International Labour Organization (ILO) statistical database (ILOSTAT) (ilostat.ilo.org/).

with the relatively low remunerations in the sector.[28] Labour productivity was highest in the transport and communications sector, with an estimated value of approximately $63,000 per worker. Despite the decline in the country's manufacturing activities and the insufficient level of technology embedded in manufacturing engineering, labour productivity in the sector was relatively high in 2016, with an estimated figure of about $50,000 per worker. This paradoxically highlights the untapped potential that exists in that sector.

As illustrated in figure 18, there is a high level of dispersion and heterogeneity in the productivity distribution of sectors. The aggregate productivity of labour – as measured by GVA per worker without consideration for sector of activity – was valued at about $15, 000 in 2016. As evidence of the extent of heterogeneity, this value is significantly below the average productivity of all sectors, which was estimated to be approximately $35,000. Taking this into account, in figure 19, the connection between employment shifts and productivity in 2016 is mapped to identify at the sectoral level the productivity impacts of the labour reallocation process. A sector is represented in the diagram by a circle whose size is proportional to its

28 According to the Eswatini Integrated Labour Force Survey 2013/2014 (see Swaziland, Ministry of Labour and Social Security, 2015), the median monthly earnings of employed persons in the agriculture sector was one of the lowest, estimated at E 1300. In addition, the median monthly earnings of skilled agricultural workers were the lowest, estimated at E 800.

Figure 18: Labour share and productivity by sector, 2016

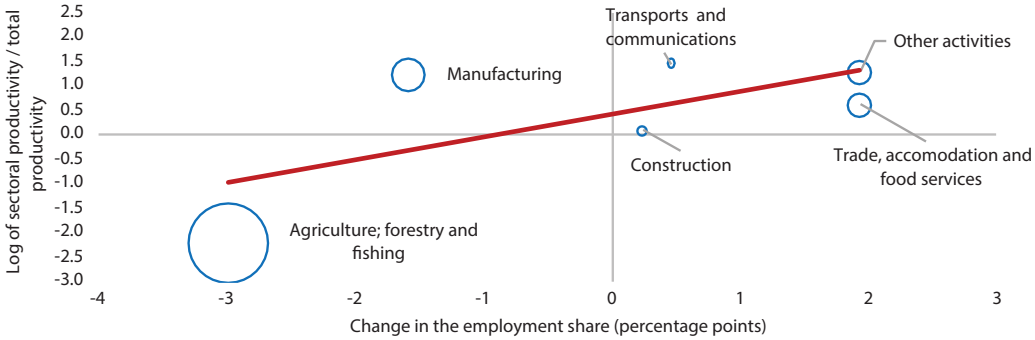


Source: Computed based on UNdata (data.un.org/) and ILOSTAT (ilostat.ilo.org/) databases.

employment share in 1991. Sectors above the horizontal line are those with productivity greater than the aggregate productivity, while the ones located on the right-hand side of the vertical line are those whose employment shares increased over the period. The positive slope of the fitted line (in red) tends to indicate that labour was, on average, reallocated to more productive sectors. These include transport and communications; commerce, accommodation and food service; and other activities, including mainly, financial industry, education, health, government services and social work. The manufacturing sector is a notable outlier. The sector shrank in terms of employment share (that is, a negative reallocation effect), but at the same time, registered significant labour productivity gains over the period. More precisely, annual average productivity growth in the sector was estimated at 1.6 per cent, which was the highest among all sectors with positive growth. The construction sector is another exception. Although it had a (minor) positive reallocation effect (increase of employment share by 0.2 percentage points), labour productivity of the sector decreased substantially over the period. Average productivity growth was estimated at -2.2 per cent, which was the worst productivity growth performance among all sectors. In particular, the other sector that recorded productivity loss over the period is agriculture, with an average growth of -1.8 per cent. As shown in figure 17, agricultural labour productivity was significantly below the aggregate productivity in 2016.

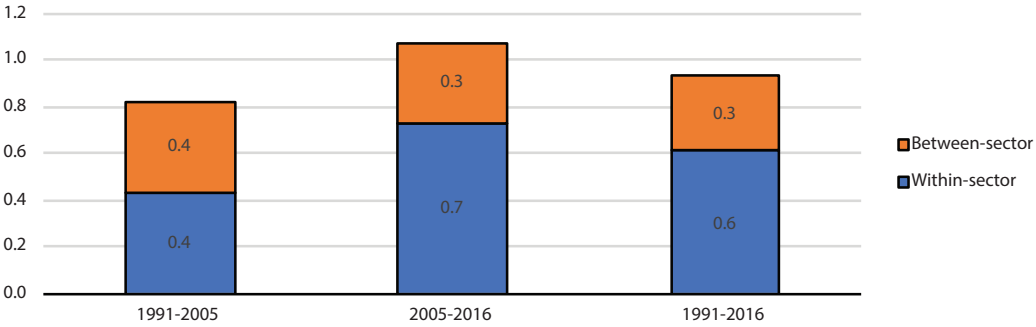
Aggregate labour productivity growth can be broken down into two underlying effects: the direct productivity component (known as the "within" effect) and the structural change component (known as the "between" effect). In particular, the direct productivity component measures the change in labour productivity that is determined by productivity gains within a sector owing to such factors as technological advancements, better management practices or enhanced skills. The structural change component essentially captures the impact of employment shifts across sectors on the aggregate productivity. Figure 20 shows a breakdown of the aggregate labour productivity growth over the period 1991-2016, in its two above-mentioned components.

Figure 19: Employment shifts, 1991-2016



Source: Computed based on UNdata (data.un.org/) and ILOSTAT (ilostat.ilo.org/) databases.

Figure 20: Annual average growth in gross value added per worker, 1991-2005, 2005-2016 and 1991-2016 (per cent)



Source: Computed based on UNdata (data.un.org/) and ILOSTAT (ilostat.ilo.org/) databases.

On average, over the period 1991-2016, aggregate labour productivity grew at an annual rate of 0.9 per cent, of which 35 per cent can be attributed to the structural change in the economy. The annual average growth rate was slightly higher (estimated at 1.1 per cent) over the subperiod 2005-2016, mainly as a result of an increase in within-sector productivity: 70 per cent of the average annual growth (of 1.1 per cent) stemmed from the direct productivity component. This suggests that despite the structural change away from manufacturing, the aggregate reallocation effect on productivity remained positive, as the structural shift occurred, to some extent, towards other productive sectors. The key factor behind the overall labour productivity growth appears to be the realized productivity gains within most of the sectors of the economy, especially within the manufacturing clusters. The low level of technology incorporated in manufacturing production suggests that these direct productivity gains were primarily realized through increased management efficiency or enhanced skills or both of them, which might have resulted from FDI inflows in the manufacturing sector. Still, the aggregate productivity growth was virtually negligible. Upgrading technological capabilities, especially those of small and medium-sized enterprises by investing in research and development activities and promoting strategic partnerships between research institutes,

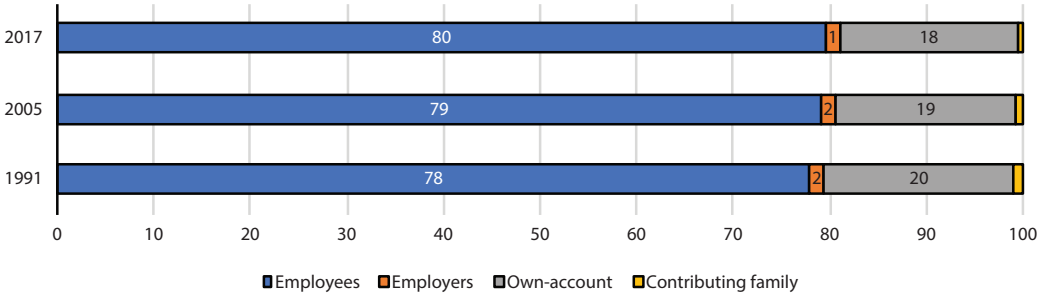
small and medium-sized enterprises and larger enterprises, will ultimately lead to immense productivity gains and will accelerate the pace of structural transformation in the country.

