

Editorial

Path to economic recovery and sustainable growth in the Kingdom of Eswatini

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In the wake of the Kingdom of Eswatini's 50 years of independence in 2018, the country held a first of its kind economic conference dubbed the Eswatini Economic Conference (EEC) 2017. The theme of the inaugural national economic conference was "Turning the Key: A Path to Economic Recovery and Sustainable Growth in the Kingdom of Eswatini" and sought to document efforts made towards economic recovery in Eswatini. Details matter. Beginning from the early days of independence in 1968, the Kingdom of Eswatini endeavoured to put in place economic strategies, infrastructure, and government initiatives that would lead to improved economic activity and growth. By the early 1970s, Eswatini had already established a vibrant industrial town – Matsapha – and had invested in railways and roads to enable commerce and trade and reduce the hurdles associated with being a landlocked country including the construction of dams and canals for irrigation (to stimulate agricultural development) and power generation (see Hunt, 2010; Crown, 1968; Scutt, 1966). Driven by favourable developments in both the primary (mining and agriculture) and secondary (mainly manufacturing) sectors, Eswatini's economic strategies began to declare dividends sooner than expected, with the country becoming the preferred investment destination for multinational corporations by the mid-to late 1970s.

Between 1980 and 1989, the economy grew at phenomenal levels, averaging 8.3% per year, causing the global community to enlist Eswatini amongst the top 20 fastest growing economies in the world. However, by the early 1990s, amidst

a drought and changing geopolitics amongst the country's neighbours, Eswatini's economic growth started losing ground, declining to average 3.1% in the 1990s and 2.1% between 2001 and 2010. While Eswatini's industrialisation began in the 1930s through agricultural and industrial manufacturing programmes initiated by the Colonial Development Corporation (CDC) (Doble, 2010; Hunt, 2010), industrialisation stalled in the mid-1990s following huge disinvestment of multinational companies in Eswatini. By the late 1990s, the country faced new socio-economic challenges, not least the mass exodus of skilled labour, a diminishing tax base, rising unemployment, and a growing incidence of drought-like conditions.

To respond to the emerging socio-economic challenges, the country established the Eswatini Investment Promotion Authority (SIPA) in 1997 to promote and facilitate foreign direct investment into Eswatini. It also adopted the National Development Strategy (NDS) (1997) to guide the development of the country towards the realisation of Vision 2022. The NDS provides "clear implementation strategies to transform the various sectors of the economy in order to achieve meaningful development" (GoE, 2014). It prioritised the development of key economic infrastructure needed to enable Emaswati to engage in productive economic activities. Yet, given declining industrial activity, high unemployment, and the 'brain-drain', by the time the NDS was enacted, poverty had entrenched in Eswatini. In 2006, the Government passed the Poverty Reduction Strategy and Action Plan (PRSAP), which prioritised poverty reduction in the NDS.

The country appraised the implementation of the NDS in 2014 and concluded by prioritising sustainable development and inclusive growth. The results of the review painted a mixed picture. On the one hand, Eswatini had made impressive development strides with successes in the construction and provision of pro-poor infrastructure. On the other hand, however, the HIV/AIDS pandemic, high poverty levels – especially in rural areas, high unemployment – particularly among the youth, and rising inequality had become synonymous with the economy. Confounding the situation was the maturation of over 15 years of drought-like conditions into a fully blown drought in 2016 that brought the economy to a standstill – which exacerbated the well-being levels in households (ESEPARC and NDMA, 2017). In particular, the drought made worse an already fragile rural situation and brought the country into a precipice of disaster – costing the economy a staggering SZL E3.84 Billion. An assessment of the socioeconomic impacts of the 2016 El Niño drought demonstrated that, unlike the 1992 drought, which occurred immediately after Eswatini's golden

era - where households were heavily involved in food and fibre production. By 2016, households were no longer involved in food production – suggesting that, with high unemployment rates, there was limited participation of Eswatini households in productive economic activities. Making the situation perverse is that Eswatini conducts limited economic policy research and the culture of evidence-based policy formulation is yet to set in within the government system.

Conceivably, this has affected the ability of the country to respond to emerging challenges and opportunities with effective strategies, timeously. The conference found that whereas the country has good policies, it lacks implementation and activation plans as well as a productive civil service to attain its developmental aspirations (EEC 2017 Post Conference Report, 2017). Given the need for homegrown strategies to turn the Eswatini economy around, this special edition of the *African Review of Economics and Finance* presents economic policy research conducted in Eswatini. The articles in this edition document the country's challenges and successes in the last 50 years and suggest opportunities for development impact and further research. The articles are diverse in orientation and scope and cover six (6) areas of the economy namely i) accelerating rural transformation, ii) strengthening the financial sector, iii) promoting inclusive growth and development, iv) fostering inclusiveness and reducing poverty, v) mitigating weather-related risks and building resilience, and vi) structural and macroeconomic reforms.

