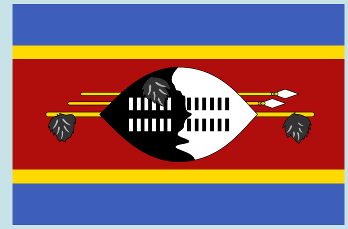
INEQUALITY IN SOUTHERN AFRICA:
AN ASSESSMENT OF THE SOUTHERN AFRICAN CUSTOMS UNION



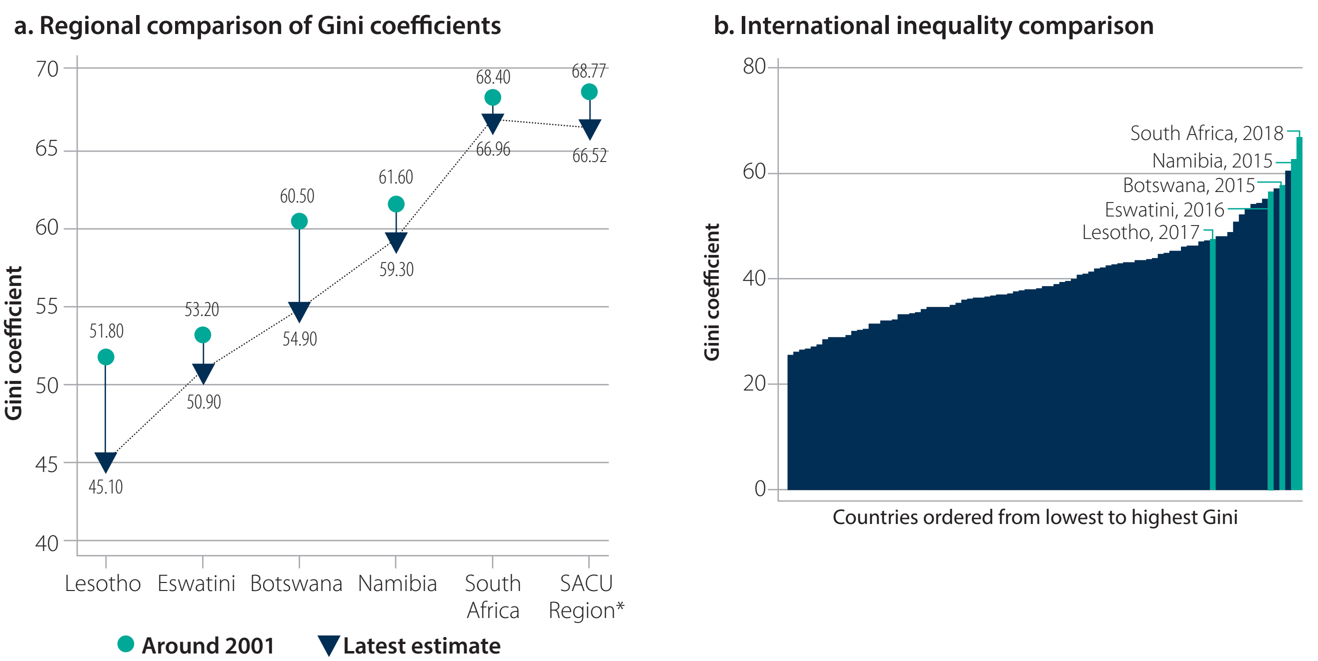
COUNTRY BRIEF: ESWATINI[1]

Eswatini has made the slowest progress in reducing inequality among the SACU countries and remains among the top 15 percent of unequal countries. A critical source of inequality is differences in productivity-related characteristics (the primary income distribution), particularly in tertiary or post-secondary educational attainment and skills, which are key to accessing decent jobs. Another important driver of inequality is a widening welfare gap between households with younger and economically active members and those without that demographic dividend. Enhancing the quality of education, promoting skills development, and creating jobs especially for poor and young people are, therefore, key to accelerating the reduction in inequality.

