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R2015-0215/1

November 9, 2015

Closing Date: Monday, November 30, 2015 at 6 p.m.

FROM: The Corporate Secretary

Swaziland - Private Sector Competitiveness Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Swaziland for a Private Sector Competitiveness Project (R2015-0215), which is being processed on an absence-of-objection basis.

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

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The World Bank

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Report No: PAD1331

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF
US$25 MILLION

TO THE

KINGDOM OF SWAZILAND
FOR A

PRIVATE SECTOR COMPETITIVENESS PROJECT

November 4, 2015

Trade and Competitiveness Global Practice
Southern Africa Country Department
Africa Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective: September 15, 2015)

Currency Unit = Lilangeni (singular); Emalangeni (plural) [SZL]

SZL13.5 = US$1

FISCAL YEAR
April 1 – March 31

ABBREVIATIONS AND ACRONYMS

ACMS	Aid Coordination and Management Section
AG	Attorney General
AGOA	African Growth and Opportunity Act
AfDB	African Development Bank
BDS	Business Development Services
CBS	Central Bank of Swaziland
CBT	Community-Based Tourism
CFF	Catalytic Financing Facility
COMESA	Common Market for Eastern and Southern Africa
CPS	Country Partnership Strategy
CRM	Customer Relationship Management
CSO	Central Statistical Office
DB	Doing Business
DBSA	Development Bank of South Africa
ECGS	Export Credit Guarantee Scheme
EBRD	European Bank for Reconstruction and Development
EDF	European Development Fund
EFA	Economic & Financial Analysis
EIB	European Investment Bank
ERR	Economic Rate of Return
ESMF	Environmental and Social Management Framework
EU	European Union
FDI	Foreign Direct Investment
FINCORP	Swaziland Development Finance Corporation
FM	Financial Management
FSE & CC	Federation of Swaziland Employers and Chamber of Commerce
FSDIP	Financial Sector Development Implementation Plan
FSRA	Financial Services Regulatory Authority
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
GOS	Government of the Kingdom of Swaziland
HOTAS	Hotel and Tourism Association of Swaziland
IBRD	International Bank for Reconstruction and Development
ICT	Information & Communication Technology
IDA	International Development Agency

IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IPFS	Investment Promotion and Facilitation Strategy
IPI	Investment Promotion Intermediary
IRM	Investor Road Map
ISP	Implementation Support Plan
JICA	Japan International Cooperation Agency
LUSIP	Lower Usuthu Small-holder Irrigation Project
M&E	Monitoring and Evaluation
MEPD	Ministry of Economic Planning and Development
MFI	Microfinance Institutions
MFU	Microfinance Unit
MIF	Marketing Investment Fund
MoCIT	Ministry of Commerce, Industry and Trade
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MSME	Micro-, Small-, or Medium-size Enterprise
MTEA	Ministry of Tourism and Environmental Affairs
NAIP	National Agricultural Investment Program
NAMBoard	National Agricultural Marketing Board
NBFI	Non-Bank Financial Institutions
NPL	Non Performing Loan
NPV	Net Present Value
PMU	Project Management Unit
PRAMS	Procurement Risk Assessment Management System
PS	Principal Secretary
RETOSA	Regional Tourism Organization of Southern Africa
SBD	Standard Bidding Document
SEDCO	Small Enterprises Development Company
SIPA	Swaziland Investment Promotion Authority
SME	Small- or Medium-size Enterprise
SNL	Swazi National Land
SNTC	Swaziland National Trust Commission
SPPRA	Swaziland Public Procurement Agency
SSELGS	Small Scale Enterprise Loan Guarantee Scheme
SRA	Swaziland Revenue Authority
SSA	Sub-Saharan Africa
STA	Swaziland Tourism Authority
SWADE	Swaziland Water and Agricultural Development Enterprise
TA	Technical Assistance
TTCI	Travel and Tourism Competitive Index
TVET	Technical & Vocational Education and Training
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank
WBG	The World Bank Group

WEF	World Economic Forum
WITS	World Integrated Trade Solution
XPFS	Export Promotion and Facilitation Strategy

Regional Vice President:	Makhtar Diop
Country Director:	Guang Zhe Chen
Senior Global Practice Director:	Anabel Gonzalez
Practice Manager:	David Bridgman
Task Team Leaders:	Austin Kilroy and Feyi Boroffice

SWAZILAND
Private Sector Competitiveness Project

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PAD DATA SHEET

Swaziland

Private Sector Competitiveness (P151433)

PROJECT APPRAISAL DOCUMENT

AFRICA

Report No.: PAD1331

Basic Information		
Project ID P151433	EA Category B - Partial Assessment	Team Leader(s) Austin Francis Louis Kilroy, Feyi Boroffice
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]	
	Financial Intermediaries [ ]	
	Series of Projects [ ]	
Project Implementation Start Date 30-Nov-2015	Project Implementation End Date 31-Mar-2021	
Expected Effectiveness Date 01-Apr-2016	Expected Closing Date 31-Mar-2021	
Joint IFC No		

Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
David Bridgman	Anabel Gonzalez	Guang Zhe Chen	Makhtar Diop

Borrower: Kingdom of Swaziland			
Responsible Agency: Ministry of Economic Planning and Development			
Contact:	Colin Tshabalala	Title:	Head of ACMS
Telephone No.:	26876063232	Email:	colin@mepd-acms.org

Project Financing Data(in USD Million)					
[X]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	25.00	Total Bank Financing:	25.00
Financing Gap:	0.00		

Financing Source	**Amount**
Borrower	0.00
International Bank for Reconstruction and Development	25.00
Total	25.00

Expected Disbursements (in USD Million)

Fiscal Year	2016	2017	2018	2019	2020	2021				
Annual	1.55	3.60	5.25	6.40	4.40	3.80				
Cumulative	1.55	5.15	10.40	16.80	21.20	25.00				

Institutional Data

Practice Area (Lead)

Trade & Competitiveness

Contributing Practice Areas

Finance & Markets; Education; Agriculture; Governance

Cross Cutting Topics

[ ] Climate Change

[ ] Fragile, Conflict & Violence

[ ] Gender

[X] Jobs

[X] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Industry and trade	General industry and trade sector	20		
Industry and trade	Agro-industry, marketing, and trade	20		
Public Administration, Law, and Justice	Public administration-Industry and trade	20		
Finance	SME Finance	20		
Industry and trade	Other industry	20		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Financial and private sector development	Regulation and competition policy	25
Financial and private sector development	Other Financial Sector Development	25
Financial and private sector development	Micro, Small and Medium Enterprise support	25
Trade and integration	Export development and competitiveness	25
Total		100

Proposed Development Objective(s)

The development objective is: to support an improved investment climate and strengthen competitiveness of firms, especially in the agribusiness and tourism sectors.

Components

Component Name	Cost (USD Millions)
1. Improving the business environment	11.10
2. Growth in Agribusiness and Tourism industries	11.90
3. Project implementation and monitoring	2.00

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
OVERALL	Substantial

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]

Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	**X**	
Natural Habitats OP/BP 4.04	**X**	
Forests OP/BP 4.36		**X**
Pest Management OP 4.09	**X**	
Physical Cultural Resources OP/BP 4.11	**X**	
Indigenous Peoples OP/BP 4.10		**X**
Involuntary Resettlement OP/BP 4.12		**X**
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Memoranda of Understanding (MOUs) with implementing partners		30-Jun-2016	

Description of Covenant

By no later than 3 months after the Effective Date, the Borrower shall enter into MoUs with each of the Project Implementing Partners, setting forth the arrangements and procedures, in accordance with the PIM, for the implementation of the activities to be implemented by the said Project Implementing Partners.

Name	**Recurrent**	**Due Date**	**Frequency**
Safeguards (Involuntary resettlement)	**X**		Continuous

Description of Covenant

The Borrower shall ensure that Project activities, including any Subprojects, do not involve any Involuntary Resettlement of persons and/or businesses or land acquisition, as per Schedule 2.F.a.i of the Loan Agreement.

Conditions

Source Of Fund	**Name**	**Type**
IBRD	Project Implementation Manual	Effectiveness

Description of Condition

The Project Implementation Manual has been adopted by the Borrower, in form and substance satisfactory to the Bank.

Source Of Fund	Name	Type
IBRD	Project Management Unit	Effectiveness

Description of Condition

The Borrower has appointed two (2) program officers, an accountant, and a procurement specialist to the Project Management Unit, in each case with qualifications, experience, and terms of reference satisfactory to the Bank.

Source Of Fund	Name	Type
IBRD	Catalytic Financing Facility (CFF)	Disbursement

Description of Condition

There shall be no withdrawals under Category (2) of the withdrawal table (for cost sharing contributions) until: (i) the CFF Manager and the CFF Selection Committee have been appointed and established respectively, and (ii) the environmental specialist for the CFF has been appointed all in a manner satisfactory to the Bank.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Austin Francis Louis Kilroy	Team Leader (ADM Responsible)	Private Sector Development Specialist		GTCDR
Feyi Boroffice	Team Leader	Senior Private Sector Development Specialist		GTCDR
Chitambala John Sikazwe	Procurement Specialist	Senior Procurement Specialist		GGODR
Joao Tinga	Financial Management Specialist	Financial Management Specialist		GGODR
Albab Akanda	Safeguards Specialist	Consultant		GENDR
Christiaan Nieuwoudt	Finance Officer	Finance Officer		WFALA
Dobromir Christow	Team Member	Senior Private Sector Development Specialist	Investment Climate	GTCDR
Eneida Herrera Fernandes	Team Member	Senior Private Sector Development Specialist	Tourism	GTCDR
Fernando Gabriel Im	Team Member	Economist	Country Economist	GMFDR
Francesca de Nicola	Team Member	Young Professional	Financial Sector Development	GFMDR

Joseph Byamugisha	Team Member		FM Specialist at PCN and QER	GGODR
Kisa Mfalila	Safeguards Specialist	Senior Environmental Specialist		GENDR
Kobina Egyir Daniel	Team Member	Senior Operations Officer	Investment Climate	GTCDR
Luz Meza-Bartrina	Counsel	Senior Counsel		LEGAM
Mehnaz S. Safavian	Team Member	Lead Financial Sector Specialist	Financial Sector Development	GFMDR
Mariama Daifour Ba	Team Member	Program Assistant		GTCDR
Paula F. Lytle	Safeguards Specialist	Senior Social Development Specialist		GSURR
Pedro Arlindo	Team Member	Agric. Economist	Agribusiness	GFADR
Puja Guha	Team Member	Consultant	Economic and Financial Analysis	GTC04
Robert Whyte	Team Member	Senior Investment Promotion Officer	Investment Promotion	GTCDR
Shingira Samantha Masanzu	Counsel	Counsel		LEGAM
Smita Kuriakose	Team Member	Senior Economist	Co-TTL at PCN and QER stages	GTCDR
Syed Estem Dadul Islam	Team Member	Results Measurement Specialist		CBCD3
Tanangachi Ngwira	Team Member	Operations Analyst	Operations Support	GTCDR
Xiaonan Cao	Team Member	Senior Education Specialist	Skills	GEDDR
Barbara Weber	Team Member	Senior Operations Officer	Operations Support	GTCDR

Locations

Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required ? Consulting services to be determined

I. STRATEGIC CONTEXT

A. Country Context

1. **Swaziland is a middle income country with a Gross Domestic Product (GDP) per capita of US$3,034, yet has high rates of poverty and inequality and is experiencing slow growth.** According to current estimates, 63 percent of the population lives below the national poverty line, and unemployment is around 29 percent. GDP grew at 6.3 percent in the 1980s, but fell to 3.7 percent in the 1990s, then 2.3 percent in the 2000s. GDP per capita growth has been marginally above 1 percent annually from 2000 to 2013, which is the lowest of Southern African Development Community countries.[1] Unemployment is particularly high among the youth (aged 15-24) at 52.4 percent; and among females at 46.3 percent compared to males at 34.4 percent.[2] To overcome this development challenge, the country will need to break out of its low growth trajectory with labor intensive growth.

2. **Swaziland's slow growth is caused by slow export growth and declining investment.**

(i) Exports. Swaziland, as a small open economy, has relied on exports as an engine of growth. However, in recent years, the country's export performance has been lagging peers and regional neighbors. Exports grew in the 1980s and 1990s, but have been declining in the 2000s (negative 3 percent growth from 2000 to 2012). This vulnerability is likely to worsen, since Swazi exports are relatively dependent on trade preferences, including sugar (under the European Union Sugar Regime) and apparel (under the Africa Growth and Opportunity Act, AGOA). Swaziland did not meet the conditions for the extension of AGOA set for May 2014, and so its trade preferences under AGOA expired in January 2015.[3] In the labor market, the adverse impact will be felt particularly negatively among women, who account for a high proportion of employees in the apparel sector.

(ii) Investment. Gross investment declined from an average of 23.2 percent of GDP in the 1980s, to around 17.4 percent in the 1990s, and further to 15.4 percent in the 2000s. This decline was largely driven by falling private investment—from an average of about 14 percent of GDP in the 1980s to just 9 percent in the 2000s, and around 5 percent in the 2010s. Over the past two decades, average investment levels in Swaziland have been lower than regional comparators and other fast-growing small states.

[1] Data from http://data.worldbank.org/ In Swaziland, the most recent official GDP figures from the Central Statistical Office are from 2010. Zimbabwe has grown marginally slower than Swaziland in 2014, but Swaziland was slower from 2010 to 2013.

[2] Country Partnership Strategy for the Kingdom of Swaziland, FY2015-2018, p. 8.