The need to turn the economy around, accelerate rural transformation, promote inclusive growth, and eradicate poverty in Eswatini reigned supreme at the conference. Using data from the Eswatini National Research and Experimental Development (R&D) and Innovation Surveys, conducted in 2017, Hlophe and Dlamini map the National System of Innovation in Eswatini. The authors recognise that, to transform the economy of Eswatini and quicken rural transformation, there is need for targeted investments in science, technology, and innovation (STI). This is pertinent especially because in the revised NDS (2014), the Government of Eswatini recognises the role of STI and the scientific enterprise in the country's development discourse: in providing solutions to improve agricultural productivity and mitigate climate change, stimulate and sustain industrial activity, and as an engine for new sources of growth. Whereas previous attempts have tried to contextualise science and technology policy in Eswatini by providing STI data (see for example Dlamini, 2009), in their study, Hlophe and Dlamini identify the actors and activities in Eswatini's NSI. The authors found that the country's investment into knowledge creation is very

low with a research-funding gap of 0.76% of the required 1% of gross domestic product (GDP). The study also found that knowledge flow mechanisms between university and industry are weak alongside low capacity of STI personnel in especially the fields of science and engineering.

Equally problematic is that a majority of small medium enterprises (SMEs) in Eswatini operate in the shadows, suggesting that the government is unable to monitor all economic activities. Informal activities also speak to a lack of sophistication in the business activities and processes of domestic enterprises, which compromises their overall competitiveness. Zikalala and Sacolo quantify the size and development of the shadow economy in Eswatini covering the period 2001 – 2016. The authors found that the key drivers of the shadow economy in Eswatini include efforts to evade taxes (both direct and indirect taxation), desire for self-employment and value addition in agriculture, and a rather tough regulatory environment for SMEs that incentivises small and micro-enterprises to conceal their business operations from the government. Consequently, the authors estimate that the shadow economy leads to an underestimation of the size of the economy (GDP) in Eswatini by close to 40%. Whereas individuals engage in informal business activities to earn an income and sustain their livelihoods, the shadow economy also acts as a buffer when the formal economy is low, particularly during droughts.

In a bid to understand how Eswatini households cope with natural disasters, especially droughts, Mohammed and Dlamini investigate the predictors of food insecurity among households in Eswatini in the aftermath of the 2015/16 El Niño induced drought. The authors use a logistic regression framework to identify the geographic and socioeconomic factors that predict food insecurity during a drought in Eswatini. Mohammed and Dlamini found that weakened health and disability compounded food insecurity during the drought. They also found that the prices of maize (staple food) and rice are good predictors of food insecurity among households in Eswatini during a drought. Moreover, the authors found that household income above SZL E1,000 significantly reduced the chances of a household being food insecure compared to households without any form of income while the optimal monthly income for cushioning households from severe food insecurity was found to be SZL E3,500.

As the article on predictors of food insecurity among households show, droughts affect households and the entire economy. A study on the socioeconomic impacts of the drought showed that the drought also grounded power production in Eswatini (ESEPARC and NDMA, 2017). Moreover, challenges of electrical

power unreliability that manifests through power outages are also common in the country. Magongo and Sacolo quantify the economic costs of electrical power outages in Eswatini in a bid to understand how unreliable energy is contributing to Eswatini's growth reflux. Using the direct and indirect cost method, the authors found that the cost of power outages on the residential sector is equivalent to approximately 2% of GDP in Eswatini. The authors also use a binary logistic regression to identify factors that contribute to consumers' willingness to pay (WTP) for improved electricity supply. Their findings reveal that the frequency of power outages, perception of current price of electricity, and possession and maintenance cost of electricity back-up equipment was associated with WTP. The study established that power outages affect the industrial sector, which is a huge impediment to the country's industrialisation aspirations.

Whereas the revised NDS prioritises sustainable development and inclusive growth and given that financial literature assumes a causal relationship between economic development and financial inclusion, Hlophe tests whether this is true for Eswatini. Using the Engle and Granger (1987) cointegration analysis method, the author confirms the existence of a long run relationship between financial inclusion, financial development, and economic growth in Eswatini. Economic development requires continued growth in foreign exchange reserves and financial stability. One way of defining financial stability is through understanding what a country needs to attain it. Khomo *et al.* employ an autoregressive distributed lag (ARDL) bounds testing cointegration methodology to model the behaviour of Eswatini's foreign exchange reserves over a 24-year period. The authors show that Eswatini's foreign exchange reserves are driven by GDP per capita, developments in the current account, government expenditure, and movements in the exchange rate. The study also finds that growth in Eswatini's foreign exchange reserves lags behind those of other emerging economies.

Trade surpluses, especially over a prolonged number of years, are an indicator of a country that has mastered the value of trade, particularly exports in the development process. Using data from 1968 to 2015, Sacolo *et al.* assess the evolution of trade in Eswatini. The authors track changes in Eswatini's trade composition in light of institutional developments, new trade deals and relations, and infrastructural development in the country. The authors conclude that Eswatini is far from reaching its economic development destination, as the country's trade balance has been negative for the most part of the period under review. Skills development, especially technical vocational education and training (TVET) is pivotal in the fight against youth unemployment. Given

the ever-increasing needs of the Government of Eswatini alongside limited resources, Mgabhi and Mohammed investigate the economic benefits that accrue to the Government of Eswatini and its development partners on their investment in TVET. Using the National Handicraft Training Centre (NHTC) as a case study, the authors track graduates from the Centre to assess the demand and absorbability of their skills into the economy. Using a cost-benefit ratio analysis, the authors find that for every Lilangeni (SZL E) invested in the NHTC, SZL E4.66 accrue to the economy of Eswatini, suggesting that TVET is a credible route to end youth unemployment.

Biographical Notes

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