4.2 Decent work

Structural transformation entails a significant and sustainable increase in productive employment and decent work, especially for young people and the female population, who represent the two categories that often face challenging barriers in the labour market. It also implies a substantial decline in vulnerable employment and informality. ILO defines "vulnerable" employment as the sum of the employment status groups of own-account workers and contributing family workers, while wage and salaried workers together with employers, constitute "non-vulnerable" employment. The underlying reason is that, own-account workers and contributing family workers are less likely to have formal work arrangements, and accordingly, are more likely to lack decent working conditions, adequate social security and "voice" through effective representation by trade unions and similar organizations. The evolution of the country's labour market structure by employment status of individuals (figure 21) suggests that there have been scant improvements in the quality of jobs, as captured through the "vulnerable" nature of employment. The large majority of the employed population have worked in relatively secure jobs as part of the "employees" group, which includes wage and salaried workers. The share of "employees" in total employment slightly increased from 78 per cent in 1991 to about 80 per cent in 2017. These figures are relatively high compared with the average for sub-Saharan Africa (about 25 per cent in 2017), and compared with the average for Lesotho (40 per cent in 2017) and Namibia (70 per cent in 2017). Nevertheless, the share of (private sector) "employers" in the country's total employment has been very small, and more worryingly, has tended to decline. In 1991, it was approximately 2 per cent, while in 2017, it was close to 1 per cent. Furthermore, a significant number of employed persons are still trapped in vulnerable jobs, working for themselves or in unpaid family work. In particular, the share of own-account workers in total employment only decreased from 20 per cent in 1991 to about 18 per cent in 2017. Notably, the share of own-account workers in the female employed population has been much larger, estimated at about 28 per cent in 2017, as compared to a corresponding share of 12 per cent in the male category. This suggests that employment vulnerability has been more pervasive among the female population. Overall, the dynamics of the employment structure by job status shows that there has been insufficient job creation, in particular in the private sector, which explains the small reduction in the type of jobs generally associated with vulnerability.

The share of wage and salaried workers in the country's total employment should always be considered in conjunction with the level of underemployment and workforce casualization in the labour market in order to attain a better estimation of the level of employment vulnerability, including, in particular, the vulnerability attached to formal sector jobs. One of the key indicators commonly used to capture the extent of casualization is the time-related underemployment rate. It is essentially a measure of labour underutilization that provides information regarding the share of employed persons who are willing and available to increase

Figure 21: Status of employment, 1991-2017 (per cent)



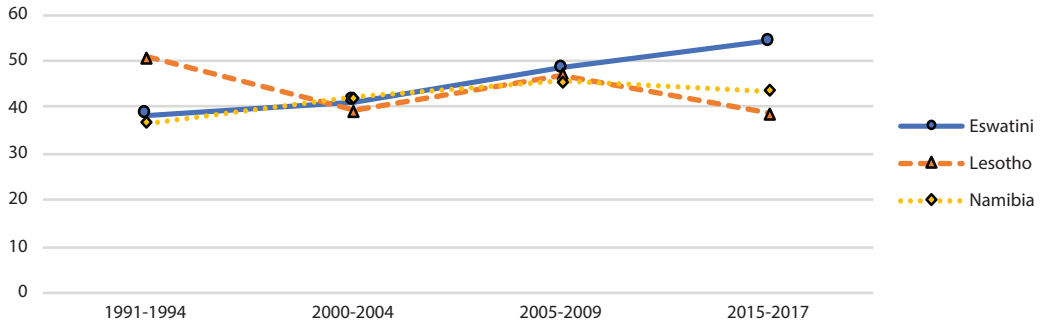
Source: ILOSTAT database (ilostat.ilo.org).

their working time, and have worked fewer hours – relatively to the norms and standards applied in the relevant country. Accordingly, it signals inadequate and vulnerable employment in the formal sector. According to the Eswatini Integrated Labour Force Survey 2013/2014, approximately 22 per cent of employed persons were in part-time work in 2013. This figure provides a realistic estimation of the time-related underemployment rate for that year.[29] Furthermore, the estimated rate among female employed workers was 29 per cent, compared to 17 per cent for male workers. The survey report also documents that part-time employment has been largely a rural phenomenon in the country, with a rate of 32 per cent for rural workers compared to a relatively modest rate of 13 per cent for urban workers. The only (and latest) estimate of time-related underemployment rate, which is provided by ILO, is for 2016, and valued at about 9.1 per cent of employed persons. Although this figure is much lower than the 22 per cent rate provided by the Integrated Labour Force Survey for 2013/2014, it remains relatively high compared to latest estimates of 4.2 per cent for Namibia (for 2014) and 1.1 per cent for Lesotho (for 2013). As before, the female time-related underemployment in 2016 was higher, estimated at 11.4 per cent, compared to its male counterpart, which was valued at about 7 per cent.

Evidently, underemployment is only one key aspect of labour underutilization. Another facet is unemployment. The latter is arguably more challenging not only for individuals in this labour force status, but also for the economy as a whole. Eswatini has had one of the highest unemployment rates in sub-Saharan Africa in recent years. According to the 2013/2014 Integrated Labour Force Survey report, unemployment rates in the country for the years 2007, 2010 and 2013, were estimated at 28.2, 28.5 and 28.1 per cent, respectively. In fact, the unemployment rate in 2013 was second highest among the SADC countries, only behind Namibia (29.6 per cent). The latest estimate provided by ILO suggests that 26.4 per cent of the labour force was unemployed in 2017.

29 Only persons in part-time employment (working less than 36 hours) were identified in that survey. While in principle, this group includes persons in time-related underemployment and voluntary part-time workers who do not want to work extra hours, the survey report notes that the likelihood of part-time employed persons in Eswatini, who would not want to work extra hours if possible, is low.

Figure 22: Youth unemployment rate, 1991-2017 (per cent)



Source: The Global Economy database (theglobaleconeconomy.com/).

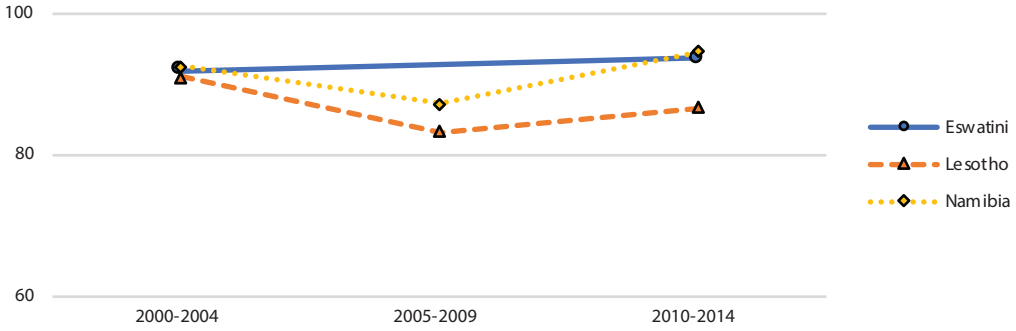
Youth unemployment[30] has been a particularly serious issue in the Kingdom. Figure 22 shows trends in youth unemployment rates in Eswatini, Lesotho and Namibia over the period 1991-2017. It indicates that youth unemployment in Eswatini has been clearly on an upward trend since 1991. In particular, over the last decade, the rates have consistently been above 50 per cent, and considerably higher than those registered in the two other countries. For instance, the ILO estimated rate of 54.8 per cent for 2017 is much higher than estimates of 38.5 and 45.5 for Lesotho and Namibia, respectively. Youth unemployment in Eswatini is especially widespread among women, populations living in rural areas and less educated workers. The female youth unemployment rate in 2013 was valued at 57 per cent, compared to the rate for male youth of 47 per cent (see Eswatini Integrated Labour Force Survey, 2013/2014). The negative trends in youth unemployment over the past years can be largely explained by the lack of investment and job creation in the private sector and the poor economic growth performance, which was exacerbated by the Government's fiscal issues, especially the fiscal crisis of 2010/2011. On the supply side of the labour market, the emphasis should be on providing young people with the necessary skills, including technical, entrepreneurial and innovative skills. That may help them in the job "search and matching" process and to develop promising business projects in the formal sector as a viable alternative to wage and salaried work.

4.3 Education and skills

The availability of skilled labour is fundamental to accelerating industrialization and structural transformation. This is particularly the case as firms move up the value chain and adopt more complex production systems. As a result, unskilled workers may find it difficult to adapt to the changing demands of the economy, and become excluded from labour markets. Furthermore, a well-educated and diverse labour force significantly contributes to boosting aggregate productivity by supporting a wide range of economic sectors.

30 The youth unemployment rate is the percentage of people aged 15 to 24 years who are part of the labour force but are unemployed. The labour force (the economically active population) includes the number of people employed and unemployed.

Figure 23: Youth literacy rate, 2000-2014 (per cent)



Source: UNESCO Institute for Statistics (uis.unesco.org/).