[3] The conditions emphasized most in this decision were: protections for workers' rights; and protections for human rights. Since this decision, Swaziland has been working to meet the conditions and aspires to have its status restored. Source: 'Now that we've met AGOA demands make some noise, PM tells unions', *Swazi Observer*, 13th December 2014, reported via http://agoa.info/news/article/5567-swaziland-now-that-we-ve-met-agoa-demands-make-some-noise-pm-tells-unions.html

3. **Swaziland does exhibit an underlying potential for growth, which this project aims to exploit.** Two sectors of the economy, agribusiness and tourism, may be highlighted in particular:

(i) *Agribusiness.* Nominally, agriculture accounts for only 9 percent of Swaziland's GDP[4], but manufactured goods derived from agricultural products (foodstuffs such as sugar, canned fruits, fruit concentrates, or meats) account for 33 percent of Swaziland's exports, and a further 23 percent if Coca-Cola concentrates are included.[5] A few entrepreneurs have achieved notable growth and success by managing to identify and exploit profitable export markets. These successful agribusiness exporters include large firms like SwaziCan and Swaziland Meat Industries, and smaller firms like Sdemane Farms and Black Mamba.[6] The existence of these firms signals the potential for more farmers to be incorporated into profitable value chains, particularly towards export markets. Given that three quarters of Swaziland's population live in rural areas[7], improved performance in agribusiness has the potential to be highly beneficial for Swaziland.

(ii) Tourism. Despite its small geographical area, Swaziland offers a diversity of attractions including nature- and culture-based resources, such as privately and publicly-owned game reserves; an array of traditional ceremonies; community tourism products; and a range of soft and hard adventure tourism offerings. Yet the tourism sector currently remains small, accounting for 2.2 percent of GDP, growing at around 0.1 percent annually, and employing only around 5,500 people (1.8 percent of the working population). Tourism can be a potent development tool—not only in generating economic growth, but also through its high potential for employment and entrepreneurship and its creation of linkages to other sectors of the economy (e.g. suppliers of goods and services to tourism establishments).

4. **Agribusiness and Tourism also have a good potential for impact on poverty, since they are relatively labor-intensive sectors, and are strongly linked to rural areas.** In Swaziland, rural areas account for approximately 88 percent of the poor.[8]

B. Sectoral and Institutional Context

5. **Swaziland's economy is composed of agriculture (7 percent of GDP), industry (48 percent of GDP) and services (45 percent of GDP).[9]** In industry, foodstuffs and chemicals (mainly Coca-Cola concentrate) account for two-thirds of all exports[10] - hence indicating the

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[4] Central Bank of Swaziland Quarterly Reports.

[5] According to Comtrade data via WITS. Data is for 2010. The remainder of exports is accounted for mostly by textiles and clothing (9 percent), machinery and electrical equipment (5 percent), wood (4 percent), minerals (4 percent), and stone and glass (3 percent).

[6] The main products of these firms are, *inter alia*: canned and packaged fruit products; meat products; packaged baby vegetables; and chili sauces.

[7] Country Partnership Strategy for the Kingdom of Swaziland, FY2015-2018, p. 5.

[8] Country Partnership Strategy for the Kingdom of Swaziland, FY2015-2018, p. 3.

[9] According to the most recent verified data in the World Development Indicators dataset, which is for 2011. http://data.worldbank.org/

[10] Country Partnership Strategy for the Kingdom of Swaziland, FY2015-2018, p. 7.

large contribution of agribusiness in Swaziland, which is not apparent from the top-line GDP figures alone. In the services sector, public administration accounts for two-thirds of total gross value added.[11] Exports are concentrated in a few large firms, with the top one percent of exporting firms accounting for 76 percent of Swaziland's exports.[12]

6. The ability of the private sector in Swaziland to be more competitive and to generate jobs is constrained by several key obstacles, notably,

(a) **Weak business enabling environment.** Swaziland is ranked 110th of 189 countries according to Doing Business Indicators 2015.[13] The World Economic Forum Global Competitiveness Report 2014-2015 ranks Swaziland 123rd out of 144 countries. The World Economic Forum's 2013 Travel and Tourism Competitiveness Index (TTCI) ranks Swaziland 119 out of 140 countries.[14] These indices give a partial, yet indicative, impression of the extent to which Swaziland's regulatory environment currently facilitates private sector activity.

(b) **Limited access to (concessional) finance.** Even though there exists a moderately well-developed commercial banking sector in Swaziland, most firms face limited opportunities to access commercial financing for investment capital and working capital. Main constraints include low business and financial literacy on the part of entrepreneurs, and a lack of information and experience in assessing MSMEs on the part of financial institutions.

(c) **Insufficient skills to seize market opportunities**. Swaziland has a good potential for growth in agribusiness, tourism, and some other industries, but these opportunities have not yet been well-leveraged by firms—particularly because of limited market knowledge and business skills.

7. These priorities are reflected in key government strategies such as the Economic Recovery Strategy (2011), the Investor Road Map (2005 and 2012), and the Private Sector Development Strategy (formulated by the Federation of Swaziland Employers and Chamber of Commerce in 2011). These documents highlight the need for: clarity on investment policies; trade facilitation; the need to transition from subsistence to commercial agriculture; and business development services.

8. **Almost all diagnostic and sector studies in Swaziland have identified agribusiness and tourism as most promising potential opportunities for boosting economic growth and**

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[11] Ibid.

[12] World Bank (2014), *Institutions, Governance and Growth: Identifying Constraints to Growth in Swaziland*, Washington DC: World Bank.

[13] Swaziland was ranked 111th in 2014. All countries have been re-ranked according to the Doing Business methodology which was revised in 2015. Using the old methodology, Swaziland was 123rd out of 189 countries in 2014.

[14] (WEF 2014). The TTCI uses a combination of 14 qualitative and quantitative indicators to compare the competitiveness of global destinations including regulatory, infrastructure, and tourism resources indicators.

employment.[15] Agribusiness is an existing large sector that has potential to grow, with a relatively strong impact on job creation and poverty reduction; and tourism is an existing relatively small sector that has potential to grow, similarly with a relatively strong impact on job creation and poverty reduction.

9. **The commercial opportunities and constraints in Swaziland's agribusiness and tourism sectors can be summarized as follows.** (See details in Annex 5: Opportunities and Constraints in Agribusiness and Tourism in Swaziland).

> *(i) Agribusiness*. Prior analytic work has highlighted the opportunities that exist in improving the productivity and competitiveness of smallholder value chains, and in strengthening the public capacity to deliver essential goods and services to support these.[16] Particular emphasis has been placed on the need to improve delivery of extension services and to promote increased use of improved inputs. For example: Swaziland already exhibits some producers exporting horticultural products, but smallholder farmers have not been successful in integrating into these value chains—owing to the key constraints mentioned above.[17] Since 2001, Swaziland has committed more than US$100 million of international loans and grants to the agricultural sector[18], with a further US$36 million in the pipeline from IFAD and the EU alone. However, these existing projects are focused mainly on the supply side of the agricultural industry (irrigation, dams, and extension services). Two other key constraints to growth have not yet been systematically addressed: access to finance and access to markets.
>
> - *Agribusiness enterprises, and especially MSMEs, face limited opportunities to access finance.* This is because of the risky nature of agricultural production, the lack of (credit) information and creditors' rights regime, and limited interest by financial institutions to develop more suitable products. Many banks consider agricultural finance too risky because of the low capacity of firms themselves. Lack of adequate financial management, market analysis, and business plan development are often cited as key reasons why MSMEs remain financially excluded.
>
> - *Agribusiness enterprises also tend to lack the ability to successfully target product markets.* For example: farmers mostly grow undifferentiated crops without having identified the needs of a target market. Access to product markets could be improved through increased capabilities amongst firms to identify and operationalize their participation in more profitable value chains.

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[15] For an overview of prior literature, and some new analysis reaching similar conclusions, see World Bank (2014), *Institutions, Governance and Growth: Identifying Constraints to Growth in Swaziland*, Washington DC: World Bank.
[16] World Bank (2011), *Swaziland Rural Sector Review: Priorities for the Development of Smallholder Agriculture in Swaziland*, Washington DC: World Bank, p. x.
[17] World Bank (2011), *Swaziland Rural Sector Review: The Livestock and Horticulture Value Chains in Swaziland: Challenges and Opportunities*, Washington DC: World Bank.
[18] The largest single project is the Lower Usuthu Smallholder Irrigation Project (LUSIP Phase I), with a project expenditure of US$277 million, financed by IFAD, AfDB, GEF, Arab Bank for the Economic Development of Africa, DBSA, EIB, the EU, and Taiwan, China.

(ii) Tourism. Swaziland has a good reputation within the region for offering unique cultural experiences, diverse wildlife and adventure activities. Yet the tourism sector remains small, with a direct contribution to GDP of only 2.1 percent and indirect contribution of 4.8 percent, compared to averages in the Sub-Saharan Africa (SSA) region of 2.8 percent and 8.5 percent.[19] One of the main issues in the tourism sector is that enterprises lack a strategic approach to developing their products and increasing their revenues. Constraints in the sector could be addressed through: increased private and public sector institutional capacity and coordination; improved tourism promotion and development of strategic brand and market positioning; increased quality and diversification of tourism product offerings; and more consistent quality and service standards. There are opportunities to generate meaningful benefits for local communities and individual households through, for example: competitively packaging Swaziland's traditional ceremonies, cultural heritage, and natural endowments; and by further developing tourism value chain products.[20]

C. Higher Level Objectives to which the Project Contributes

10. **The proposed focus of the Project on agribusiness and tourism is consistent with strategies and plans formally adopted in Swaziland**. In particular, the new National Agricultural Investment Program (NAIP) plans approximately US$1.14 billion of investments over ten years in five main programs of investment: (i) sustainable natural resources management; (ii) improved access to markets and value chains; (iii) food supply and reducing hunger; (iv) agricultural research, training and extension; and (v) agricultural knowledge management. The National Tourism Strategy and Action Plan (2012-2016) aims to extend visitors' average length of stay through the development of new tourism products; to increase international arrivals from 1.2 million to 1.5 million; and to increase marketing budgets to promote existing and new products. Additionally, community tourism has been and remains a high priority for the government, as evidenced by its prominent placement within the National Tourism Policy (2010). The rationale for the choice of project activities to support agribusiness and tourism is detailed in Annex 5.

11. **Moreover, the proposed operation is the main lending operation contributing to the first pillar ('Promoting Growth and Job Creation')[21] of the agreed Country Partnership Strategy (CPS) in Swaziland, for the period of FY2015-2018** (Report No. 89210-SZ, discussed by the WB Board of Executive Directors on October 28, 2014). It is expected that the proposed reforms to the business environment and interventions in the agribusiness and tourism sectors will prompt a response from the private sector, in terms of increased willingness and ability to invest, and increased ability to export. The impact would be observed in terms of increased incomes, particularly in labor-intensive sectors which have the highest impact on poverty and on shared prosperity. In this sense, the Project is fully consistent with the twin goals of the WBG through its outcome of increased incomes for smallholder farmers and rural communities, thus potentially reducing poverty and promoting shared prosperity. However, the

[19] (WTTC 2014),
[20] Existing examples of community based initiatives include Shewula Mountain Camp, developed approximately ten years ago through an EU-funded project, and the initiatives of Lubumbo Eco Trails.
[21] The second pillar aims at Strengthening State Capacities.

more medium- to long-term impacts on increased exports and the creation of new jobs realistically can only be expected to follow the proposed investments with a lag, and thus be measurable most substantially after project completion.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

12. The development objective of the proposed project is: **to support an improved investment climate and strengthen competitiveness of firms, especially in the agribusiness and tourism sectors.**

B. Project Beneficiaries

13. **Direct beneficiaries** for the project are expected to be private sector firms—both existing and potential. Firms across the economy will benefit from Component 1, and firms in agribusiness and tourism industries in particular will benefit from Component 2. The following institutions will also benefit directly from project support: the Investor Road Map Unit; the Central Bank of Swaziland (CBS); Swaziland Investment Promotion (SIPA); Swaziland Tourism Authority (STA); Swaziland Water and Agricultural Development Enterprise (SWADE); Ministry of Tourism and Environmental Affairs (MTEA); Hotels and Tourism Association of Swaziland (HOTAS); Swaziland National Tourism Commission (SNTC); and Small Enterprises Development Company (SEDCO).

14. **Indirect beneficiaries** for the project are expected to be a large number of households in Swaziland, because of the high multiplier effects usually associated with growth in agribusiness and tourism, and because the Project is deliberately focusing on firms that involve rural households in their supply chain (smallholder farmers in agribusiness, and community enterprises in tourism).

15. **Costs** will be borne by the public sector, and represent public investments in private sector firms. The positive Net Present Value (NPV) of economic returns to the Project justifies these investments.

C. PDO Level Results Indicators

16. Success in achieving the PDOs will be measured by the following PDO-level indicators:

(a) Time required to start a business [Days];

(b) New commitments by investors [Number];

(c) Credit bureau coverage [Percentage];

(d) Private sector capital mobilized [Amount US$];

(e) Sales revenue of beneficiary firms [Amount US$].

III. PROJECT DESCRIPTION

A. Project Components

COMPONENT 1: Improving the business environment (US$11.1 million)

17. This component comprises activities to improve the business environment in Swaziland.

(a) Support for implementation of the Investor Road Map (IRM)
(US$4.5 million)

18. The Government of Swaziland has set a key priority to improve its business environment, as embodied in the Investor Road Map launched by the King in April 2012 as an implementation plan for business environment reform. This project will focus on two priority areas: starting a business and getting credit (getting credit is addressed in the access to finance component below). Project interventions are motivated by Swaziland's performance on Doing Business indicators, yet the interventions will also engage with underlying legal frameworks and processes, and may improve Swaziland's position on multiple indicators.