A. Progress towards equality

The pace of reducing inequality has been slow, and Eswatini remains among the top 15 percent of the world's most unequal countries (Figure 1, panel b). The country's Gini coefficient2 for consumption per capita fell from 53.2 in 2001 to 50.9 in 2016—at only 2.3 Gini points over 15 years, this rate of decline is among the slowest in SACU (panel a). Urban areas tend to be more unequal than rural ones; however, inequality in rural areas has increased, notably in the Shiselweni region, where consumption growth has generally been skewed in favor of the rich.

Figure 1. The pace of reducing inequality has been slow



Source: World Bank 2022.

Note: Panel a presents the Gini coefficient of consumption for the whole SACU region, based on the earliest and latest rounds of household surveys from member countries.

1 This brief is largely drawn from a SACU regional report on inequality prepared by the World Bank and co-authored by Victor Sulla, Precious Zikhali, and Facundo Cuevas. The report uses the framework highlighted in Box 1: World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.

2 The Gini index is a measure of inequality in a distribution. It varies between 0 (perfect equality), where every individual enjoys the same level of consumption per adult equivalent, and 1 (complete inequality), where a single individual accounts for all consumption.

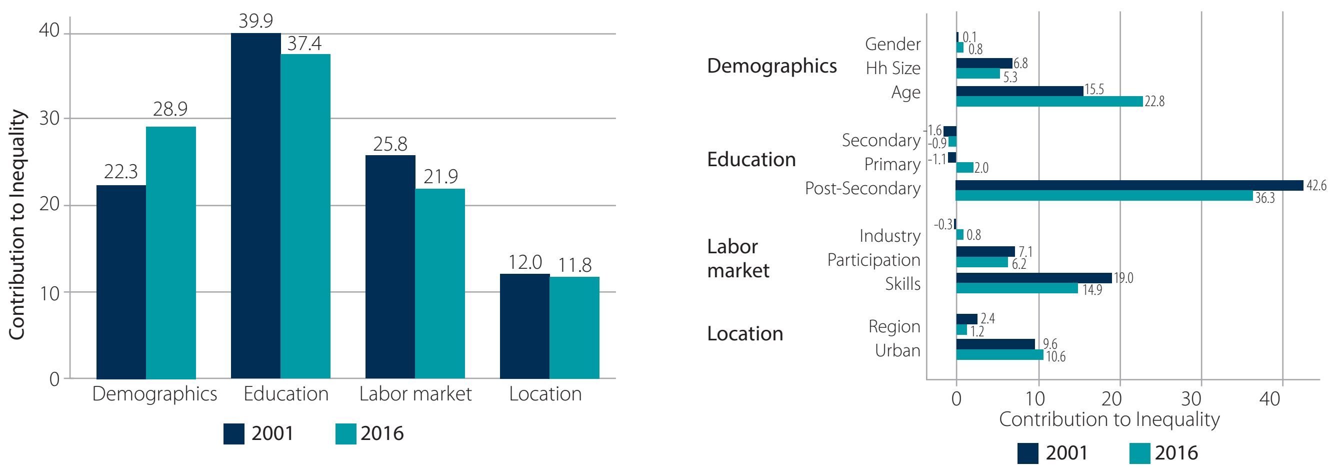
B. Key drivers of inequality

Differences in tertiary or post-secondary education attainment are a key driver of inequality. Disparities in higher education, which is key to human capital accumulation, account for about 36 percent of overall inequality. (Figure 2). As in Lesotho, only a small proportion of Eswatini's people have a tertiary education. This is consistent with the country's ranking in the World Bank's Human Capital Index (HCI), which is lower than predicted for its income level. Eswatini's HCI score in 2020 suggests that Swazi children born today would be only 37 percent as productive as adults than they could have been with a complete education and good health. The main reasons for this low score are low adult survival rates (e.g., because of HIV/AIDS) and particularly poor learning outcomes.

Figure 2. Decomposition of inequality

a. Contribution of selected factors to inequality (%)

b. Breakdown of the contribution of selected factors to inequality, percentage points



Source: World Bank 2022.

Note: Panel (a) reports the contribution (%) of spatial, demographic, education, and labor market factors to overall inequality. Panel (b) disaggregates the contribution of each of these four factors into its various subfactors.

Demographic factors contribute significantly to inequality through the age of household members and household size, with an aggregate contribution to overall inequality of 29 percent. This is largely because the age profile of the household, and its size, affect the capacity of a household to engage in economic activities, and the resources needed to meet household needs. In that sense, households with more members of working age, and fewer dependents, have a "demographic dividend".