Literacy and numeracy skills constitute the minimum core requirement. Youth literacy rates[31] in Eswatini have been relatively high (exceeding 90 per cent) and have been increasing progressively since 2000 (figure 23). For instance, the average rate for the period 2010-2014 was about 94 per cent, which was similar to the average for Namibia, but higher than that for Lesotho (87 per cent). The 2005 National Constitution of Eswatini provides for a compulsory seven-year free primary education. This was incrementally effected in 2010, and took full effect in 2015. Clearly, it has contributed substantially to improving youth literacy in the Kingdom. The Government also adopted the Inclusive Education policy[32] in 2008. The policy has enabled students with special needs, including those with physical disabilities, mild hearing and visual impairment, intellectual disabilities and communication and sensory impairments, to be placed and receive instruction in mainstream classes. There have also been improvements in the overall adult literacy rate for people aged 15 years and above. From 81.7 per cent in 2000, the rate rose to almost 90 per cent in 2015, growing at an average annual rate of about 13 per cent.

While basic education provides physical and cognitive skills, job-relevant skills are gained through secondary and post-secondary education, technical and vocational education and training, apprentice programmes and on-the-job training. The gross secondary school enrolment ratio has increased significantly since 2004, despite trending downwards during the period 1990-2004 (figure 24). The enrolment ratio was estimated at about 67 per cent in 2015, compared to 54 per cent for Lesotho.[33] However, according to the 2006/2007 Demographic and Health Survey (see Central Statistical Office and Marco International Inc., 2008), completion rates for junior secondary education and senior secondary education were only 44 per cent and 24 per cent, respectively. High dropout rates are attributed to a number of factors, including poverty, high costs of education, teenage pregnancy among

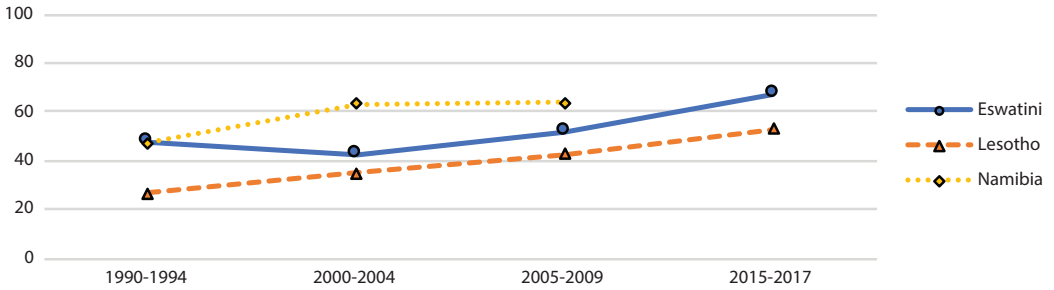
31 The youth literacy rate measures literacy among persons aged 15 to 24 years.
32 Inclusive Education is a programme that was adopted in June 1994 by the International Conference on Special Needs Education held in Salamanca, Spain. The Salamanca statement advocated access and equity in education and was seen as a massive drive to reduce worldwide illiteracy.
33 The most recent figure available for Namibia is for 2007, and was estimated at about 65 per cent.

girls, the remoteness of schools and, to a certain extent, the negative attitude of parents towards education. Although the Government has invested substantially in increasing access to education and training, current levels of access have remained too low to supply the country with the skills required to complement technology or to stimulate innovation and productivity. Access and attainment have been pro-rich, especially at the senior secondary level (see Marope, 2010).

The main purpose of technical and vocational education, training and skills development programmes is to supply the skills and competencies that immediately respond to labour market demands. Marope (2010), however, has documented that such programmes in Eswatini are mostly focused on inappropriate skills, do not reflect industry standards and are typically delivered by personnel who lack contemporary industry experience. There is significant demand for high-level artisan, technician and para-professional skills within the country and in the subregion; as such, an opportunity exists for the technical and vocational education, training and skills development system to focus on the development of high-skill and high-value outputs. Furthermore, the training has been primarily focused on pre-employment training for young people. For inclusive and broad-based human capital enhancement, there is also need to emphasize the elaboration of short, modular and competency-based training programmes that address the specific skill requirements of adult learners. The introduction of modularized training programmes by other middle-income countries in the subregion, such as Botswana, Namibia and South Africa, has expanded considerably training opportunities for adults. These modularized systems have provided opportunities for adult learners to undertake relatively short programmes rather than the two-year training activities, which are commonly found in the Eswatini technical and vocational education, training and skills development system. Involving the private sector in the development and management of the programmes is critical and could ensure that industry-specific skills needs are accommodated at all levels.

Adult educational attainment, as measured by the mean years of schooling of the population aged 25 and above, has gradually improved over the years, from about four years in 1990 to almost seven years in 2017 (figure 25). While the current level of average educational attainment is comparable to levels in Namibia and Lesotho, it is still relatively low compared

Figure 24: **Gross secondary school enrolment ratio, 1990-2017 (per cent)**

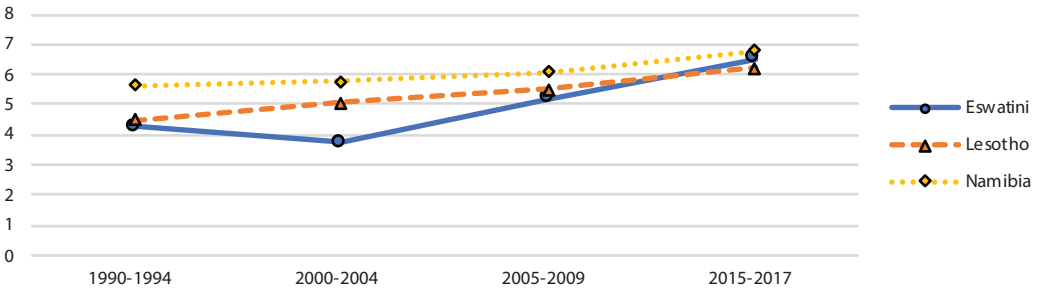


Source: UNESCO Institute for Statistics (uis.unesco.org/).

with regional and global standards.[34] It is also consistent with the low completion rates of secondary school in the country in recent years. Only 31 per cent of the adult population had at least some secondary school education, as of 2017, even though the Government has spent on average about 7 per cent of GDP on education in the past five years. While the overall level of education quality has been reasonable, there is clearly significant potential for improvements across all educational subsectors, especially within the realm of technical and vocational education, training and skills development. Considering the Government's fiscal constraints and limited resources, accentuated investment in human capital should primarily be realized through public-private partnerships and significant gains in efficiency.

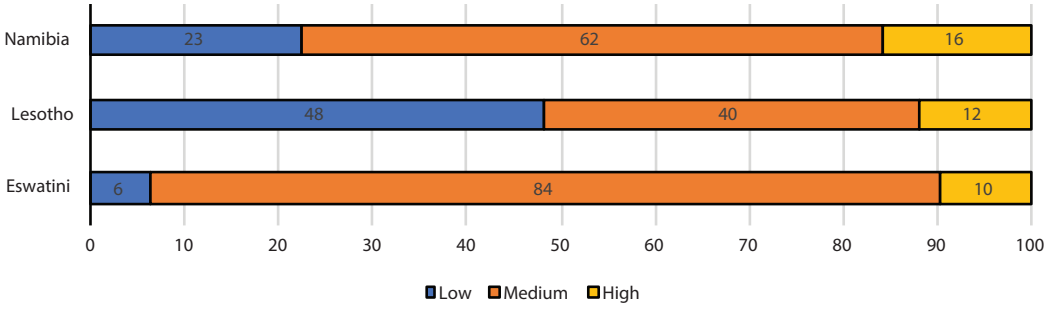
The depth of education and training in the population can be seen through the distribution of employment across skill levels.[35] In addition, changes in the structure of production should also be visible in the occupational distribution. For instance, a shift from agriculture to industrial and services sectors should be associated with a decreasing share of agricultural workers,

Figure 25: Mean years of schooling (25+), 1990-2017



Source: UNDP Human Development Data (hdr.undp.org/en/data).

Figure 26: Employment across skill levels, 2017 (per cent)



Source: ILOSTAT (ilostat.ilo.org) database.

34 For instance, the mean years of schooling in the other Southern Africa middle-income countries in 2017 were as follows: Botswana (9.3 years), South Africa (10.1 years), Mauritius (9.3 years) and Zambia (7 years).