19. Project interventions will improve the business environment in Swaziland. These improvements will facilitate private sector activity across sectors, including tourism, agribusiness, and other sectors which benefit from improved business services such as registration and licensing. In order to support implementation of the IRM, the project will finance the following activities:

(i) *Legal underpinnings for implementation.* Provision of technical assistance to, inter alia, the Investor Road Map unit, the Attorney General's Office and relevant line ministries for the development of the Borrower's legal and regulatory framework relating to companies, licensing, insolvency and commercial arbitration.

(ii) *Institutional structure and IRM plan.* Provision of technical assistance to the IRM Unit for: the review and update of the IRM Implementation Plan, a review of the IRM accountability structure, and training on Doing Business Report survey methodology and the implementation of the IRM; and facilitation of policy dialogue between the public and private sector, including through investor roundtable meetings. Support for investment climate reform study tours for staff of the IRM Unit and selected government departments to best practice jurisdictions.

(iii) *ICT systems.* Design and development of information communication and technology systems for the Ministry of Commerce to support the streamlining of key business processes, including business registration, licensing, and revenue collection systems.

(b) Promotion of investment, trade, tourism, and entrepreneurship
(US$2.1 million)

20. Evidence from most countries shows that active investment and export promotion is a necessary complement to a business enabling environment. Swaziland will need to strategically market itself and facilitate new investments, so that reforms and market opportunities are publicized and known amongst potential investors, and so that new investments can be guided

and assisted. Public sector assistance to exporters will facilitate entry into new markets and increased exports into existing markets.

21. The project will support the following activities:

(i) *Investment and trade promotion.* Provision of technical assistance to SIPA for: the development of an investment promotion and facilitation strategy and an export promotion and facilitation strategy; capacity building in core investment promotion agency operational responsibilities and functions; the development and implementation of a monitoring and evaluation system to track investor firms and manage investor relations; development of a manual on investor aftercare functions and a foreign direct investment survey.

(ii) *Tourism strategic planning and regulations.* Provision of technical assistance to the following actors in the tourism sector:

- to STA for the development and implementation of a tourism marketing strategy, including the carrying out of targeted destination promotion and marketing activities; capacity building in marketing techniques; and the roll out of harmonized accommodation and grading systems and quality labels.
- to STA and the Ministry of Tourism and Environmental Affairs for capacity building in the areas of policy and regulation, including an institutional capacity assessment, support to tourism sector monitoring, and development of market intelligence mechanisms, and strengthening institutional arrangements for the tourism sector, including defining roles and responsibilities for the various institutions in the sector;
- to HOTAS for the design of improved institutional and arrangements and a sustainability mechanism for HOTAS; the carrying out of a targeted technical background analysis of the tourism sector to facilitate dialogue with private sector actors; and the carrying out of a skills audit for the tourism sector,
- to SNTC for the improvement of its revenue generation models and management of national parks, including through the development of a commercialization study, and site management plans.

(iii) *Entrepreneurship development strategy.* Provision of technical assistance to SEDCO to update its entrepreneurship development strategy, including through capacity building for its management team and staff and updating of its business training curricula.

(c) Improved access to finance for MSMEs
(US$4.5 million)

22. Swaziland has a moderately well-developed commercial banking sector; but MSMEs face limited opportunities to access commercial financing for investment capital and working

capital. Commercial lending to agriculture in Swaziland is focused almost entirely on the sugar industry.[22]

23. In order to increase access to finance for MSMEs, the project will support the following activities:

(i) *Demand-side information.* Carrying out by MFU of a listing exercise to update the information in the Borrower's census of MSMEs; a survey of the financial needs of MSMEs; and mapping of government-funded MSME initiatives.

(ii) *Credit infrastructure.* Provision of technical assistance to CBS, FSRA and the Ministry of Finance to support: the development of a credit reporting system; the carrying out of a review of the Borrower's legislative and regulatory framework for creditor rights, credit reporting and the framework for secured transaction; the harmonization of the Borrower's legislative and regulatory framework for creditor rights and promoting compliance therewith; and the establishment of credit infrastructure, including secured transaction and collateral registries.

(iii) *Guarantee schemes.* Provision of technical assistance to the Central Bank of Swaziland for: the carrying out of analyses of the functioning of the Export Credit Guarantee Scheme and the Small Scale Enterprise Loan Guarantee Scheme; the formulation of recommendations to improve the operation of the schemes; and the implementation of the revised schemes, including through the provision of training to potential beneficiaries of the schemes.

(iv) *Supply-side capacity for access to finance.* Capacity building for financial intermediaries in MSME lending, including with respect to credit risk assessments and the development of new MSME financing products.

COMPONENT 2: Growth in Agribusiness and Tourism industries (US$11.9 million)

24. This component comprises activities to catalyze a sustained growth amongst private sector firms in Swaziland with specific focus on agribusiness and tourism.

(a) Competitive value chains in agribusiness and tourism
(US$5.2 million)

25. The key constraint to generating more market-linking firms in agribusiness and tourism is the ability of entrepreneurs to identify and pursue competitive advantages, through technical and sector knowledge plus the development of viable business plans to link into export value chains.

26. In order to facilitate the emergence of more and larger 'market linking' firms in agribusiness and tourism, the project will provide technical assistance to strengthen the capacity of SWADE and STA to provide mentorship and support to firms in the agribusiness and tourism value chains, including with respect to industry, cluster and strategy analysis, development of buyer

[22] Sugar is the most established agricultural industry, is constituted mainly by large firms, and is perceived to be lower risk than most other agricultural as well as non-agricultural products.

purchase criteria, international benchmarking of new activities in the respective value chains, and business and financial planning. Approximately 200 firms would benefit from these interventions over a five-year period.

(b) Catalytic Financing Facility for start-ups and scale-ups.
(Approx. US$6.7 million)

27. A Catalytic Financing Facility (CFF) will provide cost-sharing contributions for firms' investments, as a financial complement to the technical assistance under component 2(a). The CFF will be constituted of two windows: a business plan competition with funding for start-up businesses; and cost-sharing contributions for scaling-up businesses. Approximately 100 firms would be reached by the CFF over a five-year period.

28. The Project will also provide technical assistance for the establishment and management of the Catalytic Financing Facility; and provide cost sharing contributions to beneficiaries through the CFF.

COMPONENT 3: Project Implementation (US$2.0 million)

29. This component will provide support for Project implementation, including fiduciary and safeguards management, monitoring and evaluation, and capacity building for the Project Management Unit (PMU). It will cover the costs of the PMU including: recruitment of a project accountant / financial management specialist, project procurement specialist, senior technical assistance support officer; office running costs (including transportation and office equipment); safeguards work; monitoring and evaluation; and training and/or study tours for program officers.

B. Project Financing

30. Total project costs will be US$25 million. All financing will be provided by the International Bank for Reconstruction and Development (IBRD). The Borrower has selected a loan with a grace period of five years, a repayment term of thirty years, with a fixed spread, level repayment, and a repayment schedule linked to commitment. The front-end fee will be financed out of loan proceeds. These choices are based on the cost and risk strategies embodied in the Borrower's official debt management policy.

31. A summary table of project costs by components is provided below in Table 1.

Table 1: Summary of project costs by component

Project Components	Project cost (US$ million)	IBRD or IDA Financing	% Financing
1. Improving the business environment			
(a) Implementation of the Investor Road Map (IRM);	4.5	IBRD	100
(b) Promotion of investment, trade, tourism, and entrepreneurship;	2.1	"	"
(c) Access to Finance for MSMEs.	4.5	"	"
2. Job creation in Agribusiness and Tourism			
(a) Competitive value chains in agribusiness and tourism	5.2	"	"
(b) Catalytic Financing Facility	6.7	"	"
3. Project Implementation & Monitoring	2.0	"	"
Total Costs			

Total Project Costs	24.9		
Front-End Fees	0.1[23]		
Total Financing Required	25.0		

C. Lessons Learned and Reflected in the Project Design

32. The project design builds on lessons and comprehensive analytical work from within Swaziland, and from World Bank projects and broader experience. This analytical work and 'lessons learned' have been integral to design of the project components. They are described in full detail in Annex 7 (Lessons Learned and Reflected in the Project Design). In brief: Component 1a accompanies the regulatory underpinning and technological investments for investment climate reform with public-private dialog for real-time feedback; Component 1b reflects the global findings that investment promotion agencies function best when they target specific sectors, and reflect a clear strategy and objectives in their organizational methods and structure; Component 1c builds on research findings about the impact of credit infrastructure on access to finance, especially for smaller firms—and on the successes of capacity building activities for financial institutions involved in SME lending; Component 2a reflects good practices in configuring skills training more closely to the needs of priority industries, as intermediated by a technically proficient sector management organization; Component 2b builds on the insights from successful enterprise support schemes, especially in terms of the institutional structure which should support implementation of the scheme.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

33. The project is expected to be implemented for a period of five calendar years, from November 30, 2015 to March 31, 2021. A Project Implementation Manual will be prepared by the Borrower as an Effectiveness Condition, containing arrangements and procedures for coordination and execution, disbursement and financial management, procurement, monitoring and evaluation, social and environmental safeguards, and detailed procedures for the Catalytic Financing Facility. Some of the key features of the implementation arrangements are summarized here.

34. **Project Management Unit (PMU).** The Aid Coordination and Management Section (ACMS) in the Ministry of Economic Planning and Development will be the project management unit. Procurement and Financial Management responsibilities for the project will both be centralized within the PMU. The ACMS is chosen as the PMU for its proven track record of managing projects financed by various development partners.[24]

[23] Front-end fees are US$ 62,500. Rounded to one decimal place.
[24] These include the European Union (10th EDF at €80m, 11th EDF at €65m, National Adaptation Strategy at €120m); UNDP (approx. US$20m/ year); JICA (approx. US$15m from 2010); and Taiwan, China aid (approx. US$20m/year). The projects included technical assistance services, equipment procurement, school construction, rural electrification and other large infrastructure projects.

35. At present the ACMS is constituted by four teams: Team Coordination and Management; National Adaptation Strategy; Monitoring and Evaluation and; the UN Team covering health, education and other social sector themes. Given the additional procurement responsibilities and volume of work entailed by the World Bank project, the ACMS will add a fifth team, to be assigned to this project. The team would be comprised of two Program Officers (civil servants drawn from MEPD and MoCIT); one Accountant (contractual staff—to be responsible for financial management of the project); one Procurement Specialist (contractual staff); and one Technical Assistance support (international consultant). Overall responsibility for project implementation would be retained by the head of the ACMS (a Principal Economist civil servant drawn from MEPD).

36. **Interministerial Task Team.** The project implementation team at ACMS will report to an inter-ministerial Task Team. The mandate of the Committee will be to: monitor project progress; to provide strategic direction; and to facilitate information sharing between the main institutional stakeholders involved in the Project. The Task Team will be chaired jointly by MEPD and MoF, and will include focal points of the key Ministries and agencies as members: MEPD (ACMS); MoF; MoCIT; Investor Road Map Unit; SIPA; CBS; and SWADE. At time of Appraisal, the task team had already been formed, and was meeting approximately on a monthly basis.

37. Project decisions will *not* be contingent on meetings of the Task Team: the ACMS will be empowered to implement the project autonomously, but would report to the Task Team on progress and would seek assistance from the Task Team in order to resolve problems. Where these problems cannot be resolved by members of the Task Team, the Chair of the Team may refer them to the PS Finance, PS Economic Planning and Development, and/or the PS Commerce, Industry and Trade; or all three jointly to seek resolution.

38. **Relationship with implementing partners.** The Project involves a number of implementing partners, on whom progress in the project will be dependent (as per the task team section above). In order to manage performance, Memoranda of Understanding (MOUs) will be entered into between ACMS and the main implementing partners (IRM Unit; SIPA; STA; SWADE; HOTAS; SNTC; SEDCO; MFU; CBS, Financial Services Regulatory Authority (FSRA), and Ministry of Finance - all as detailed in the Loan Agreement for the Project). These MOUs will include arrangements and procedures with respect to costs and cost sharing, expected outputs, reporting, fiduciary management, and monitoring and evaluation.

Implementing agency risks are deemed to be substantial, and will be addressed as follows:

(a) *Capacity.* The ACMS will constitute a permanent focal point, and will recruit a special team to be devoted full-time to this Project, constituted of a mix of civil servants and externally-recruited consultants. The Project may fund capacity development and support under the Project Management component.

(b) *Governance.* An inter-ministerial Task Team will be established for project governance, as per the preceding paragraph. Where problems cannot be resolved by the Task Team, the Head of the ACMS may escalate them to the Principal Secretary of Finance, and/or the Principal Secretary of Economic Planning and Development, and/or the Principal Secretary of Commerce, Industry and Trade, or any combination thereof.

(c) *Fraud and corruption.* Project objectives and accountability structure will be publicized extensively at launch, partly with the aim of facilitating public scrutiny of delivery. Active supervision of the PMU will be necessary to ensure that WB procurement procedures are adhered to at all times ensuring transparency and accountability. The recently appointed Swaziland Public Procurement Agency (SPPRA) may also play a part in mitigating F& C risks and may also be supported under the planned Public Sector Modernization project. In addition, a hotline for complaints will be established to ensure grievances are addressed. The recipients of the CFF funds will be publicized to ensure full transparency.