Disparities in employment outcomes are the primary contributor to inequality. Differences in labor market attributes (labor force status, industry of employment, and occupation type) account for 22 percent of overall inequality. Among these attributes, differences in occupation type (such as senior managers, professionals, and clerks), which reflect skills differences, contribute most to inequality. The "industry in which people work" does not seem to affect inequality significantly.

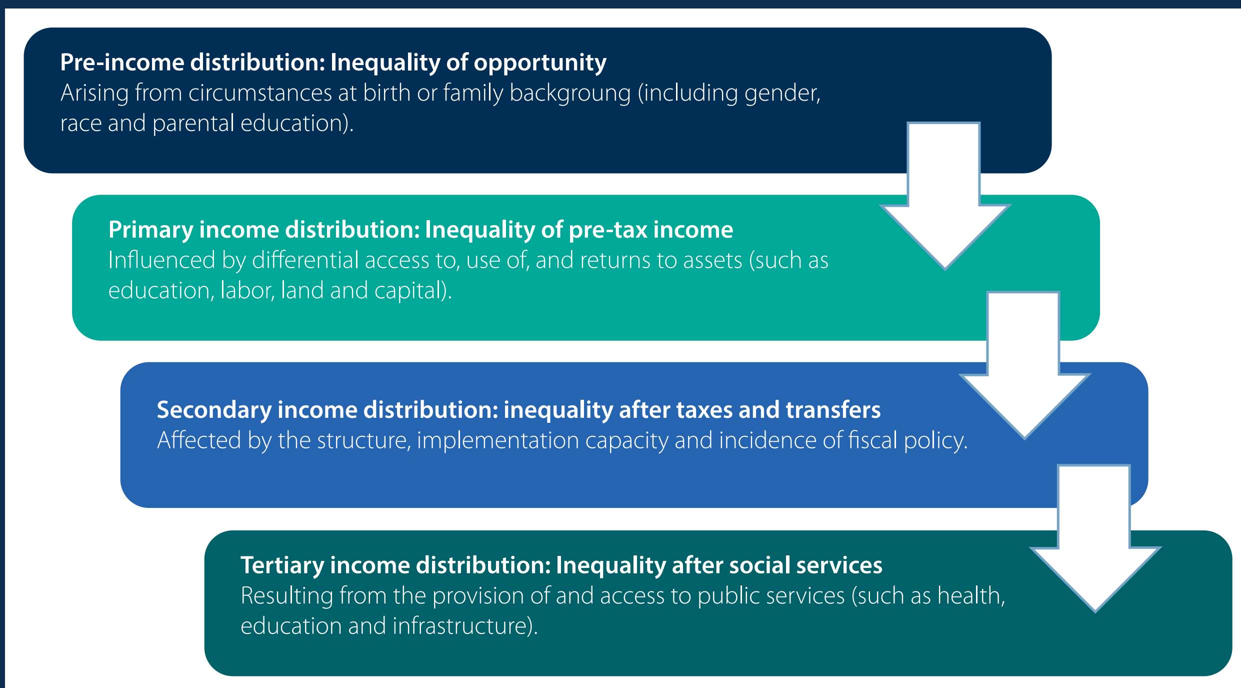
C. Inequality and the cycle of income generation

It is useful to analyze the process of household income generation to identify the sources of high and persistent inequality. The first step focuses on the *pre-income distribution*, which is the inequality of opportunity that arises from differences in circumstances at birth and during childhood, such as gender, race, location, parental education, and family wealth; these differences create expected inequalities in income distribution even before people interact with factor markets. The second component looks at the *primary income distribution*—how inequality is affected by access to factor endowments (or assets), such as education, skills, land, and capital, as well as their use and returns from interaction with markets. The third explores the *secondary income distribution*, assessing how inequality is influenced by taxes and government transfers. Finally, the fourth component relates to the *tertiary income distribution*—the disparities that remain after accounting for the role of social services (such as education, health, and infrastructure).

Box 1. Framework to assess sources of income and consumption inequality

The SACU regional inequality report uses an innovative framework built around the process that underlies household income generation to identify sources of high and persistent inequality. The framework is organized into four sequential components, presented in Figure 3.