35 According to the International Standard Classification of Occupation, low-skill workers typically include elementary occupations, while high-skill workers include managers, professionals and technicians. Workers with medium skills include clerical support workers, services and sales workers, skilled agricultural, forestry and fishery workers, craft and related trades workers, plant and machine operators and assemblers.

while rising skill requirements are likely to be reflected in a decreasing share of elementary occupations and rising shares of high-skill occupational groups, such as professionals and technicians. Figure 26 provides a snapshot of the distribution of employment across skill levels in Eswatini, Lesotho and Namibia. For Eswatini, the pattern in 2017 was essentially the same as in 1991.The labour market predominantly favoured medium-skill workers – who represented about 84 per cent of total employment. Service and sales workers, and craft and related trades workers, made up the bulk of occupations in the medium-skills category. Overall, they represented approximately 27 per cent and 15 per cent of total employment, respectively. The next largest medium-skill occupational groups were machine operators and assemblers (9 per cent) and skilled agricultural workers (6 per cent). High-skill workers constituted 10 per cent of total employment in 2017, compared to 12 and 16 per cent for Lesotho and Namibia, respectively. Diversification towards more complex products, through investment in research and development and innovation activities, will necessitate the availability of highly-skilled personnel, whose share in total employment can be expected to increase.

5

Society

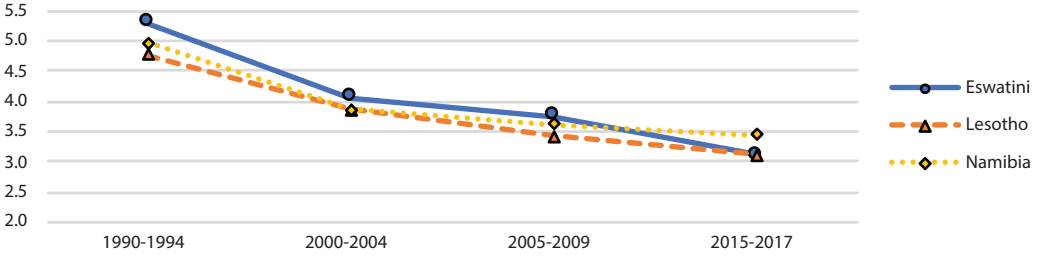
5.1 Demography

A demographic dividend is broadly understood as the growth in an economy that is the resultant effect of a change in the age structure of a country's population. It can significantly accelerate economic growth and sustainable development, driven by the increase in productivity of the working population that ensues. The change in the age structure is typically brought about by a decline in fertility and mortality rates. Eswatini is nearing the crossroads of this potential because of its proportionately large and young working age population, but much more must be done to enable the dividend, including through empowering girls and women, ensuring universal and high-quality education that is tailored to new economic opportunities and expanding secure employment.

The total fertility rate in the Kingdom has dropped significantly over the years, from 5.6 births per woman in 1990 to an average of 3.1 births per woman over the period 2015-2017 (figure 27). This notable decline is largely explained by the significant increase in the use of contraception methods, rising living standards and improved sexual and general education. Despite this, fertility levels have remained higher among the poorest, and women in rural areas. In particular, early childbearing and higher adolescent fertility rates have been more prevalent among the poor. For instance, a 2011 report by the World Bank documented that 47 per cent of the poorest women aged 20 to 24 years had a child before reaching the age of 18 years, while only 35 per cent of their richer counterparts did so. Although the use of modern contraception is moderately high,[36] so is an unmet need for contraception, suggesting that women may not be achieving their desired family size. The predominant reasons women are reluctant to use modern contraceptives are the systematic opposition to use (coming from the women themselves, their partners or because of religion); and health concerns or fear of side effects. Cost and access are lesser concerns, indicating further need to strengthen demand for family planning and reproductive health services.

36 Use of contraception among married women is at 49 per cent – of which 48 per cent use modern methods and 1 per cent uses traditional methods (World Bank, 2011).

Figure 27: Total fertility rate, 1990-2017 (children per woman)



Source: World Development Indicators (datacatalog.worldbank.org/dataset/world-development-indicators).

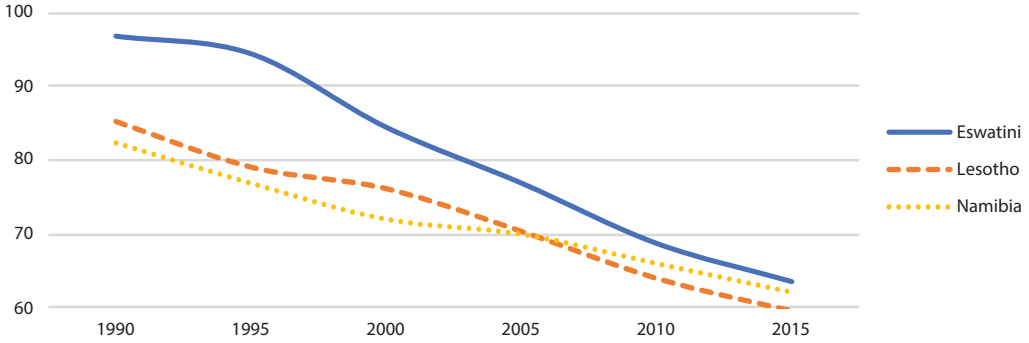
While the drop in fertility rates is one of the factors that may give rise to the demographic dividend, fertility rates still need to be above the population replacement level of about 2.1 children per woman[37] in order to avoid the long-term consequences of a shrinking labour force and population ageing. This is especially important for a relatively small country, such as Eswatini, which is already suffering from significant brain drain to neighbouring South Africa. Considering that it can virtually take a generation for changes in fertility rates to take hold, it is critical to carefully monitor current trends in order to strike the right balance between enabling the demographic dividend and ensuring the long-term sustainability of the working population.

The child dependency ratio, namely the ratio of the population under the age of 15 years compared with the total productive population aged 15 to 64 years, has declined sharply since 1990, mainly because of lower fertility rates (figure 28). In 2015, the ratio was estimated at 63.5 per cent of the working population, which is higher than the values for Lesotho and Namibia at 59.5 and 62.2, respectively. The downward trend in the child dependency ratio indicates a decreased financial burden on the productive part of the population to support child development. It can lead to faster productivity growth, as households are likely to have more resources to invest in fewer children. The combined effect of reduced fertility rates and child dependency ratios is reflected in the change in the age structure of the population over the period 1990-2015, which is characterized by a decline in the population under 15 years and a steady increase in a large proportion of the productive population, in particular, people aged 15 to 50 years (figure 29).

With fewer births being registered, the number of young dependents has been growing smaller relative to the working population. There are fewer people to support and more people in the labour force, which frees up resources to invest in more productive areas to accelerate the country's structural transformation and sustainable development. The

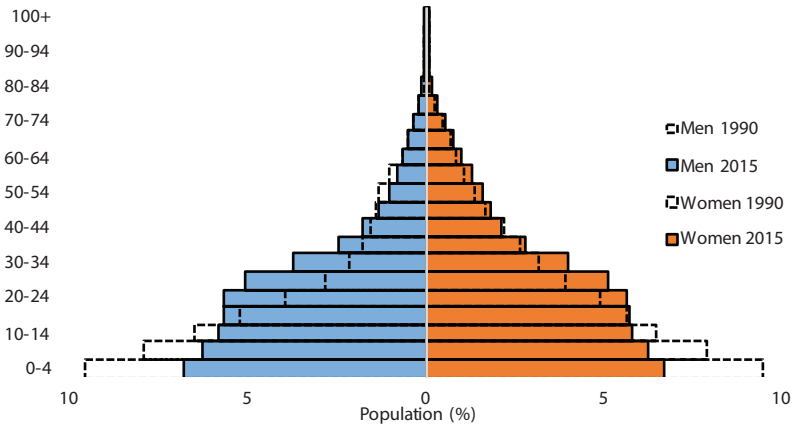
37 This figure comes from a study by Global Burden of Disease 2017 Population and Fertility Collaborators (2018). The study, which is based on data on 195 countries and territories over the period 1950-2017, indicated that the world's total fertility rate has declined from 4.7 live births in 1950 to 2.4 in 2017. It shows that approximately 50 per cent of countries are currently facing a "baby bust", meaning there are insufficient children to maintain their population size. These countries, the majority of which are in Europe, have fertility rates below the replacement level and are already grappling with issues associated with ageing populations.

Figure 28: Child dependency ratio, 1990-2015 (per cent)



Source: World Population Prospects: 2015 Revision, Department of Economic and Social Affairs (esa.un.org/unpd/wpp/DataQuery/).