39. Further details on financial management, reporting, and the flow of funds, are given in Annex 3.

B. Results Monitoring and Evaluation

40. **The GoS and the World Bank will evaluate progress on the indicators presented in Annex 1 (Results Framework and Monitoring) through regular reporting by the PMU and implementation support missions.** The PMU will collect and present data on project indicators and core sector indicators. The PMU will hire an M&E Specialist responsible for this work, which will be funded by Component 3 of this Project.

41. **In addition to the PDO-level results indicators specified in section II.C above, progress on each of the components will be measured by intermediate outcomes**. Indicators for these intermediate outcomes will be the following WBG Core Sector Indicators and project specific indicators, listed in Table 2. For those indicators that require new monitoring, the PMU will be responsible for gathering information, via the implementing partners.[25]

42. Citizen engagement will be measured via a proxy indicator on 'Beneficiaries that feel project investments reflected their needs', which will be administered via a yearly survey. The gender impact of the project will be measured via subdividing the two indicators that measure numbers of MSMEs and total beneficiaries into male and female proportions.

[25] For example: the indicator on employee wages will not be able to leverage a pre-existing income expenditure survey (these are not implemented on a regular basis in Swaziland) so will necessitate a simple survey of employees of firms supported by the project on entry into employment, and then on a yearly basis after that. The survey should cover household size, household income, age, gender and other fundamental characteristics, and will allow the project to track (for example) the proportion of new employees that are drawn from the bottom 40 percent of the population, thus contributing to 'shared prosperity' in Swaziland.

Table 2: Intermediate Results Indicators

Intermediate results indicators	Unit	Frequency	Responsibility
Component 1:			
(a) Number of procedures, practices or standards that are improved or eliminated;	Number	Every 6 months	IRM Unit (via PMU)
(b) Number of firms that benefit from reformed registration requirements;	Number	Yearly	Companies Registrar (via PMU)
(c) Number of reforms implemented;	Number	Yearly	IRM Unit (via PMU)
(d) Share of beneficiaries of investment, trade, and tourism promotion that feel agencies' work met their needs.	Percentage	Yearly	SIPA and STA (via PMU)
(e) Credit registry is established.	Yes/No	Yearly	CBS (via PMU)
Component 2:			
(a) Number of MSMEs that benefit from new skills and knowledge (of which, proportion that are female-headed);	Number;	Every 6 months	SWADE and STA (via PMU)
(b) Average tourist nights spent in Swaziland;	Number	Yearly	STA (via PMU)
(c) Average wages of individuals employed via catalytic funding support	Amount US$	Yearly	CFF Manager via survey
(d) Direct project beneficiaries (of which female, percentage)	Number	Every six months	PMU
(e) Share of beneficiaries that feel project investments reflected their needs.	Percentage	Yearly	PMU via survey

C. Sustainability

43. **The Project is anchored in the priorities of the GoS's own development plans and strategies, at the macroeconomic level and sectoral level.** Section I.B above describes this synergy, including plans that extend beyond the lifetime of this Project. During project preparation, the team has interacted with all responsible Ministries with relevance to the project components, and care has been taken to revise the project design accordingly. The Project constitutes the first pillar of the WBG CPF, and will thus be a central focus of the Bank's regular interactions with the GoS.

44. **The Project has also paid attention to designing components that will lead to a sustained economic impact, rather than only within the lifetime of the Project.** In particular: Component 1(a) is designed to create momentum and institutionalize a business environment reform process that will continue and be deepened; Components 1(b) and 1(c) will contribute to increased institutional capacities for key parastatals and financial institutions to extend beyond the project time horizon; Components 2(a) and 2(b) will provide an initial injection of expertise and financial support to agribusiness and tourism sectors, including at the firm-level, which will support the first-mover firms. Second-mover firms would then be anticipated to follow suit, through a demonstration effect from first-mover firms, as well as commercial banks being more willing to lend having witnessed commercial viability of the first-movers.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

45. **The overall project risk is rated *Substantial*, owing to several Substantial country and project risks, and other Moderate risks.** There are four risks rated as Substantial: Macroeconomic; Political and Governance; Institutional Capacity; and Fiduciary. The first two of these are drawn from the October 2014 CPS agreed between the World Bank and the Kingdom of Swaziland; and the latter two are project-specific. The main reasons and mitigation efforts for these are as follows.

Macroeconomic risks stem from Swaziland's exposure to trade or exchange rate shocks, and the added hazard of diminished SACU transfers. The project will not attempt to manage macroeconomic risks directly, though the project is itself a risk management measure for Swaziland to mitigate the potential impact of macroeconomic shocks by building private sector competitiveness and finding new sources of jobs.

Political and Governance. Swaziland has enjoyed a relatively stable government; yet the implementation of government initiatives does depend on high-level political commitment, and there is a risk of vested interests and corruption. Additionally, while the Project will provide the technical assistance required to inform Swaziland's investment climate reform agenda (particularly under Component 1a on Implementation of the Investor Road Map), successful implementation of this agenda is ultimately contingent on the passage of legislative reforms through Parliament.

Institutional Capacity. The risk stems from the need to ensure that the PMU and key implementing partners appoint good contact points with sufficient authority. This risk is being mitigated through the appointment of a hybrid PMU including some external consultants, and through an interministerial task team as described in the section of this document on Implementing Arrangements.

Fiduciary Capacity. The risk stems from a relative lack of transparency and accountability in government programs. This risk will be mitigated by publicizing clearly the project's objectives and its accountability structure at launch, with the aim of facilitating public scrutiny of delivery. The World Bank will also play an active role in supporting implementation, including ensuring adherence to World Bank procurement and financial management procedures.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

46. The project has two major components aiming to support competitiveness, economic diversification, and job creation in Swaziland. The economic analysis of this project is built as a financial analysis with the estimated difference in cash flows to beneficiaries (smallholders, medium and large commercial farms, and MSMEs, including new jobs created) accounted for as cash flows to the project. The costs and benefits that are expected to accrue from Components 2.1 (Competitive Value chains in agribusiness and tourism), and 2.2 (Catalytic financing facility for start-ups and scale-ups) have been estimated and the Net Present Value (NPV) and the

Economic Rate of Return (ERR) for the investments in these components were calculated. The economic analysis of Component 1 (Improving the business environment) presents a special challenge due to the indirect relationship between the business environment reforms supported under the project and the stream of benefits that these are expected to trigger. In light of this, a literature review has been provided on the positive effects of business environment reform on business creation, MSME development and growth.

47. Overall the project's NPV is estimated at US$13.2 million at a 12 percent discount rate[26], with a 25.6 percent ERR. The data and the assumptions are based on field research that estimates the impact of similar programs on MSMEs growth and productivity rates, and changes in wages. Further details on these are provided in Annex 6 (Economic and Financial Analysis).

48. Component 1 will support investments to support the business environment in Swaziland, including investment promotion activities. As a result of the investments under this component, the number of investment projects in Swaziland is expected to increase, channeling both money and jobs into the local economy.

49. Activities under component 1 are expected to result in improvements in the business environment notably in areas dealing with investment promotion, infrastructure for access to finance for MSMEs, and investment climate, thereby having a positive effect on business creation, MSME development, and growth, a relationship also established and supported in previous empirical studies (listed in Annex 6).

50. As a result of the investments under Component 1, an additional two investment project announcements per year are estimated to be made, starting in 2019. The ERR of this component is expected to be 34 percent, and the NPV is expected to be about US$10,608,419 with a discount rate of 12 percent.

51. Component 2(a) will provide financing to address key knowledge constraints in agribusiness and tourism through support of business and farmer mentoring organizations. As a result, farmers and tourism businesses will be able to expand and improve their businesses and link into larger markets. The increased revenues will also increase the number of formal and informal jobs in both sectors.

52. The number of beneficiaries for component 2(a) is estimated at 120 farmer companies, 25 associations, and 50 tourism businesses. The ERR of this sub-component is expected to be 16.1 percent, and the NPV is expected to be about US$971,432 with a discount rate of 12 percent.

53. Component 2(b) aims at equipping entrepreneurs and existing businesses in Swaziland with seed capital to launch and expand sustainable new business ideas. As a result, a portion of participant entrepreneurs will be able to successfully launch and expand their businesses, thereby leading to the creation of jobs and income. The potential growth of individual businesses with different failure rate scenarios has been estimated as part of this analysis.

[26] Discount rate: This is based on the risk-adjusted opportunity cost of capital for World Bank financing in Swaziland.

54. The number of beneficiaries for sub-component 2(b) is estimated at 75 new enterprises being financed and 30 enterprises receiving expansion capital. The ERR of this sub-component is expected to be 15.7 percent, and the NPV is expected to be about US$798 thousand with a discount rate of 12 percent.

Rationale for Public Intervention

55. Private capital for investment in Swaziland does not provide adequate financing for local businesses, particularly for proof-of-concept investments with high economic, financial and social returns, but accompanied by high levels of risk, uncertainty and initial investments. Additionally, the existing provisions for consulting services and financing of start-ups and scale-ups are minimal, emphasizing the need for public investment.

World Bank's value added

56. The World Bank's added value is substantial, encompassing its experience in the country, technical expertise, coordination support, and channeling global knowledge. The Bank's value added in low-income states is acknowledged to be substantial. For this project, this will include direct technical expertise through intensive supervision; support for the coordination required, through a Bank team that incorporates members from all relevant sectors; and the channeling of global knowledge through connections to WB teams and counterparts working on similar projects (past or present) in other low-income states.

Contribution of economic and financial analysis (EFA) to project design

57. Information provided from the EFA has been used to refine details of the project design such as M&E targets and their associated timing, the number of target beneficiaries within the agribusiness and tourism sectors, and the extent of overlap in beneficiaries between the value chain support provided in component 2a and the catalytic financing facility in component 2b.

Actions during implementation to revisit EFA at mid-term

58. At mid-term, the project team will use current M&E data to evaluate the impact to date of the project. These actuals will be used to calculate an updated interim rate of return and net present value. Given that much of the impact associated with the project will be visible in the years after closing, the interim ERR and NPV will most likely be negative; however these values can be used to evaluate the quality of the original predictions during project design.

59. Additionally, the EFA will be updated to reflect the realities of the project at mid-term. This includes updating the expected ERR and NPV going forward based on the actual data available, and using this information to qualify and assess potential changes to the project budget allocations and/or design. Such changes could include any restructuring, allocation of budget to different components, order and timing of disbursements related to the different components to maximize expected impact, etc.

Impact of the project on the borrower's financial situation

60. One of Swaziland's key fiscal challenges is its dependence on the Southern African Customs Union. This project will help to develop local companies in the agriculture and tourism sectors, which will eventually help support government tax revenues. A financial analysis on anticipated cost recovery for the government of Swaziland has been included as part of this economic and financial analysis.

61. Additionally, the government of Swaziland's fiscal sustainability is vulnerable due to recurrent outlays that crowd out productivity-enhancing expenditures. This project focuses on supporting these productivity enhancements to support the country's financial situation.

Financial analysis on anticipated cost recovery and sustainability for the CFF

62. A financial analysis on the government of Swaziland's ability to recover the cost associated with this loan has been developed as part of this economic analysis. Based on this analysis, the 35 year government ERR ranges from 10 percent to 600 percent depending upon the exact loan terms. These terms are determined during negotiations procedures with the government and represent a wide range of potential terms for each loan recipient. The financial analysis which has been conducted will be used to inform the loan terms for the government of Swaziland, and this analysis will be updated at project mid-term along with the economic analysis.

B. Technical

63. The Project has been designed based on extensive consultations with government officials and representatives of the private sector and civil society in Swaziland since 2012. These include several analytical and technical inputs as detailed in Annex 7 (Lessons Learnt and Reflected in the Project Design). Within the World Bank Group, project preparation was undertaken by a team from five Global Practices: Trade & Competitiveness, Finance & Markets, Agriculture, Education, Governance, in addition to inputs from the Macroeconomics and Fiscal Management Practice, and staff of the International Finance Corporation.

64. The selected technical design incorporates some project interventions that mirror those used successfully in multiple World Bank projects (components 1a, 1b, and 1c), and other innovative project interventions that have been selected for being particularly apt for Swaziland's particular private sector landscape and ecosystem (components 2a and 2c). This combination is deemed to be most appropriate to the Borrower's needs.

C. Financial Management

65. A financial management assessment of the proposed implementing agency, the Aid Coordination and Management Section (ACMS) in the Ministry of Economic Planning and Development, was undertaken as part of the project appraisal process. The assessment was undertaken to evaluate the adequacy of the proposed financial management arrangements in compliance with Bank Policy on Investment Project Financing, OP/BP 10.00, and the Financial Management Manual. The financial management residual risk rating for the Project is *moderate*.

66. The ACMS will be responsible for the financial management of the project. It was established that the ACMS has the financial management staff that possess the relevant qualifications and the appropriate experience with regard to the financial management procedures and requirements of various development partners. In light of the considerable volume of work related to other externally-funded projects, it will be necessary to recruit a Project Accountant who will specifically be responsible for the financial management of the World Bank-funded project.

D. Procurement

67. All procurement to be financed under the project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011 (revised July 2014), and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 (revised July 2014), and the provisions stipulated in the Loan Agreement. The project will carry out implementation in accordance with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD and IDA and Grants" dated October 15, 2006 and revised January 2011 (the Anti-Corruption Guidelines).

68. A procurement assessment has been made of the Aid Coordination and Management Section (ACMS) in the Ministry of Economic Planning and Development. ACMS will be carrying out all procurement for the Project. The key issues identified regarding procurement for project implementation are: (a) the current setup of ACMS does not have a dedicated team to implement the project; (b) limited capacity for staff in other project partners (eg. SWADE, SIPA, MTEA, STA, etc) to assure adherence to World Bank Procurement and Consultant Selection Guidelines; (c) as the ACMS also implements projects using other development partner procedures, there may be a lack of clarity of what procedures to use under the project.