Figure 3. Framework to assess sources of income and consumption inequality



Source: World Bank (2022).

High inequality of opportunity

Inequality of opportunity, arising from inherited circumstances, are a key determinant of overall inequality.[3] An analysis of the inherited circumstances for which data are available in all SACU countries—gender, age, region of residence (urban-rural, and regions)—suggests inequality of opportunity explained over a quarter of Eswatini's overall inequality in per capita consumption in 2017. This was the highest in SACU and up from 20.8 percent in 2001. Including other factors for which data is available (specifically early education and parental education) suggests that as much as 38.5 percent of consumption inequality could be attributed to factors beyond the control of individuals, driven by differences in access to early education and parental education (World Bank 2020).

Geography has a significant impact on inequality of opportunity. Relative to the rest of SACU, the contribution of the urban-rural divide to inequality (in both consumption and earnings) is highest in Eswatini. This reflects factors such as limited access to basic services in rural areas. Such limited access also correlates negatively with poverty levels, with poor people simultaneously deprived in multiple ways.

High inequality is associated with relatively low intergenerational mobility.[4] Although the evidence suggests upward educational mobility for young people, intergenerational earnings mobility remains limited. The relationship between earnings across two generations is strong; in fact, within SACU, Eswatini is second only to Namibia in terms of the strength of this relationship.

3 Inequality of opportunity is defined as the component of inequality attributable to differences in inherited circumstances beyond the control of the individual. The estimates should be taken as a lower-bound estimate of inequality of opportunity, since they capture the role of only a subset of circumstances—those that were available in the household survey.

4 Intergenerational mobility is defined as the extent to which a person's life outcomes correlate with those of their parents.

Inequities in labor market outcomes

The lack of new jobs results in poor labor market outcomes. At 23 percent in 2016, unemployment levels are high, particularly among young people, women, and rural residents. New jobs tend to be in low-productivity services sectors and are associated with high economic vulnerability. Agriculture (most of which is subsistence) suffers from low productivity, further widening the labor market disparities between rural and urban residents. Government is the largest formal employer, and the earnings premium for working in the public sector is large. The informal sector, self-employment, and dependence on remittance flows from South Africa have grown.

For those in employment, earnings are starkly polarized. Earnings from employment are the second most polarized in the region (behind Namibia) and are more polarized than income. The sources of wage inequality include differences in the sector of employment, education, and location. The contribution of differences in education to earnings inequality is highest in Eswatini. Also, as in other SACU countries, there is a substantial gender wage gap that is not explained by differences in occupation or education.

Inequities and inefficiencies in social spending

Social assistance helps limit inequality, but it is less effective in Eswatini than in the rest of SACU. The reduction in the Gini coefficient because of social assistance ranges from 1.9 percent in Eswatini to 10.5 percent in South Africa. The relatively low impact on inequality in Eswatini is due to the low value of the benefits and poor targeting of some programs. Although the education grant for orphaned and vulnerable children subsidizes secondary school fees (including for poor children), the 2021 Education Sector Analysis conducted by the World Bank found that an estimated 70 percent of children who were eligible for the grant did not receive it (World Bank 2021). Further, there is no social assistance program that provides direct financial support to help poor households keep their children in school or to allow them to access higher levels of education.

A significant share of Eswatini's resources is allocated to education, but spending could be more efficient. About 16 percent of total public spending is on education, and public spending per pupil is relatively high. Most of this is on recurrent costs, mainly teachers' wages and salaries, especially at the primary level. Spending per primary student is a fraction of that per tertiary student. Tertiary education spending is the most regressive in the region and disproportionately benefits the wealthy.

Health outcomes are not commensurate with spending, suggesting that spending is inefficient. Health spending benefits poor people in relative terms; however, they receive only a small share of overall health spending, even relative to other SACU countries. Progressivity for hospital health care is the lowest in the region: poorer people have limited access to hospital care, given the prohibitive costs of access. Although growing numbers of Swazi have better access to health facilities, health outcomes remain poor: Eswatini has the world's highest proportion of adults (ages 15–49) living with HIV, along with poor maternal and child health, and a rising incidence of noncommunicable diseases.