Figure 29: Population pyramid, 1990 and 2015



Source: World Population Prospects: 2015 Revision, United Nations Department of Economic and Social Affairs (esa.un.org/unpd/wpp/DataQuery/).

demographic dividend can only occur if the country effectively invests in the empowerment, education and employment of young people, and formulates macroeconomic and labour policies that lead to a major expansion of safe and secure employment. In addition, good governance and accountability are essential for the equitable allocation and distribution of public resources, including in the fundamental sectors of health and education. A system in which resources are not equitably allocated is simply inefficient, which may lead to corruption and social segregation, widening the gap between citizens and their government by reducing people's trust in the capabilities of the State to provide them with good living conditions. Improving governance and accountability systems, for instance, through the promotion of sound public administration institutions and practices, the empowerment of citizens, civil society organizations, the media and the private sector, is key to ensuring the efficient use and delivery of public resources, which can ignite the socioeconomic transformation of the country. Accordingly, good governance, as a cross-cutting issue, is fundamental to harnessing

a significant demographic dividend. The Government needs to ensure that, for each sector of the economy, the resources allocated for public service delivery are put to good use, the accountability mechanisms for public funds are robust, and corrupt practices are dealt with effectively.

Urbanization, the concentration of population in cities and towns, is one of the most striking features of structural transformation and economic development, as it is associated with industrialization and the expansion of modern services. Compared to other middle-income countries, Eswatini has a relatively low level of urbanization, but in recent years the number of urban dwellers has been increasing rapidly, partly because the economic decline has led to rural to urban migration of people in search of better job opportunities and social services. According to the World Bank World Development Indicators, the share of the urban population as a percentage of total population rose from 9.7 per cent in 1970 to 23.7 per cent in 2017.[38] Urban living is typically linked with higher levels of literacy and education, better health, lower fertility and a longer life expectancy, greater access to social services, and enhanced opportunities for cultural and political participation. Urbanization also has disadvantages caused by rapid and unplanned urban growth, resulting in poor infrastructure, such as inadequate housing, water and sanitation, transport and health-care services. In the case of Eswatini in particular, most of the urban growth has been unplanned and informal. For instance, one study indicated that more than 60 per cent of the population living in the Mbabane-Manzini corridor were reported to live in informal, unplanned communities in substandard communities on unsurveyed land without legal title (World Bank, 2002). The same study documented that the majority of the urban and peri-urban population did not have access to safe water, and fewer than 20 per cent were connected to a waterborne sewerage network. Nevertheless, the conditions have improved substantially through, in particular, upgrading efforts under the Eswatini Urban Development Project. The share of the population living in slums was most recently estimated at 32.7 per cent in 2014,[39] which was lower compared to proportions of 50.8 and 33.2 per cent in Lesotho and Namibia, respectively. There is, however, a need to accentuate and sustain current efforts[40] in improving living conditions and providing the necessary infrastructure to accommodate the growing urban population. In addition, strategies and policies aimed at reducing the urban-rural divide in terms of health and education facilities, infrastructure, employment opportunities and modern amenities and services must be formulated.

5.2 Health

Ill health severely depresses development in human capital, which, in turn, impedes structural transformation. In particular, malnutrition can have serious, often life-threatening health

38 For comparison purposes, the share of urban population in Lesotho and Namibia were estimated at 28 per cent and 49 per cent, respectively, in 2017.

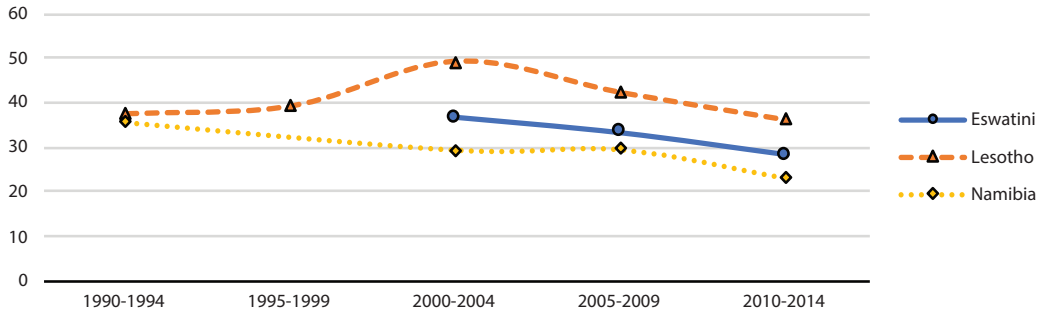
39 This is the only estimated figure available.

40 The National Physical Development Plan 2017-2027 has solid components on land use, housing, informal settlements and community facilities.

consequences, especially for children. Children who are undernourished between conception and 2 years of age are at high risk of impaired cognitive development, which adversely affects the country's productivity and growth. Stunting is the impaired growth and development that children experience from poor nutrition, repeated infection and inadequate psychosocial stimulation.[41] Some of the adverse functional consequences on the child are poor cognition and educational performance, lost productivity and an increased risk of nutrition-related chronic diseases in adult life. The rate of stunting, that is the percentage of stunted children under 5 years of age, has declined significantly over the years in Eswatini, from 36.6 per cent in 2000 to 25.5 per cent in 2014 (figure 30). Despite this, current levels are still not satisfactory. The only solution for stunting in early life is prevention, ensuring that pregnant women and infants receive good nutrition in the crucial 1,000 days between conception and the second birthday of the child. Maintaining good nutrition among adults is equally key. Malnourished adults are less able to work, contribute to local economies and provide care for their families. Malnourished mothers are more likely to have underweight children who will, in turn, have a higher risk of physical and cognitive impairment. This clearly perpetuates a cycle of poverty and economic stagnation. Education, in particular of women, and awareness-raising campaigns, are of crucial importance. Furthermore, considering that healthy diets and good nutrition start with food and agriculture, improving food systems can be helpful by providing a wider variety of nutritious foods at more affordable prices. In addition to preparing conditions for industrialization by boosting labour productivity, agriculture modernization can also improve human capital through the enhanced nourishment of the population and the avoidance of far-reaching debilitative outcomes of malnutrition, such as stunting.

HIV/AIDS is arguably the biggest public health issue in Eswatini. With an estimated 27.4 per cent of adults living with the virus as of 2017, the country has the highest HIV prevalence in the world. In 2017, 7,000 adults and children were newly infected and 3,500 people died of an AIDS-related illness.[42] Heterosexual sex is the main mode of transmission, accounting for

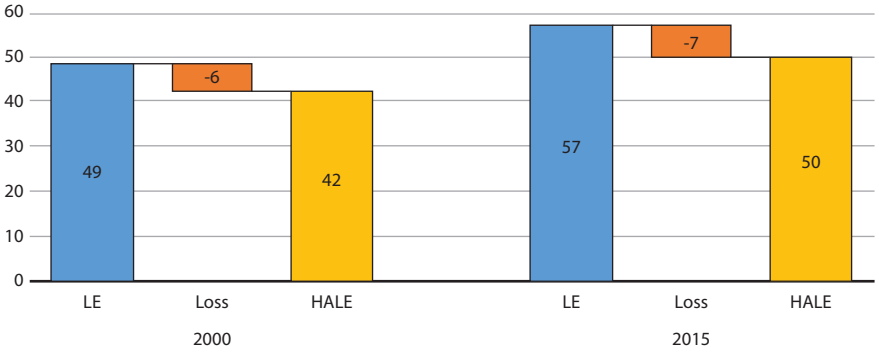
Figure 30: Children stunted, 1990-2014 (per cent)



Source: United Nations International Children's Emergency Fund Data, child malnutrition estimates (data.unicef.org/about-us/).

41 According to the World Health Organization (WHO), children are stunted if their height-for-age is more than two standard deviations below the Child Growth Standards median.
42 See aidsinfo.unaids.org/.

Figure 31: Life expectancy and healthy life expectancy, 2000-2015 (years)



Source: WHO Global Health Observatory Data repository (www.who.int/gho/database/en/).

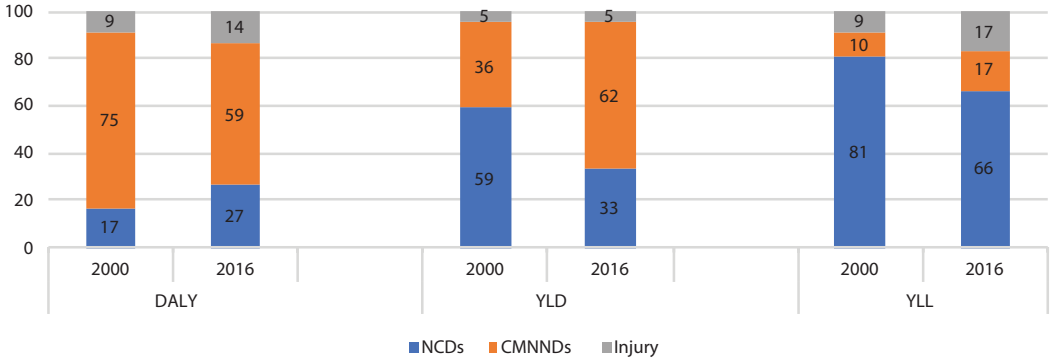
Notes: LE refers to life expectancy; HALE refers to health-adjusted life expectancy.