69. Proposed corrective measures to mitigate the overall risks include: (a) ACMS will establish a fifth thematic team and engage a procurement officer dedicated to procurement under the project; (b) capacity building of staff in other project partners on World Bank Procurement and Consultant Selection Methods and Procedures and selected contracts to be subject to prior review; (c) ACMS will develop a Procurement Manual to guide procurement procedures under the project. An initial Procurement Plan for the project has been prepared. The implementing agency risk assessment from the Procurement Risk Assessment Management System (PRAMS) is moderate.

E. Social (including Safeguards)

70. Among the key social issues in Swaziland relative to the objectives of the project reflect demographic pressures on household production. The high percentage of the population in rural areas and dependent on subsistence-plus agriculture combined with male labor migration have meant that women-headed households have taken on greater roles in agricultural production. Interviewed experts in conservation agriculture observed (without prompting) women's willingness to innovate in productive methods on small-scale plots (homestead level). According to interviews during preparation, a typical pattern of migration involves remittances returned to the household, rather than permanent out-migration. Rural women often produce traditional handicrafts or textiles for sale in internal markets, and older women are noted for specific skills.

Reportedly, there is strong interest in how to connect with wider markets from women producers. There is a Gender consortium of which some of the constituent members address issues related to feminization of rural poverty; others focus on gender-based violence issues. SWADE has also adopted a gender policy to guide implementation of programs.

71. Livelihood-focused NGOs are also present. Some of these are linked to specific church or religious groups. An NGO umbrella organization to which the majority of NGOs belong will be key for potential outreach under the project.

72. Cultural practices related to healing and the use of medicinal herbs remain strong. Interviews with natural resource management professionals noted that there is tourism traffic from South Africa and Mozambique connected with traditional healing; they also raised concerns about overharvesting of such plants. However, based on these interviews, commercially produced herbs would not be perceived as having utility; such enterprises would need to incorporate healers. There is a traditional healers association.

73. Programs in conservation agriculture have reached approximately 18,000 farmers through demonstration and promotion of farm days. Other programs have developed along co-operative lines such as milling or land co-operatives. SWADE has implemented participatory planning of community resources (Chiefdom development plans) and is in the process of assessing lessons learned from the initial pilots and guidelines.

74. Main community sources of information are community radio and regular community meetings convened by chiefs. Chiefs also convene meetings on special topics of interest to the community or on request from other stakeholders. Mobile phones are an increasingly common source of information; newspapers are downloaded and read on mobiles (Times of Swaziland). Given the good mobile network penetration, this has potential as an additional means for outreach to potential beneficiaries under the Catalytic Financing Facility (CFF, under Component 2b).

75. Land is categorized as Swazi National Land and title/deed (private) land. The National Land Management Board is the key institution in changing the classification of National land to title/deed land. According to interviews, land classification is a sensitive issue and the time frame required for re-classification can vary greatly, particularly when there are conflicts. Resettlement planning is handled on a case-by-case basis; however, SWADE has worked on a policy which serves as one model. COSPE (Italian NGO) has piloted participatory mapping of land as one means of providing inputs to decision-making over community resources. There are examples of development projects on community land, based on consultative planning. A fuller treatment of Land Issues in this Project is given in Annex 8.

76. An Environmental and Social Management Framework (ESMF) has been prepared and was disclosed in country on October 5, 2015 and in the World Bank InfoShop on October 6, 2015. The ESMF contains a screening checklist that will apply to the investments proposed under the CFF. On the social side, screening will reflect the factors identified above: gender distribution of expected beneficiaries and participation and consultation in community-based projects. Activities supported under the CFF will exclude those which would require land acquisition, involuntary resettlement or access restriction to natural resources. However,

communally held land (Swazi National Land) may be voluntarily pooled for the carrying out of collaborative subprojects in conformity with the requirements of the ESMF and the Borrower will be required to ensure that such voluntary pooling is confirmed to be voluntary in accordance with a protocol acceptable to the Bank and the Borrower. Furthermore, in the event that any privately held land is required for the Project or any subproject, the Borrower, in consultation with the Bank, shall ensure that such land shall be obtained on a willing-buyer-willing-seller basis, in conformity with the requirements of the ESMF. Given that the component will support MSMEs, such exclusion is not expected to unduly limit the activities supported. The ESMF also takes into account that investments supported under the CFF will be both start-up and scale-up, so that screening is prospective and retrospective.

F. Environment (including Safeguards)

77. **The project has been classified as Category B with moderate environmental and social risks and impacts anticipated from the sub-projects to be supported through the CFF.**

78. The CFF supported by the Project is expected to finance agribusiness and tourism sub-projects at a small-scale industry and community levels. The activities may involve construction of new facilities, expansion of existing facilities, and support to agribusiness related processes along the supply chain, all of which may have minor impacts on the environment. The degree of the environmental risks and impacts will be determined by the nature, scope and location of the sub-projects during the implementation phase of the Project. The ESMF (disclosure dates as above) provides guidance in identifying and planning of the sub-projects, screening from environmental risks and impacts, managing and monitoring of likely environmental and social risks and impacts to achieve sustainability.

79. The inherent nature of environmental risks and impacts associated with agriculture and agri-business operations are largely related to point and non-point source pollution from run off emanating from the use of pesticides/herbicides in controlling weed infestation on farms and potential increased use of fertilizer to increase crop productivity. Other likely impacts include effluent discharges and solid waste generated from agro-processing activities, noise and air emissions from agro-processing facilities or construction works, occupational health and safety of workers due to lack of Personal Protective Equipment (PPE), soil erosion from poor or lack of proper site drainage, and contamination of water (both surface and ground water) from oil spills or construction works. The potential specific impacts may include the following:

- *Impacts on water resources:* The likely change of the hydrological regime associated with abstraction and diversion of water for irrigation schemes may alter the capacity of the environment to assimilate water soluble pollutants. Reduction in low flows may result in increased pollutant concentration already discharged into the water courses either from point sources (mainly construction related activities or agro-industry processes, or from non-point sources, such as agro-chemicals leakages). Change in the hydrological regime for downstream ecosystems and loss of water through earth feeder canals is also anticipated.

- *Impacts on soils:* May be eroded due to civil works or agriculture activities (especially irrigation) and/or polluted with solid wastes, pesticides, leakage or spill of hazardous materials.
- *Impacts on air quality:* Construction and rehabilitation activities may likely generate dust from the various construction/rehabilitation and subproject operations as well as pollutants including greenhouse gas emissions from vehicles and machinery used for construction activities.
- *Noise:* May be generated from the various activities during civil works as well as during some subproject operations.
- *Vegetation:* May be locally affected due to clearance for construction and even rehabilitation of new infrastructures, tourism and community development subprojects; increase in invasive weeds and crop diseases. May be disturbed during construction and operation activities.

80. In order to prevent and manage the potential environmental risks and impacts while enhancing the positive impacts, four (4) World Bank safeguard policies are triggered. These policies include: (i) OP/BP 4.01: Environmental Assessment; (ii) OP/BP 4.04: Natural Habitats; (iii) OP/BP: 4.09 Pest Management; and (iv) OP/BP 4.11: Physical Cultural Resources. Beneficiaries of the CFF will be required to carry out environmental assessment equivalent to the level of risk assessed and prepare appropriate safeguard instruments to mitigate the impacts in compliance with the WB's safeguard policies and the Swaziland national environmental laws and regulations. The Project will not finance procurement of fertilizers and pesticides. However, some of the sub-projects to be funded under the CFF may likely use fertilizers and pesticides. Integrated Pest Management (IPM) guidance has been included in the ESMF.

81. The sub-projects to be financed under the CFF will be subjected to an environmental and social screening process using procedures described in the Environmental and Social Management Framework (ESMF). This will ensure that the environmental and social risks of the sub-projects are adequately screened and appropriate mitigation measures are developed to avoid, minimize or offset any risks and impacts likely to occur during implementation. The Project Implementing Unit will be responsible for providing overall oversight and monitoring to ensure that the screening process of the sub-projects is adequately carried out and appropriate environmental and social measures are carried out by the beneficiaries according to the World Bank's Safeguard policies and Swaziland environmental laws and regulations. Further details are given in the Social and Environmental section of Annex 3 (Implementation Arrangements) of this document.

82. During project preparation, the World Bank assessed the capacity and knowledge of the PMU to implement the Environmental and Social Management Framework (environmental screening, assessment, mitigation, review, monitoring and reporting). The PMU will need to recruit a dedicated environmental and social specialist to oversee the implementation of the sub-projects. The project will also support strengthening of the PMU's capacity in the application of World Bank safeguard policies.

G. World Bank Grievance Redress

83. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Country: Swaziland

Project Name: Swaziland Private Sector Competitiveness (P151433)

Project Development Objectives

PDO Statement

The development objective is: to support an improved investment climate and strengthen competitiveness of firms, especially in the agribusiness and tourism sectors.

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
Time required to start a business (Days)	30	30	30	25	20	15	15
New commitments by investors (Number)	1	1	2	2	3	3	3
Credit bureau coverage (Percentage)	42.1	42.1	43	48	54	60	60
Private Sector Capital Mobilized (Amount(USD) - (Core)	0	0	100,000	200,000	600,000	1,000,000	1,000,000
Sales revenues of beneficiary firms (Amount (USD))	0	0	100,000	200,000	600,000	1,000,000	1,000,000

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
Number of procedures, practices, or standards that were improved or eliminated per year - (Number)	5	5	5	5	5	5	5
Number of firms that benefit from reformed registration requirements - (Number)	0.00	0	1,000	4,000	7,500	10,000	10,000
Number of reforms implemented (Number)	0	1	2	2	2	2	2
Share of beneficiaries of investment, trade, and tourism promotion that feel agencies' work (Component 1b) met their needs. (Percentage)	0	60	60	60	60	60	60
Credit registry is established (Yes/No)	No	No	No	Yes	Yes	Yes	Yes
Number of MSMEs that benefit from new skills and knowledge (Number)	0	0	40	80	140	195	195
Proportion of which are female-headed MSMEs (Percentage - Sub-Type: supplemental)	0	40	40	40	40	40	40
Number of average tourist nights spent in Swaziland (Number)	2.40	2.4	2.4	2.5	2.6	2.8	2.80

Intermediate Results Indicators							
		Cumulative Target Values					
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Share of beneficiaries that feel project investments reflected their needs - (Percentage)	0	70	70	70	70	70	70
Average wages of individuals employed via catalytic funding - (Amount (USD))	0	[Tracked not targeted]	[Tracked not targeted]	[Tracked not targeted]	[Tracked not targeted]	[Tracked not targeted]	Tracked not targeted]
Direct project beneficiaries (Number) - (Core)	0	50	80	150	300	500	500
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0	40	40	40	40	40	40

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Time to start a business	The time involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income.	Yearly	http://doingbusiness.org/	PMU
New commitments by investors	The indicator measures new foreign direct investment announcements by all companies investing in Swaziland. At baseline, using data from 2012 to 2015, Swaziland is averaging approximately one new announcement per year.	Every six months	FDI Markets	PMU
Credit bureau coverage	Credit bureau coverage reports the number of individuals and firms listed in a credit bureau’s database as of January 1, 2014, with information on their borrowing history from the past 5 years. The number is expressed as a percentage of the adult population (the population age 15 and above in 2013 according to the World Bank’s World Development Indicators). A credit bureau is defined as a private firm or nonprofit organization that maintains a database on the creditworthiness of borrowers (individuals or firms) in the financial system and facilitates the exchange of credit information among creditors. (Many credit bureaus support banking and overall financial supervision activities in practice, though this is not	Yearly	http://www.doingbusiness.org/	PMU

	their primary objective.) Credit investigative bureaus and credit reporting firms that do not directly facilitate information exchange among banks and other financial institutions are not considered. If no credit bureau operates, the coverage value is 0.0%.			
Private Capital Mobilized	The core indicator track the amount of direct financing (in the form of equity and/or debt) mobilized by private entities, using private funding, to finance investments within an IBRD/IDA operation or investments (PE, GE, RE, SF, and GU) directly linked to that operation.	Yearly	Survey of recipients of CFF funding.	PMU
Increase in sales revenue for beneficiary firms	The indicator will measure the increase in sales revenue amongst beneficiary firms, with attribution to Component 2a and 2b.	Yearly	Survey of recipients of CFF	PMU

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of procedures, practices, or standards that were improved or eliminated per year	Defined according to the Investor Road Map plans (i.e. beyond those recognized as Doing Business reforms alone).	Every 6 months	Investor Road Map unit, via PMU	Investor Road Map unit, via PMU
Number of firms that benefit from reformed registration requirements	This number is taken as the number of firms that are registered per year, all of whom are deemed to benefit from improved registration requirements during the lifetime of the project. At time of Appraisal there are approximately 4,000 companies registering per year.	Yearly	Companies Registry	Investor Road Map unit, via PMU
Number of reforms	Number of reforms as recognized by the	Yearly	http://www.doingbusiness.o	Investor Road Map unit, via

implemented	yearly Doing Business report		rg/	PMU
Share of beneficiaries of investment, trade, and tourism promotion that feel agencies' work (Component 1b) met their needs.	Annual survey of beneficiaries of services by SIPA and STA.	Yearly	Annual survey of beneficiaries	SIPA and STA, via PMU.
Credit registry is established	No description provided.	Yearly	PMU	PMU
Number of MSMEs that benefit from new skills and knowledge	The indicator tracks the outputs of Components 2a and 2b. It reflects also the Country Partnership Strategy objective of aligning skills development programs with market demands and national growth priorities.	Every six months	PMU	PMU
Proportion of which are female-headed MSMEs	While no baseline indicator exists for this project, a close comparator is provided by SWADE's work in the LUSIP area, in which 41% of farmer companies shareholders are women. This level required a very concerted effort on the part of SWADE personnel to increase the gender balance to that level. Thus the 40% target should be considered a 'stretch' target to be emulated by the PSC project.	Every six months	PMU	PMU
Number of average tourist nights spent in Swaziland	Data is drawn from STA's regular survey and data on this topic.	Yearly	Survey	STA
Share of beneficiaries that feel project investments reflected their needs	The indicator tracks citizen engagement	Yearly	Survey of project stakeholders under Component 1, and project beneficiaries under Component 2.	PMU
Average wages of individuals employed via	This metric will be monitored via a simple survey of employees of firms supported by	Yearly	Survey of employees of firms supported by	Fund Manager

catalytic funding	the project on entry into employment, and then on a yearly basis after that. The survey should track (for example) the proportion of new employees that are drawn from the bottom 40 percent of the population, thus contributing to 'shared prosperity' in Swaziland.		Component 2b	
Number of direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage) . Based on the assessment and definition of direct project beneficiaries, specifically what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.	Every six months	Estimate of total number of individuals directly impacted by project (i.e. public employees trained; private sector managers and employees receiving catalytic funding; etc).	PMU
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	See above.	Estimate of females under the total number of individuals directly impacted by project (i.e. public employees trained; private sector managers and employees receiving catalytic funding; etc).	PMU

Annex 2: Detailed Project Description

SWAZILAND: Private Sector Competitiveness (P151433)

For convenience, a summary table is included below as Table 3. The Table shows the logic for each subcomponent, by tracking the relationship between PDO-level indicators, key drivers, intermediate outcomes, constraints to achieving those outcomes, and the project interventions which follow.