High vulnerability to climate change risks and economic shocks

Because poor people have limited coping mechanisms, they suffer disproportionately from the adverse effects of climate change. Estimates of the incidence and distribution of drought and floods in the 2015/16 El Niño event suggest that 82 percent of people in the lowest quintile were affected by the drought, as against only 75 percent in the richest quintile. Controlling for observable characteristics, households in areas affected by droughts or floods experienced, on average, a 9.2 percent loss in per capita consumption relative to their non-affected peers. This is of particular concern because reductions in poor people's consumption can lead to undernutrition, with negative health consequences in the short term and potentially serious long-term consequences. These include a high risk of stunting, impaired cognitive development, lower school attendance rates, reduced human capital attainment, and higher risks of chronic disease and health problems in adulthood.

The COVID-19 pandemic has increased economic vulnerability and likely widened disparities. The pandemic has exacerbated the triple problem of high unemployment, poverty, and inequality. Poor and vulnerable people are again disproportionately affected because they lack the productive capacity to deal with and recover from the adverse socio-economic impacts of the crisis.

Social protection programs can potentially offset consumption losses from shocks; however, they currently cover only a small fraction of climate-vulnerable households. Also, although most of the benefits of social protection programs do reach poor people, they perform less well at reaching the poorest people. Substantial numbers of poor and vulnerable Swazi people remain unprotected, despite government efforts. Further, benefit levels are low, and the programs do not scale up in the event of a disaster (World Bank 2020). Overall, enhancing the social protection system's responsiveness to shocks will strengthen resilience.

D. Policy considerations to accelerate the reduction in inequality

Strengthen human capital to help equalize opportunities. In education, this requires enhancing the quality of education (ensuring that children are learning in school) by improving literacy and numeracy outcomes in the early grades. Student retention also is a concern, with only 89 percent of children enrolled in grade 1 completing primary school; the completion rate at secondary level is only 47 percent. Retention is even lower among orphans and vulnerable children. In health care, the focus is on improving poor people's access to health services.

Create jobs and ensure equitable access. Growing the private sector to enhance its capacity to generate productive jobs for all is key to reducing poverty and inequality. This requires increasing labor returns in important sectors such as agriculture, which is characterized by low investment and productivity. Overall, growing the private sector and fostering equitable access to employment opportunities requires demand- and supply-side reforms, such as improving the business environment, deepening regional integration, and improving entrepreneurship through targeted policies that promote skills development. A credible commitment to transparent and effective policy implementation and a level playing field for the private sector would help create a conducive environment for private investment and job creation.

Improve the equity and efficiency of spending. In social protection, an integrated social registry, supported by modernization of the social protection system, would improve efficiency and policy coordination. Modernizing social protection systems and improving policy coordination among different ministries are already policy priorities. A better targeting mechanism, with support from the social registry, would improve targeting outcomes and make the use of resources more effective. In addition, more complementarity between social protection programs and education, nutrition, and health investments would help maximize their impact, especially among young people.

Strengthen the resilience of poor and vulnerable households to climate risks and economic shocks. This requires investing in poor and vulnerable households' capacity to prepare for, cope with, and adapt to shocks without falling (deeper) into poverty. It implies improving institutional and legal frameworks for disaster management and ensuring disaster management agencies are well-capacitated and well-prepared to identify and reach poor and vulnerable households when disasters and/or shocks strike. Because these households tend to rely heavily on natural resources, sustainable environmental and natural resource management is an important element of climate resilience. A focus on sustainable land management practices, including the adoption of climate-smart agriculture, and integrated water resource management is needed to help mitigate the impact of growing water scarcity. Enhancing the responsiveness of the social protection system to shocks is critical; this requires an integrated social registry with automated databases, along with an early warning system that informs, through clear and transparent rules, when and where to scale support. It is also important to digitize government-to-person (G2P) payments faster, but without excluding vulnerable populations.

Selected references

World Bank. 2020. *The Kingdom of Eswatini Toward Equal Opportunity: Accelerating Inclusion and Poverty Reduction. Systematic Country Diagnostic*. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/34970

World Bank. 2021. *Eswatini Education Sector Analysis 2021. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/35787*

World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.