94 per cent of all new infections (see Swaziland, Ministry of Health, 2014). The epidemic is generalized, which means it affects all socioeconomic classes in the country, although certain groups, such as sex workers, adolescent girls and young women, are more affected than others. The country is also faced with a tuberculosis epidemic. Tuberculosis is the leading cause of death among people living with HIV, and is becoming more difficult to treat following the emergence of drug resistant forms of the disease. HIV co-infection is estimated to occur in more than 80 per cent of all tuberculosis cases (see World Bank, 2010). The HIV/tuberculosis dual epidemic has had devastating impacts on the country, which explains why it still has one of the shortest life expectancies in the world.[43] Figure 31 shows the evolution of both life expectancy and health-adjusted life expectancy[44] in the Kingdom over the period 2000-2015.

Life expectancy and health-adjusted life expectancy have significantly increased (by eight years) over the period, notwithstanding the one-year increase in the years lost because of morbidity (ill health). In other words, people today are living significantly longer than 15 years ago but the quality of life has slightly decreased (by an equivalent of one year) because of health concerns. The female health-adjusted life expectancy at birth increased from 43.9 years in 2000 to 51.9 years in 2015, while for males, it increased from 40.6 years to 47.5 years. The remarkable increase in life expectancy has been driven mainly by significant improvements in child survival and expanded access to antiretroviral drugs for treatment of HIV. Over the past decade or so, the country has made significant progress in dealing with its HIV epidemic. The prevalence of the viral infection is stabilizing and the number of new infections has nearly halved since 2011, an achievement largely made possible by rapidly scaling up the number of people accessing antiretroviral treatment. The country has one of the highest levels of antiretroviral treatment coverage in sub-Saharan Africa. It has also increased its own domestic

43 According to the latest WHO data published in 2018, total life expectancy at birth in Eswatini is estimated at 57.7 years. The average of the Africa region is 61.2 years, which is the lowest of all regions, despite its upward trend.
44 Health-adjusted life expectancy is a measure of population health that takes into account mortality and morbidity. It adjusts overall life expectancy by the amount of time lived in less than perfect health.

Figure 32: Disease burden by cause (15-49 years of age), 2000 and 2016 (per cent)



Source: Computed based on the WHO Health Statistics and Information Systems.

Notes: CMNNDs refers to communicable, maternal, neonatal and nutritional diseases; NCD refers to non-communicable diseases; DALY refers to disability adjusted life years; and YLD refers to years lived with disability.

investment and funding for the HIV response. According to data from the Joint United Nations Programme on HIV/AIDS (UNAIDS), of those people living with HIV on treatment as of 2017, 74 per cent have been able to suppress viral loads.

Reducing the burden of disease is fundamental to improving the quality of life and boosting labour productivity. A metric that is commonly used to quantify the burden of disease is the disability- adjusted life year. This indicator measures the amount of "healthy" life lost in a population as a result of premature death or disability. According to WHO, it can alternatively be viewed as a measurement of the gap between current health status and an ideal health situation in which the entire population lives to an advanced age, free of disease and disability. More specifically, the disability-adjusted life year has two components: the years of life lost because of premature mortality; and the years lost because of disability. Using the disability-adjusted life year and its two components and focusing on the population aged 15 to 49 years, figure 32 shows how the distribution of the disease burden by cause changed between 2000 and 2016 in Eswatini.

Clearly, communicable, maternal, neonatal and nutritional diseases have constituted the main source of the overall burden of disease as measured by the disability-adjusted life years. The share of disability-adjusted life years caused by the incidence of communicable, maternal, neonatal and nutritional diseases has significantly decreased during the period, from 75 per cent in 2000 to 59 per cent in 2016. This sharp decline can be attributed to the substantial improvements in the treatment of HIV/AIDS and tuberculosis. Together, HIV/AIDS and tuberculosis accounted for 279.4 lost years of healthy life in 2000, compared with a significantly lower figure of 173.3 lost years of healthy life in 2016. Although the proportion of disability-adjusted life years explained by non-communicable diseases has been relatively lower, it has remained sizeable, increasing from 17 per cent in 2000 to 27 per cent in 2016. There is an increasing burden of non-communicable diseases in the country, which adds to

the continuing burden of communicable diseases and perinatal and nutritional disorders. Cardiovascular diseases, diabetes mellitus, neurological conditions (migraine and epilepsy in particular), respiratory disorders, and depression and anxiety disorders are some of the main non-communicable diseases that have caused significant lost years of healthy life in the country in recent years. Non-communicable diseases have accounted for the largest share of years of life lost because of premature mortality, notwithstanding the downward trend during the period 2000-2016. On the other hand, communicable, maternal, neonatal and nutritional diseases are increasingly becoming the main cause of years lost because of disability – the burden of living with a disease. Accordingly, issues regarding communicable, maternal, neonatal and nutritional diseases and non-communicable diseases must be addressed with equal and renewed priority to enable effective utilization of the country's human capital for rapid economic transformation.

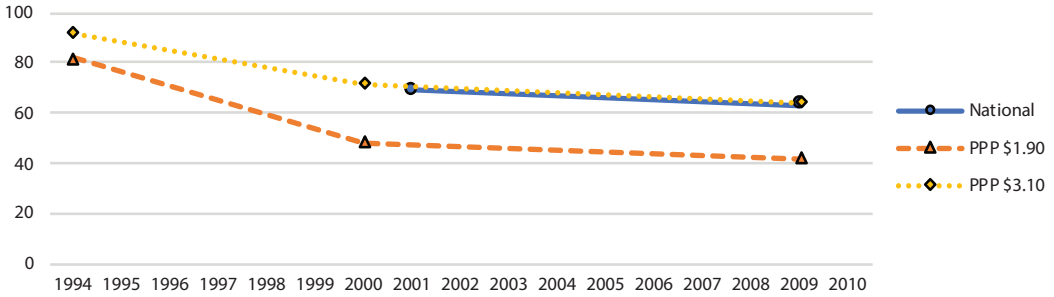
5.3 Poverty and inequality

Although poverty is increasingly understood as a multidimensional concept, income-related measures are still commonly used to gauge its extent. This is essentially based on the assumption that basic human needs can be met with reasonable income levels. The headcount ratio, the share of the population living below national or international poverty lines, is a widely used indicator. Figure 33 shows that poverty, as measured by the (monetary) headcount ratio, has remained a major challenge in Eswatini despite substantial progress made in recent years. The proportion of the population living under the national poverty line in 2009 was estimated at 63 per cent,[45] which is quite significant. In other words, almost two thirds of the population were living in severe poverty by national standards. The figure is lower, estimated at 42 per cent, based on the international poverty line of $1.9 per day, but it is still relatively high compared to, for instance, the estimation for Namibia of 23 per cent for the same year (figure 34). In addition, according to the UNDP 2018 statistical update of the *Human Development Report*, the working poor, working people whose incomes fall below the moderate international poverty line of $3.10 per day, currently represent 34.4 per cent of total employment. Poverty in Eswatini has been predominantly a rural phenomenon, with approximately 73 per cent of the rural population living below the national poverty line, compared to 31 per cent in urban areas. The relatively high poverty rates can be attributed to multiple factors, including stalled economic growth, severe and repeated droughts, high unemployment rates and high HIV/AIDS prevalence rates. The UNDP Multidimensional Poverty Index provides further insights into the extent of poverty in the country, based on a broader perspective covering the three key dimensions of poverty: health, education and living standards.[46]According to the latest survey estimation, approximately 20 per cent of the population were "multidimensionally poor" as of 2014, while an additional 21 per cent were vulnerable to multidimensional poverty. Low living standards, deprivation of basic human needs, such as adequate sanitation facilities,

45 Although no data are publicly available after 2009, a report by the Ministry of Economic Planning and Development (2012) suggests that the headcount ratio estimation was the same as of 2012.

46 People who experience deprivation in at least one third of the indicators related to the three dimensions of poverty are considered "multidimensionally poor". See hdr.undp.org/en/2018-MPI.