Table 3: Quick reference summary of project logic and interventions

MAIN INDICATORS	KEY DRIVERS	MEASURED BY	CONSTRAINTS	INTERVENTIONS	IMPLEMENTING PARTNER	PROPOSED ALLOCATION
Time required to start a business (days) **Credit bureau coverage (percent)** **New investment commitments (number)**	Improved Investment Climate	Investment climate reforms implemented (number) Number of procedures, practices, or standards that were improved or eliminated per year	Inadequate legal framework for implementation of the Investor Road Map. Loosely defined actions in the Investor Road Map. Management attention/accountability.	***COMPONENT 1: Improving the Business Environment*** ***Component 1a: Implementation of Investor Road Map (IRM)*** (i) Improved legal underpinnings for implementation; (ii) Refined IRM plan and institutional structure for implementation; (iii) Adoption of new ICT systems to streamline key business processes.	Ministry of Commerce, Industry & Trade / IRM Unit	US$4.5m
	Proactive and Targeted Investment, Trade, Tourism and Entrepre-neurship	New investment announcements (number) Average tourist nights spent in Swaziland	Arbitrary and/or unfocused investment and trade promotion activities Unfocused tourism promotion and facilitation activities Outdated entrepreneurship development activities	***Component 1b:Promotion of investment, trade, tourism, and entrepreneurship*** (i) Strengthened investment promotion and facilitation (ii) Strengthened export promotion and facilitation. (iii) Improved strategic planning and regulations for tourism growth. (iv) Renewed entrepreneurship development strategy for SEDCO.	SIPA SIPA STA SEDCO	US$0.65m US$1.2m US$0.25m
	Improved access to finance for MSMEs	Credit registry is established (yes/no)	Innate MSME risks (volatile cash flows, and vulnerability to minor shocks) Substandard business plans, owing to poor business and financial literacy amongst entrepreneurs Lack of positive credit information and fragmented creditor rights regulation and legislation	***Component 1c:Access to Finance for MSMEs*** (i) Update demand-side information on existing MSMEs and their financial needs; (ii) Support and strengthen credit infrastructure, including legislation and a credit reporting system; (iii) Review the Export Credit and Small Scale Enterprise Guarantee Schemes and assist implementation of revised Schemes (iv) Strengthen supply-side capacity for access to finance.	MFU, CBS, FSRA, MOF	US$4.5m
Private Capital Mobilized (US$) **Sales revenue of beneficiary firms (US$)**	Growth in Agribusiness and Tourism industries	Number of MSMEs that benefit from new skills and knowledge (number, of which percentage female-headed) Average wages of individuals employed via catalytic funding	Poor supply side choices: ○ arbitrary choice of crops and production techniques; ○ unfocused tourism investments, not leveraging competitive advantage. Lack of access to financial services by smallholder farmers and MSMEs; Lack of management capacity to sustain profitable operations.	***COMPONENT 2: Growth in Agribusiness and Tourism industries*** Project will focus on start-ups and scale-ups of firms that identify competitive advantages and link to markets, and meanwhile work with smallholders and communities to produce according to market needs. ***Component 2a: Competitive value chains in agribusiness and tourism*** Scale-up of SWADE and STA as mentorship organizations for entrepreneurs	SWADE STA	US$5.2m
				Component 2b: Catalytic Financing Facility Establish a business plan competition for start-ups, and cost-sharing contributions for scale-ups of community enterprises and MSMEs.	Catalytic Facility Manager	US$6.7m
				COMPONENT 3: Project Implementation & Monitoring Project management expenses, including hire of an accountant, procurement specialist, and technical assistance for project coordination.	ACMS	US$2.0m
					TOTAL	**US$25m**

COMPONENT 1: Improving the Business Environment (US$11.1 million)

1. **Component 1 will support the creation of an enabling environment for private sector development and investment.** The Component will focus on: business regulation and investment climate reforms; export facilitation; and access to finance. The priority initiatives within each of these areas will address critical constraints for job creation in Swaziland.

(a) <u>Subcomponent 1A: Support for implementation of the Investor Road Map</u>
<u>(US$4.5 million)</u>

2. **The objectives of this component are to reduce the time and cost for registering a business and getting a license.**

3. **This objective constitutes a key national priority for Swaziland, which has formulated several strategies to improve its business environment.** In 2005, Swaziland published its Investor Road Map (IRM), which is an action plan to address these problems. The IRM was revised and re-launched in 2012 by the head of state, King Mswati III, with a target for Swaziland to reach the top 50 in Doing Business Indicators by 2014. Gradual progress has been made: Swaziland is recognized in Doing Business 2015 for having reducing the notice and objection period to obtain a new trading license, and will be recognized in Doing Business 2016 for reducing the corporate tax rate. However, this progress is slower than other countries, and hence Swaziland's overall ranking remains at 110^{th} in 2015. Of the ten indicators measured in *Doing Business*, Swaziland is least competitive in the following six: 'enforcing contracts' (ranked 173^{rd}), 'starting a business' (ranked 145^{th}), 'getting electricity' (140^{th}), 'registering property' (129^{th}), 'protecting minority investors' (110^{th}), and 'trading across borders' (127^{th}).[27] A low proportion (approximately 20 percent) of the targets set in the Road Map are being achieved.[28]

4. **This project will focus on the 'starting a business indicator' as a priority area.** 'Trading across borders' is engaged in a parallel trust-funded project. 'Getting credit' is also supported via Component 1(c) of the project. The rationale for this focus on 'starting a business' is in order to develop momentum around achievable reforms within the Project lifetime, which can subsequently be broadened to the full IRM priority list. This model has worked well in similar World Bank-financed projects in other countries. Even so, some Project activities will still have knock-on effects on indicators beyond 'starting a business' alone. For example, support to review the Commercial Arbitration legal framework will have some impacts on the 'enforcing contracts' indicator.

5. **The main constraints to implementation are three-fold:**

- *Legal framework for implementation.*
  Progress on the IRM will remain limited unless the legal foundations for reforms are established. Swaziland's legal framework is relatively outdated, and is missing some

[27] http://www.doingbusiness.org/
[28] According to World Bank Group team interviews with key personnel.

legal underpinnings for IRM implementation. The Attorney General (AG) and the legal counsels of the line agencies have rarely been substantively involved in Working Group and Sub Group discussions, and neither has been tasked to translate the IRM into legal frameworks and regulations. Those activities would involve a considerable volume of new work, and the AG's office is already working close to full capacity.

- *Implementable actions in the IRM.*
  The IRM is structured into sixteen objectives. Each objective consists of a few intended outcomes. Each outcome is further divided into output targets. However, for some intended outcomes, the constituent output targets will not be sufficient to achieve those outcomes even if all targets are attained. For instance: Goal 1.1 is to reduce number of import and export documents, but the outputs only include 'identify documents to be combined' and 'convene a meeting with supply chain stakeholders', which would not be sufficient to implement that reduction in the number of documents.

- *Management attention and accountability.*
  Implementation of the IRM is delegated to 'Sub Groups' of civil servants at the director level and below. Many Sub Groups ceased meeting in 2013 once the sense of urgency and management attention associated with the IRM diminished, and because group members became frustrated in their attempts to achieve the targets. Until the establishment of the IRM Unit during the summer of 2014, there has been no full-time staff unit dedicated to the achievement of the IRM.

6. **This Project focuses on two Doing Business indicators: 'starting a business' and 'getting credit'.**

7. **Project activities will address the main constraints to improvement of these three regulatory regimes:**

(i) **Improved legal underpinnings for implementation.**

This sub-component would ensure the enactment of the legislation required to align the Companies Law with best practice in terms of business entry, insolvency, and corporate governance. The reforms in the Companies Law will also in turn impact other indicators (in addition to 'Starting A Business') and will include 'Closing A Business', 'Getting Credit', and 'Protecting Minority Shareholders'. Further this component will be closely coordinated with the access to finance component to ensure that the legislation is consistent with the Secured Transactions Framework that will be introduced to enable the establishment of the movable collateral registry.

During implementation of the Project, consulting services will be procured to assist the AG and line ministries to translate the IRM goals into legal frameworks and regulations, focusing on the drafting of:

- A Companies legal framework consistent with best practice in terms of business entry, insolvency, corporate governance;
- A Licensing legal framework;
- An Insolvency legal framework;

- A Commercial Arbitration legal framework;

Support will also be provided for the development of regulations to implement legislation enacted.

The provision of technical support to the Swaziland Revenue Authority on trade facilitation was explored during preparation of this Project, but was not chosen for inclusion in the Project owing to the likely support to be provided by Trade Facilitation Support Program (TFSP).

(ii) ***Refined IRM plan and institutional structure for implementation.***

At time of Project preparation, the new Director of the IRM Unit was:

- Refocusing an **IRM implementation plan** that identifies specific actions for implementation, and includes a complete logic from actions to intended outcomes, with an expected timeline;
- Developing a **clear management and accountability structure** for IRM implementation which can support IRM obligations to report to Cabinet on progress every two weeks.

In addition to these internal Government reforms, there is also an **external dimension to successful IRM implementation.** Among the reasons cited for the poor implementation of the Investor Roadmap is mistrust between the public sector and the private sector. This has been exacerbated by a perceived lack of transparency and due process around some government decisions that impact the private sector. In order to ensure both public and private sector commitment to the reform agenda and to ensure that the IRM delivers the results expected, the delivery framework for the IRM will be reviewed and enhanced.

Hence, this subcomponent will include internally-facing and externally-facing activities as follows:

(a) Support to the Director of the IRM Unit to: refocus the IRM **implementation plan**; advisory services on IRM **accountability structure**; and **training on Doing Business survey methodology.** Project activities can commence with a debriefing session following publication of the 2016 Doing Business Report, to ensure that recommended actions and priorities on all priority indicators as defined by the IRM Unit are duly incorporated in the envisioned activities.

(b) Support for periodic **high level meetings between private and public sector** (an 'Investor Roundtable'). This mechanism will facilitate feedback to policy makers. It may harness existing structures such as: FSE & CC's industry liaison function; SRA's stakeholder forum; and supplement them with prospective investors. It should also include representatives of smaller businesses and/or cooperatives, perhaps through Swazi Commercial Amadoda and the Federation of Swazi Business Community. To the extent that feedback is considered and policy disagreements explained, such a mechanism could foster transparency and trust and thereby ensure that the reform agenda is sustained and that the associated impacts (investment, job creation, and private sector cost savings) are maximized. For example, a stronger line of communication between the investment promotion authority (SIPA) and customs authorities (SRA) may help avoid unnecessary steps to be faced by importers and/or exports;

(c) Engagement of highly visible **international investors** to participate in roundtable events;

(d) Procurement of **subject matter experts** to support the DB reform agenda;

(e) **Study tours to best practice jurisdictions** (such as Estonia, Georgia, Rwanda, or Mauritius).

This initiative will permit the IRM Implementation Unit to design, develop and monitor granular action plans that will ensure that activities undertaken actually generate reforms that reflect the needs and expectations of current and prospective investors and are also responsive to the dictates of the Doing Business Report.

(iii) **Adoption of new ICT systems to streamline key business processes.**

This sub-component will deliver the electronic systems that will ease the burdens of compliance (including cost) with legal and regulatory requirements for starting and operating a business. These systems are expected also to permit easy access to, and, protect the integrity of records. The three systems expected to be developed are:

- A business registration system;
- A licensing system;
- A system that integrates the above systems into the revenue collection systems of the tax authorities.

Activities to develop these three systems will be as follows:

(a) design of a sustainable framework for a modern business/commercial registry as well as a cost effective system for management of the Registry;

(b) recommendations on an appropriate information technology platform;

(c) procurement and operationalization of the information technology platform to create an online business Registry and licensing system;

(d) organization and digitization of old records;

(e) integration of functions of the systems described above to ensure seamless operations.