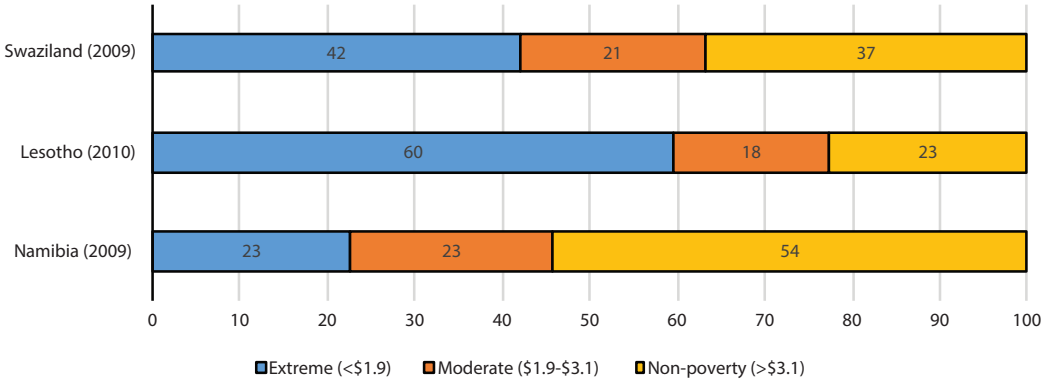
Figure 33: Poverty headcount ratio, 1994-2009 (per cent)



Source: World Development Indicators, World Bank.

Note: PPP refers to purchasing power parity.

Figure 34: Population living in poverty (per cent)



Source: World Development Indicators, World Bank.

access to safe drinking water, cooking fuel, electricity and housing, have been the main source of multidimensional poverty, contributing about 53 per cent to overall poverty. Ultimately, the long-run success of poverty reduction in the country hinges directly on a successful structural transformation, which effectively integrates the rural and urban sectors and stimulates higher productivity in these two broad segments of the economy.

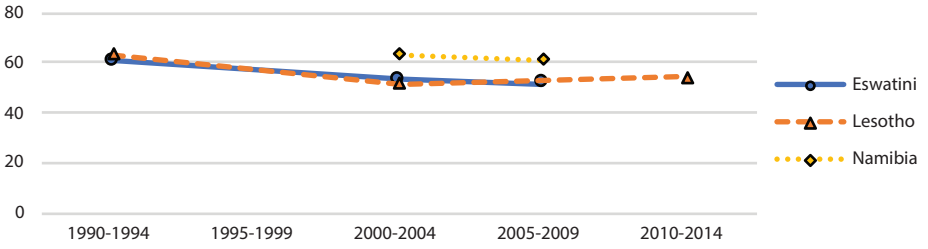
Another major challenge facing the country is the high level of inequality in income distribution. The GINI index[47] – as a measure of income inequality – has decreased from 60.5 per cent in 1994 to 51.5 per cent in 2009 (figure 35). Current levels, however, remain relatively high, which is not very surprising considering the high extent of poverty. Figure 36 depicts the evolution of the income distribution by quintile over the period 1994-2009. There have not been drastic changes in the overall income distribution throughout the years. It has been highly skewed towards the top income earners. The percentage of total income owned by

47 The index ranges from 0 to 1, with 0 indicating perfect equality and 1 suggesting perfect inequality.

the top 20 per cent of households was 64 per cent in 1994 and 57 per cent in 2009. The share of income owned by the bottom 20 per cent remained unchanged over the period, estimated at about 4 per cent in 2009. The income quintile ratio, the ratio of the average income received by the richest 20 per cent of the population to that received by the poorest 20 per cent, was estimated at about 14 in 2013[48]. This suggests that it takes 14 years of labour for a working household belonging to the bottom quintile to reach the average annual income earned by a household from the top quintile. It further highlights the depth of income inequality in the country. Clearly, strategies to reduce the income gap between the rich and the poor should focus on empowering the poor, including lower-middle class households, for instance through increased access to quality education and training opportunities, the supply of accessible, affordable health-care information and services, and effective participation in social and economic development processes at local and national levels.

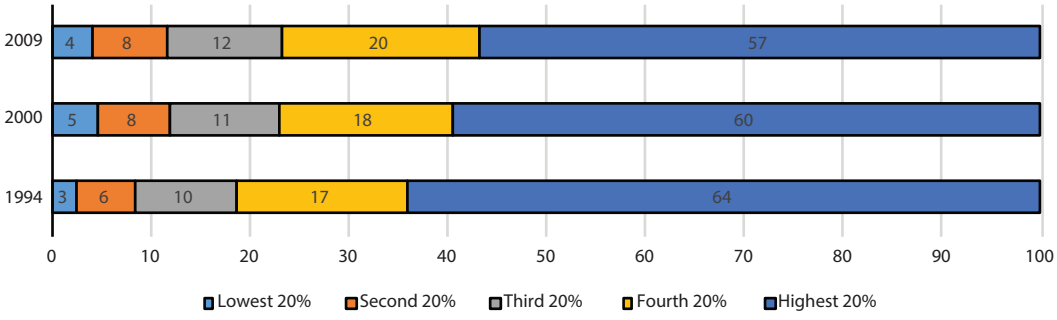
Extensive evidence indicates that the lack of gender equity imposes substantial economic and social costs, as it hampers productivity and impinges on growth.[49] Gender and income inequality are closely linked at many levels. For instance, gender wage gaps directly contribute to income inequality, and higher gaps in labour force participation rates between men and women result in inequality of earnings, thereby creating and exacerbating income inequality.

Figure 35: Gini index, 1990-2014 (per cent)



Source: World Development Indicators, World Bank.

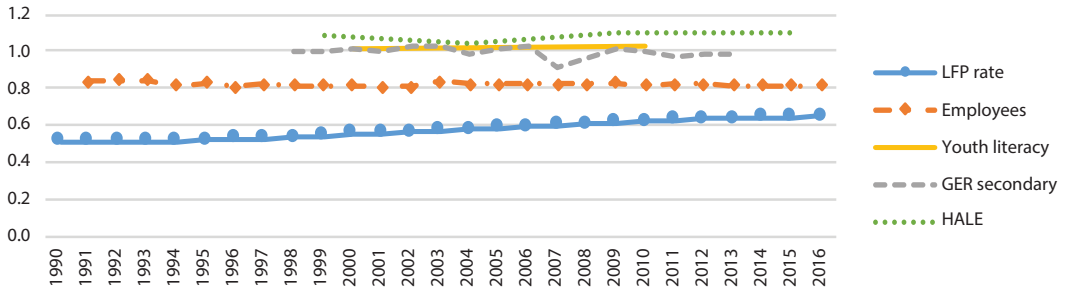
Figure 36: Income share of quintiles (per cent)



Source: World Development Indicators, World Bank.

48 See hdr.undp.org/en/content/income-quintile-ratio.
49 See for instance the study by Elborgh-Woytek and others, (2013).

Figure 37: Gender parity indices, 1990-2016



Source: Computed based on World Bank, ILO, WHO and UNESCO databases.

Notes: GER refers to gross enrolment ratio; HALE refers to health-adjusted life expectancy; and LFP refers to labour force participation.

Figure 37 presents trends in key gender parity ratios[50] regarding education, health and labour market outcomes over the period 1990-2016 in Eswatini. The most striking disparities are found in the labour market. Female labour force participation rates are still considerably lower than their male counterparts, notwithstanding notable improvements over the past two decades. In 2016, the labour force participation ratio was estimated at 0.65, which was still far below the parity value of 1. Similarly, even when they work, women predominantly hold the types of jobs associated with vulnerability and informality, as captured through the share of employees in total employment. The share of women working as employees in the formal sector as a percentage of total female employment has remained unchanged over the period, estimated at about 70 per cent, while that of men increased from 83 per cent in 1991 to 86 per cent in 2016, resulting in a deteriorating gender ratio from 0.83 to 0.81. Furthermore, according to estimates from ILOSTAT, the proportion of women employed in high-skill occupational categories as a percentage of female employment was only 3.8 per cent in 2016, compared to a figure of 13.2 per cent for men. The UNDP Gender Inequality Index captures gender-based inequalities in reproductive health, empowerment and economic activity. In 2017, Eswatini was ranked 141 out of 160 countries with a Gender Inequality Index value of 0.569, which was also the average for sub-Saharan Africa (UNDP, 2018). In particular, only 14.7 per cent of parliamentary seats were held by women, and 30 per cent of adult women reached at least a secondary level of education, compared to 32.7 per cent of their male counterparts. Gender parity has almost been achieved in youth literacy and enrolment ratio in secondary school. Gender inequalities result in a loss of human development. Substantial efforts towards narrowing the gender divide could significantly help to accelerate structural transformation and sustainable development in the country.

50 A value of 1 (less than 1) indicates parity (inequality in favour of men) in the associated outcome.

6

Key messages

- **Diversification efforts should focus on increasing the level of complexity and sophistication of the product space.** The exports structure of Eswatini is moderately diversified as compared to other sub-Saharan African countries. This is evident based on the country's relatively low export concentration index, which was approximately 0.25 for the entire period 1995-2017. The trade structure, however, is not in harmony with the world pattern, owing primarily to the weak sophistication of exported goods. The main manufactured products, including sugar, essential oils, pulp, waste paper and other wood products, do not result from deep transformation or knowledge-intensive processes. Strengthening the manufacturing space by increasing the level of complexity of products can help to reinvigorate the industrial sector and to reverse the rapidly declining share of exports in GDP. It can also contribute to greater diversification of destination markets, which, in turn, would reduce the country's vulnerability and reliance on the South African economy.

- **Reversing the downward trend in gross fixed capital formation is essential to accelerating the pace of structural transformation.** The process of structural change fundamentally requires sustainable capital investment, whether this is local investment or FDI. The investment share in GDP decreased substantially in recent years, from 23 per cent in 2000 to 12 per cent in 2016. Net FDI inflows declined strongly under the effect of the global economic slowdown and they have remained very low. Although the Government strongly encouraged investment in recent years, the effectiveness of its policy has yet to be clearly realized. There is a need to accelerate the pace of implementation of the various investment strategies and programmes. Empowering the private sector and providing a conducive business environment are key factors for progress.

- **Empowering the domestic private sector is key to boosting long-term investment levels and strengthening the country's export base.** The private sector of Eswatini is relatively small and is characterized by a low level of domestic entrepreneurship and a constraining business environment. While the Government is making efforts to enhance the private sector's competitiveness and improve the overall business

environment, much remains to be done, especially with regard to empowering the domestic private sector and enabling it to drive sustainable economic growth in the country. Efforts to achieve private sector-led growth should not be disproportionately geared towards attracting foreign investors. Special emphasis must be placed on growing and strengthening the domestic private sector. The Government should endeavour to create an enabling environment for the development of fully integrated national business classes, which could facilitate a smooth transition to larger partnerships and investment at the subregional, continental or international levels through effective participation in regional and global value chains. For instance, the Government should strengthen safeguards for the protection of domestic investors, including tackling restrictions on private participation in infrastructure development. Another measure that could be considered is to allow the private sector to participate on an equal and complementary footing with public providers by improving the corporate governance and efficiency of State-owned enterprises and adopting sound competition and pricing policies.

- **Strengthening production linkages at the regional and continental levels could significantly contribute to economic upgrading and superior participation in global value chains.** Eswatini is relatively well integrated into global value chains in terms of backward linkages and forward linkages. Backward integration has been more important and has grown at significantly faster rate than forward integration. Nevertheless, the country has predominantly sourced its intermediates from South Africa. Although a significant proportion of its forward integration has come from exports of semi-finished materials, there is still untapped potential for the country to upgrade into higher value addition activities, which will help it to reap the full benefits of integration into global value chains. Building and strengthening linkages with a diverse pool of countries at regional and continental levels through effective participation in regional and continental value chains appears to be a viable strategy that could significantly contribute towards raising the level of sophistication and competitiveness of exports.

- **Investment in human, technological and institutional capabilities are key to expanding productive capacities.** Technological advancements are a driving force behind development and structural transformation. In particular, they are essential to industrial upgrading, diversifying and increasing the complexity of the product space. In 2015, the country's gross domestic research and development expenditure, which includes expenditure by the Government, business enterprises, higher academia and research institutes only represented a very modest 0.27 per cent of GDP. The level of technology embedded in the manufacturing production has been relatively poor. It is critical for the Government to work closely with the private sector and research and scientific institutes to actively promote a conducive environment for innovation through strategic policies, including policies to increase knowledge transfer and adoption from multinational and foreign companies, investments in science, technology and innovation, robust education

systems, institutional capacity-building, and the promotion of university-industry linkages.

- **Sustainable increase in productive employment and decent work could be achieved by tapping into the opportunities offered by the technical and vocational education, training, and skills development programmes.** Although the Government has invested substantially in increasing access to education and training, current levels of access remain too low to supply the country with the skills required to complement technology or to stimulate innovation and productivity. There is significant demand for high-level artisan, technician and para-professional skills within the country and within the subregion, and an opportunity exists for technical and vocational education, training and skills development systems to focus on the development of high-skill and high-value outputs. For inclusive and broad-based human capital enhancement, there is a need to emphasize the elaboration of short, modular and competency-based training programmes that address specific skill requirements of adult learners, in addition to pre-employment training for young people. Involving the private sector in the development and management of the programmes is critical and could ensure that industry-specific skills needs are accommodated at all levels.

- **Modernization of agriculture can drive industrial development, improve food security and significantly reduce poverty.** The agriculture sector is the main source of income for more than 70 per cent of the population, particularly in rural areas. Smallholder agriculture remains the backbone of rural livelihoods. Rural poverty is mainly a result of small landholdings and low productivity, compounded by frequent droughts, which lead to crop failure and loss of livestock. Agriculture also plays an important role in providing raw materials for the largely agro-based manufacturing industries. Structural transformation entails the reallocation of economic activity from agriculture to industry and modern services. This process hinges on substantial productivity gains in the agriculture sector. At present, agriculture is the least productive sector, with labour productivity significantly below aggregate productivity. The country has consistently been a net food importer. A deep transformation of the agricultural sector is vital. In addition to enabling rapid industrialization by boosting labour productivity, agriculture modernization can also improve food and nutrition security, and significantly contribute to poverty reduction in the country.

- **Harnessing the demographic dividend for structural transformation requires substantial investment in the empowerment, education and employment of the young labour force.** The change in the age structure of the population has been characterized by a decline in the population under 15 years and a steady increase in the population aged 15 to 50. This transition enables the country to be at the edge of a window of demographic opportunity. In particular, a demographic dividend can be expected from the increase in the working age population. The dividend is not automatic. The large

workforce can trigger economic growth only if it is productively employed. The size of the demographic dividend also depends on total fertility levels. The dividend is currently constrained by the high rates of youth unemployment in the country. Over the last decade or so, the rates have consistently been above 50 per cent. A sizeable demographic dividend will only occur if the country effectively invests in the empowerment, education and employment of young people, and assure macroeconomic and labour policies that lead to a major expansion of safe and secure employment.

- **Issues regarding communicable, maternal, neonatal and nutritional diseases and non-communicable diseases must be addressed with equal and renewed priority, to enable the effective utilization of human capital**. Communicable, maternal, neonatal and nutritional diseases have constituted the main source of the overall burden of disease, as measured by the disability-adjusted life years. However, the share of disability-adjusted life years caused by the incidence of communicable, maternal, neonatal and nutritional diseases has decreased significantly, mainly because of substantial improvements in the treatment of HIV/AIDS and tuberculosis. On the other hand, there is an increasing burden of non-communicable diseases. The latter has accounted for the largest share of years of life lost because of premature mortality, while communicable, maternal, neonatal and nutritional diseases have been the main cause of years lost because of disability. Reducing the burden of disease is fundamental to improving the quality of life and boosting labour productivity.

- **Sustainable and inclusive development calls for strengthened efforts towards reducing income and gender inequalities and the rural-urban divide.** The distribution of income is highly unequal. The percentage of total income owned by the top 20 per cent of households was 64 per cent in 1994, and 57 per cent in 2009. The share of income owned by the bottom 20 per cent has remained unchanged and is estimated at about 4 per cent. There are also significant gender and rural-urban inequalities. Numerous interlinkages between income, gender and rural-urban inequalities exist. The most striking gender disparities are found in the labour market. In particular, female labour force participation rates are still considerably lower than those of their male counterparts. Gender inequalities result in a loss of human development. Accordingly, substantial efforts aimed at narrowing the gender divide could significantly help to accelerate structural transformation and sustainable development. Poverty in Eswatini has been predominantly a rural phenomenon, with approximately 73 per cent of the rural population living below the national poverty line, compared to 31 per cent in urban areas. The share of the urban population living in slums has decreased, but is still estimated to be relatively high at 32.7 per cent. Improving living conditions in rural areas could significantly help to reduce urban concentration and the proliferation of slums in urban centres.

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