On the basis of World Bank experience in similar projects in other countries, it would be desirable for the ICT systems design and procurement to follow, rather than precede, work on process reengineering and legal revisions—in order to ensure that ICT systems facilitate those processes rather than predetermine them.

(b) ***Sub-component 1B: Promotion of investment, trade, tourism, entrepreneurship*** *(Approx. US$2.1 million)*

8. **The objectives of this component are to increase international and domestic investments, and to increase exports.**

9. **Activities under this subcomponent 1B will complement those in subcomponent 1A, by providing active investment and export promotion to leverage Swaziland's business environment reforms.** Four main strands of activities will be undertaken:

(i) Strengthened investment promotion and facilitation.

10. Swaziland will need to strategically market and facilitate new investments, so that reforms and market opportunities are publicized and known amongst potential investors, and so that new investments can be guided and assisted. Public sector assistance to exporters will facilitate entry into new markets and increased exports into existing markets.

11. The Swaziland Investment Promotion Authority (SIPA) is responsible for investment promotion (and, since 2014, also for export promotion). As a parastatal with relative autonomy of action and personnel management, SIPA is one of Swaziland's more effective public sector organizations. However, its ability to deliver on its core mandate can be improved in several key dimensions, as follows. SIPA's organizational structure is relatively clear, though staff lack specialized knowledge on the key sectors that they are expected to promote, and are not trained in techniques for investment outreach. SIPA's mandate has expanded well beyond its core mission of investment promotion, and its staff members have been tasked with a number of activities not included in their job descriptions. SIPA does not have an investment promotion strategy; investment promotion activities are carried out on an *ad hoc* basis. Staff members maintain information on investors in their personal files, rather than using an Agency-wide information sharing tool; and there is only a rudimentary investor tracking (customer relationship management) system in use, namely an Excel file for pipeline investors that is updated on a monthly basis. Potential investors lack access to information on key areas necessary to make investment decisions, including a more comprehensive database of available industrial property, and sector-specific information for investors in key sectors such as agribusiness and tourism.

12. This activity will involve four main areas of work with SIPA:

- *Investment Promotion and Facilitation Strategy (IPFS).*
  The Strategy will help SIPA focus its work on the best 'bets' for attracting investment (such as agribusiness and tourism sectors). Consulting services will be procured to assist SIPA in developing an investment promotion strategy. The strategy will identify targeted sectors and investors, and develop an implementation plan with resource allocation. Initiatives under the strategy will include: the provision of good quality sector-specific information to investors; the creation of marketing propositions that are highly targeted and relate directly to business operations; sector benchmarking studies; and staff training on routine activities such as organizing site visits and follow-up activities. The strategy will be developed in a process where the consultant acts as a mentor and facilitator rather

than an outsourced provider of the strategy, not only as a prerequisite for buy-in but also as a skill development exercise. Given that a good IPFS should be periodically re-evaluated and adjusted to the changing investment climate of Swaziland, its operational industries, and global FDI patterns, SIPA will need to be able to carry out these future adjustments without external assistance. *Given the synergies between these functions and the industry analysis and intelligence gathered by SWADE and STA under the project, these activities should be pursued in collaboration with those two organizations amongst others.*

- *Strengthen investor perception of Swaziland and investment generation.*
  International experience suggests that investment branding is most effective at the sector level (for example: Swaziland's business proposition for tourism will be different to its proposition for agribusiness). Consulting services will be procured to assist SIPA with the standard set of operational responsibilities of an Investment Promotion Agency: staff training in investment promotion core activities (conceptualized as an investment project cycle); internal workflow review; preparation of sector promotional materials (in collaboration with relevant Government agencies such as STA); development of key selling propositions for target sectors/markets using the results of existing investor perception surveys; development of basic operating guidelines for enquiry handling, website maintenance, investor site visits, organization of outreach events; guidance with preparation of one investment outreach event abroad; and creation of a database of target companies.

- *Develop a monitoring and evaluation system to track investor firms and manage relationships.*
  In view of the work that SIPA is now doing with COMESA to establish a new website which includes a tracking system for communications with investors, this activity could be developed beyond a CRM system to include more advanced monitoring and evaluation work. Activities would include: Key Performance Indicators for SIPA; and the mining of useful data for feedback from the investor tracking system. Further development to the CRM system can also be included, especially in order to ensure that the CRM system is well integrated in the daily work of SIPA's management and staff.

- *Refocus the Aftercare function on investment embedding and upgrading.*
  Aftercare is a critical function for investment promotion agencies: repeat investors can account for a major proportion of investments. Aftercare can also provide valuable information on how the investment climate is working for investors. In this project, consulting services will be procured to assist SIPA in developing: a manual and training on aftercare functions; and a regular FDI survey of firms in Swaziland to identify opportunities for proactive facilitation of expanded or upgraded investments. This activity may also include a visits program for strategically important companies and sectors, in order to institutionalize SIPA's work program around embedding and upgrading client investments.

(ii) Strengthened export promotion and facilitation.

13. Basic objectives will include: identifying target markets, and helping trader firms reach required standards to export to those markets. These activities will be complementary to the work of SEDCO, which provides business development services to MSMEs (SIPA will be focusing only on helping MSMEs enter export markets).

14. Consulting services will be procured to assist SIPA in developing an Export Promotion and Facilitation Strategy (XPFS). The strategy will identify exporters' capacity building needs, select sectors and destination markets for export promotion, and formulate an implementation plan with resource allocation. The strategy will do this on the basis of foreign trade analysis plus a diagnostic of existing Swazi exporters. Similarly to the IPFS, the process will be a vehicle for capacity building of SIPA so that it can maintain its own XPFS going forward.

(iii) Improved strategic planning and regulations for tourism growth.

15. The objective of these activities is to improve performance of the tourism sector through improved institutional capacity of main sector stakeholders and support to industry-level regulation and marketing intelligence.

16. Swaziland already has a National Tourism Strategy and Action Plan, 2012-2016, which focuses on extending visitors' average length of stay through the development of new tourism products; increasing international arrivals from 1.2 million to 1.5 million; and increasing marketing budgets to promote existing and new products. Community tourism remains a high priority for the government, as evidenced by its prominent placement within the National Tourism Policy (2010). To achieve the goal of increased arrivals and expenditures, the Project will address the following challenges: capacity and engagement of public and private sector; marketing and sector positioning; product development efforts; conservation and community linked enterprises; and physical market access.

17. This activity will involve three main areas of work:

Tourism marketing and investment strategy.

18. The Swaziland Tourism Authority (STA) functions as the national destination management organization and is the main link with the private sector. The main goal of the organization is to market Swaziland to local and international markets. Marketing activities managed by the Swaziland Tourism Authority (STA) have lacked a clear sense of target markets, and clear plans with associated budgets. Marketing efforts have often been focused on Europe, but the reason for this marketing strategy has not been clearly defined given that ninety percent of visitors to Swaziland are from other African countries where further potential exists. Under this activity TA will be provided to:

- develop and support implementation of comprehensive marketing strategy for the twin goals of increasing arrivals and length of stay from established markets and identifying and targeting new promising market segments that are not yet exploited;

- support targeted destination promotion and marketing activities linked to the new positioning;
- provide targeted capacity building in marketing techniques (to include online marketing strategy and social media).

Funding for ongoing marketing activities and the design and printing of marketing collaterals will not be funded under the project, as STA has a dedicated levy for these activities that should be used for this purpose.

Institutional and quality development.

19. The tourism sector is overseen by the Ministry of Tourism and Environmental Affairs which is mandated to create an enabling environment for tourism and support tourism development through the formulation of policies, legislations and standards and monitoring the implementation of policies. Despite having developed a National Tourism Strategy and Action Plan, 2012-2016, the tourism sector lacks clarity as to the roles and function allocation between private, pubic and public/private boards, the necessary and market oriented coordination for sector development. Support services for tourism—such as planning, marketing, regulatory frameworks–Swaziland are currently not strong enough to provide support to firms operating in the sector.

20. Under this activity TA will be provided:

- to reinforce capacities of Ministry of Tourism and Swaziland Tourism Authority in areas of policy and regulation, including an institutional capacity assessment, support to sector monitoring and development of market intelligence mechanisms;
- to strengthen institutional arrangements for the sector and clearly define roles and responsibilities of the different institutions working in the sector;
- to support STA to roll out of: harmonized accommodation grading systems (most likely to be the South African system, RETOSA); internationally-recognized service standards (most likely to be South African tour guide and rafting accreditation); and quality labels such as the South African Fair Trade Quality Label.

21. Meanwhile, the Hotel and Tourism Association of Swaziland (HOTAS) is a private sector, not for profit organization initiated to promote the tourism industry and to promote education and training opportunities for current and potential tourism industry professionals in order to improve the standards in the industry. This activity aims at strengthening capacity of HOTAS leadership to have a technically robust understanding of the sector that will allow for appropriate representation in sector decision making forums.

22. Under this activity, TA will be provided:

- to support design, institutional set up, and a sustainability mechanism for the association;
- to provide targeted technical background analysis of the sector that will facilitate dialogue with (and among) the private sector actors, including tourism-related service providers, and the tour operators;

- to carry out, in partnership with STA, a skills audit to clearly identify the mismatch of skills needed by the private sector and skills being offered.

Increased leverage of Swaziland's natural and cultural endowments.

23. Conservation is important to the long term potential of tourism in the country, since many of Swaziland's tourism products are nature-based. The Swaziland National Trust Commission (SNTC) is a parastatal organization responsible for the conservation of nature and the cultural heritage of Swaziland and are charged with the operational management of the national museum and monuments and managing the country's nature reserves. SNTC is underperforming in terms of revenue generation and services offered. It is critical that consistent and high-quality experience be offered by parks services.

24. Under this activity TA will be provided:

- to improve revenue generation and management of national parks. This will involve the design and implementation of a commercialization strategy that enables SNTC to generate alternative funding sources to ensure decreased reliance on donor funding and revenue transfer from central government. Alternate revenues may include park fees, recreation fees, guide fees, endowment funds, commercial operations in protected areas, revenue from the sale or merchandize, and voluntary contributions from tourists and tourism operators.

25. These improvements will likely also include the creation of site management plans that include visitor and interpretation centers, signage, and development of trails.

(iv) Renewed entrepreneurship development strategy for SEDCO.

26. SEDCO wishes to revitalize the business training it provides to entrepreneurs, which requires updating and refocusing on viable commercial opportunities. SEDCO trains approximately 1,000 entrepreneurs each year, including the development of business plans, management capacity, and marketing strategies—but is not clear on its ultimate impact, and would like to improve its work. Revitalizing SEDCO's offering could be done with the support of an external advisor to work with SEDCO's management team, plus consultancy services to train its staff. If possible, curricula would be updated in conjunction with other institutions offering training on entrepreneurship, such as the Commerce Department at the University of Swaziland.

(c) Sub-component 1C: Access to finance for MSMEs
(US$4.5 million)

27. **The objective of this component is to increase investment and working capital finance provided to small and medium size firms, especially in agribusiness and tourism.**

28. **Access to finance is the main constraint to doing business, according to the most recent evidence.** More than 20 percent of formal Swazi enterprises identify it as the main constraint for operations (2014-15 Global Competitiveness Report, World Economic Forum).

Financial constraints are binding especially for MSMEs that face limited opportunities to access commercial financing for investment capital and working capital. According to the 2012 UN Swaziland urban MSME survey, the majority of urban MSMEs use own (57 percent) or family (20 percent) savings rather than loans from commercial banks (8 percent) to start-up a business. Recent estimates suggest that overall only 4 percent of MSMEs finance themselves through formal financial service providers, while 70 percent are excluded from either formal or informal channels.

29. **Improving access to finance is critical for the growth and development of the local private sector**. There are three main constraints for access to finance in Swaziland:

i. the risks innate in MSMEs (volatile cash flows, especially for agricultural producers; combined with a small size which means minor shocks can have large repercussions on ability to repay loans). Receiving finance from a formal institution appears less challenging during operations, once business risk assessment is less uncertain (2012 UN Swaziland urban MSME survey);

ii. a lack of credit information about potential clients and limited experience in assessing MSME risk profile on the behalf of the staff of financial institutions, which deters their decision to extend credit, as often indicated during informal conversations;

iii. limited ability to enforce against property, particularly moveable property, because of the missing legal framework for secured transactions;

iv. poor business and financial literacy on the part of entrepreneurs which makes it difficult to develop and carry out viable business plans;

30. **Despite accounting for two-thirds of financial sector assets, the Non-Bank Financial Institutions (NBFI) segment does not play a significant role with respect to MSMEs access to finance.** Retirement funds (including provident funds) and insurance companies dominate the financial system, while savings and credit cooperatives (SACCOs[29]) and microfinance institutions (MFIs[30]) have a more marginalized role. NBFIs have started lending directly to the private sector, though this still represents a relatively marginal share of their assets (1 percent in 2013).

31. **The banking sector[31] is sound and profitable but usage of it by middle and lower income individuals** (such as informal self-employed entrepreneurs) **and small and medium**

[29] SACCOs importance has grown rapidly, in 2013 the 51 active SACCOs held E916 million in assets for their 71,182 account holders. The sector is concentrated with just five SACCOs representing two-thirds of all assets of SACCOs and holding 77% of the accounts of the sector. The inability to hold demand deposits for their members implies that the vast majority of their members also have accounts at banks. Some of the SACCOs including large ones are struggling financially.

[30] MFIs have little outreach, limited assets and face substantial challenges for sustainability.

[31] All banks show strong profitability, with an average Return on Assets (ROA) of 3.1% in 2013, and Return on Equity (ROE) of 22.7% in 2013. Asset quality has been on a generally improving trend, with Non Performing Loans (NPLs) declining from 9.3% in 2010 to 6.8% in 2013. These averages, however, mask a wide disparity in levels of NPLs and provisioning coverage. Gross NPLs vary from 1% to 19.1%, and net NPLs from 0 to 7.6%. While all banks reportedly meet statutory liquidity requirements, liquidity has tightened in recent years, as credit growth has largely outstripped the growth in deposits. The loan-to-deposit ratio stood at a relatively high 87% in June 2014, but

enterprises is limited. Contrary to most other developing countries, the banking sector represents only one-third of financial sector assets. The banking sector caters mainly (70 percent) to corporate lending, focusing on larger companies with an established credit history. Agricultural lending accounts for about 17 percent of banks' portfolio and is focused almost entirely on the sugar industry, which is the most established agricultural industry, constituted mainly by large firms (notably the Swazi Sugar Association), and perceived to be lower risk than other agricultural products.

32. **The authorities have taken steps to improve access to finance, and in the early 1990s, the Central Bank of Swaziland set up two credit guarantee programs to encourage lending to riskier segments of the market.** These programs were:

- *Export Credit Guarantee Scheme (ECGS),* which finances working capital and other production costs of exporters, and provides trade finance support. However, since 2009, the ECGS has not received a single application. The lack of interest in the scheme could partly be due to the relatively low ceiling for loan size covered (SZL 2.5 million, approximately US$210,000). In Lesotho, for example, the pilot by the Lesotho National Development Corporation is showing initial success of the partial credit guarantee scheme whose ceiling is twice as high as the ECGS's.

- *Small Scale Enterprise Loan Guarantee Scheme (SSELGS)*, which promotes access to credit for Swazi nationals operating small-scale enterprises with a turnover below SZL8 million per annum. The guarantee covers 85 percent of the loan (95 percent for start-up businesses), and the borrower provides collateral for the remaining 15 percent or 5 percent. The loan size is capped at SZL500,000 (approximately US$43,000), and the loan interest rate charged varies between prime plus 2 percent and prime plus 5 percent, depending on project risk. SSELGS is oversubscribed with SZL31 million of outstanding loans, some of which have been rescheduled over as long as 10 years. The default rate for the Scheme, as reported by the Central Bank of Swaziland, is 2.03 percent as of June 30, 2014.

33. **The Government has also directly promoted lending to higher risk segments of the market.** The Swaziland Development Finance Corporation (FINCORP), was founded by the Government in 1996 as an MSME financing institution, with a capital injection of E44 million (approximately US$4 million), and at time of project concept has provided financial support to more than 80,000 clients for a total amount above E2.4 billion (approximately US$240 million). Approximately 15 percent of its overall loans are to agribusiness firms. In parallel to this initiative, the Government has set up a number of Funds with a view of expanding access to finance for MSMEs. However fragmented interventions coupled with a weak repayment culture[32] have met rather limited success.

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again this figure masks a wide disparity among banks. Two banks had loan-to-deposit ratios in excess of 100%. This high loan-to-deposit ratio represents a potential bottleneck to future credit expansion, and poses a risk to the system given the absence of an active inter-bank market. All banks are reported to meet prudential requirements.

[32] This may be at least in part linked to the fact that the same institution offering Government-funded loans was distributing Government-funded grants.

34. **Lending to MSMEs is a challenging business proposition for all suppliers.** For example, FINCORP, the main MSME financier, has portfolio at risk (i.e. overdue loan balances/gross portfolio) of 40 percent, and a risk coverage ratio (provision reserve/overdue loan balances) of 17 percent thus indicating substantial risk exposure and resulting in profit margins of only -1 percent (according to the 2013 Annual Report)[33]. Weak MSMEs' business capacity coupled with asymmetric information issues curtails willingness and ability to serve this segment of the economy. The sector is perceived to be high risk, and financial institutions (FIs) need to incur substantial administrative costs for screening potential clients and administering small loan amounts across different sectors. These costs are compounded by the typical inexperience of commercial banks with issues related to MSMEs, further worsening the business proposition.[34] Expanding MSME finance requires incentivizing existing players to move down-market, given the largely underdeveloped MFI sector.[35]

35. **Project activities to increase access to finance for MSMEs will be as follows:**

(i) Update and complement demand-side information on existing MSMEs and their financial needs

This activity will be managed by MFU and will comprise:

- a listing exercise to update the information in the 2010 MSME Census;
- a more in depth survey of the financial needs of the demand side in order to address current knowledge gaps;
- a mapping of government-funded MSME initiatives.[36]

36. A listing exercise is required in order to properly obtain a representative sample of the MSMEs to be surveyed. Existing information about the financial products needed and accessed by MSMEs is fragmented and cursory. The project may leverage ongoing data collection initiatives to exploit synergies and minimize duplication of efforts. For example, the MFU in collaboration with FinMark Trust are in the process of undertaking the FinScope MSME Swaziland 2015 National Survey. This will include a representative survey of 3,000 households from the entire country. The information from the survey may be complemented by additional work.

[33] The Swaziland Development Finance Corporation (FINCORP) is able to remain profitable only thanks to its subsidiary, First Finance, specialized in personal loans to salaried employees.

[34] For instance, most of them are in the retail and wholesale sector, where earnings' seasonality may require customized solutions, further raising operational costs.

[35] A possible way forward would involve collaboration with the Cotton Board Input Revolving Fund to provide additional finance for the improved input packages to be distributed to farmers in the coming season. Meeting with local stakeholder however suggested that this is not the main priority at the moment. Besides, the fact that evidence from Sub-Saharan Africa (and other developing countries) fails to offer positive experience of producer cooperatives providing finance encouraged to concentrate efforts and resources elsewhere.

[36] The MFU has recently conducted a review of the Community Poverty Reduction Fund (CPRF) under the Ministry of Tinkhundla Administration and Development (MoTAD) with the view to improve its effectiveness and performance. The three key recommendations were to either out-source, re-capitalization finance or establish a fully-fledged micro finance provider. The Ministry is currently considering a choice between the first and second option.

37. Sixteen out of 17 Ministries are involved in at least one MSME-related initiative.[37] Fragmented contributions result in investments below E20 million, and small, potentially undercapitalized, credit providers. The mapping exercise is a necessary preliminary step to streamline government support of the MSME market, avoid costly duplication of efforts, and promote market-based solutions where appropriate. Capacity building of the ministries' staff on development finance principles, coordination in loan administration, collection and funding activities have the potential to improve efficiency and free additional resources for MSME funds. At the same time, the mapping exercise will provide critical information for a review of the impact of public-funded community development funds. This knowledge could be used to identify alternative viable, cost-effective and sustainable delivery mechanisms to meet the target needs and to ensure that the funds do not compromise a culture of loan repayment or crowd out private sector lending to borrowers that are not needy, avoiding unnecessary uses of public funds.

(ii) Develop and strengthen credit infrastructure

38. This activity will be coordinated jointly by CBS, FSRA and the Ministry of Finance, and will include:

- support for the development of a Credit Reporting System (CRS);
- a comprehensive review of the legislation and regulations related to creditor rights and credit reporting, especially the proposed Consumer Credit Bill, and the framework for secured transactions;
- related technical assistance to harmonize the existing normative and legislative framework and promote compliance with it;
- investment in credit infrastructure needed to modernize the financial sector.

39. A Consumer Credit Bill has been prepared and contains provisions that will affect the current landscape of local CRS, such as the clauses regarding the establishment of a local credit bureau with mandatory data contributions. This activity will fund research on the implications of such requirements in order to promote a system that balances privacy rights with the needs for information that allows monitoring the entirety of the credit market and its risks. The activity will also support the development of a vision for CRS. This vision will be (i) informed by the lessons learned in other countries in the region and (ii) shared with potential CRS participants.[38]

40. The existing credit infrastructure in Swaziland is relatively fragmented and incomplete. Certain aspects are overregulated by multiple, at times potentially conflicting, norms (e.g. the

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[37] For example, the Government is investing in at least four different SMME credit providers as well as support services via SEDCO, Swaziland Investment Promotion Authority (SIPA), SMME Unit at the Ministry of Enterprise and Employment, Swaziland Tourism Agency (STA), and a local University.

[38] The Swaziland Credit Data Sharing Association (SCDSA) has been formed by the local credit providers, credit service providers (e.g. the credit bureau) and utility companies to foster improved credit sharing mechanisms. Currently only one bank is participating in this initiative, and there is a need to create an incentive for all these institutions to participate.

ombudsman for banking credit/consumer protection provision), while other aspects (e.g. computation of risk assets) lack any regulation or legislation. A holistic approach is needed to develop a clear and streamlined legislative and regulatory framework that will be summarized in a compendium easily accessible by various stakeholders.[39] The activity will promote the availability of financial sector legal frameworks, rules and regulations on government websites. Once this framework is in place, the project will support additional investment in credit infrastructure, such as the establishment of a secured transaction and a credit registry.[40]

41. Cross-country evidence shows that a collateral registry for movable assets typically increases access to bank finance (credit, Line of Credit, overdraft) by almost 8 percentage points, and raises access to loans by 7 percentage points—with smaller firms achieving larger benefits. Similarly, based on recent cross-country analysis, the establishment of public credit registry is associated with lowering constraints in access to and cost of finance.

(iii) Review of the ECGS and SSELGS and assist implementation of revised schemes

The activity will be managed by CBS and will:

- Analyze the Export Credit and Small Scale Enterprise Guarantee Schemes and provide recommendations in order to improve their operability;
- Provide advisory services in order to facilitate the implementation of the proposed improvements to the schemes.

42. These partial credit guarantee schemes are the main instruments available to control loan portfolio risk, save reducing lending to MSMEs. Yet current eligibility criteria prevent Non-Bank Financial Institutions (e.g. Development Finance Institutions and Microfinance Institutions) to access them. Further, bureaucratic administrative procedures largely limit their usage by banks. A streamlined, business-friendly approach complemented by the intervention in activity 1.c.ii (credit infrastructure) has the potential to largely improve loan risk assessment and management, facilitating access to finance for riskier borrowers.

43. The project will support an in-depth assessment of the credit guarantees in order to identify existing bottlenecks to adoption of the schemes and suggest possible solutions. This analysis will incorporate the recommendations from the Financial Sector Development Implementation Plan (FSDIP) for a design balancing greater incentives for private sector participation with moral hazard considerations.[41] Potential suggestions to promote uptake may include allowing Non Bank Financial Institutions, such as FINCORP, to participate in the schemes. Similarly, simplifying the eligibility requirements and administrative

[39] The review will take into account also the Consumer Credit Bill that is about to be presented to Parliament, in order to promote a comprehensive and coherent approach.

[40] A credit registry, typically managed by the regulator, is used for supervisory activity and allows validating the accuracy of information from credit bureau.

[41] Pre-specifying the eligibility criteria and simplifying the disbursement mechanisms while ensuring due-diligence on the private sector side would reduce the administrative burden for lenders and thus could contribute to expand the uptake of these schemes.

procedures has the potential of reducing the administrative burden and generating additional interest in the programs from financial institutions. The project will fund the provision of financial training and business advice to potential beneficiaries of the schemes in order to raise awareness about their existence and promote their solvency at the same time.

(iv) Strengthen supply-side capacity for access to finance

44. The activity will be managed by MFU and will provide advisory services to financial intermediaries on MSME lending, in order to strengthen capacity on the supply side of access to finance. It will also encourage the development of new MSME products that better respond to the financing gaps and needs identified in component 1(c).i. Demand- as well as supply-side information will be leveraged. The facility providing capacity building will work with financial institutions serving MSME and agribusinesses to develop and execute a plan adapting and applying international best practices and credit technologies.

45. The activity will provide capacity building to the industry (financial institutions officials and staff) to promote access to finance for MSMEs, through training to assess MSME business proposals, improve credit risk assessment, streamline application processes, develop suitable financial products for local enterprises, and support loan monitoring and collection. The advisory services will combine traditional training with onsite implementation support to promote adoption and diffusion of best practices.

46. The interventions will focus to a certain extent on lending to agribusinesses and tourism MSMEs. For instance, international experience shows that tailoring the repayment schedule to the production lifecycle improves the viability of agricultural lending.

Component Management

47. The Microfinance Unit (MFU), in collaboration with the Central Bank of Swaziland, will contribute towards the implementation of this work, given its own plans to provide capacity building interventions to financial institutions (e.g. to enable better credit assessments of MSMEs) and its involvement in data collection as part of activity 1.c.i. To the extent possible, other partner(s) with international experience in this field may contribute to the implementation of this activity in addition to MFU. This would allow Swaziland to benefit from the lessons learned in countries facing similar challenges and would catalyze efforts to improve access to finance. A small management budget of US$150,000 would be set aside for this purpose over the five year period of implementation.

COMPONENT 2: Growth in Agribusiness and Tourism Industries
(US$11.9 million)

48. **This component focuses on activities that support a sustained growth amongst private sector firms, focusing particularly on increasing the number of formal and informal jobs in agribusiness and tourism**. Project interventions will be focused on improving the ability of enterprises to link into larger markets. There will also be some interventions to strengthen the skills base in agribusiness and tourism sectors.

49. **The rationale for these interventions is presented in Annex 5** (Opportunities and Constraints in Agribusiness and Tourism in Swaziland).

50. A summary of the project activities is presented in Table 4, and is detailed more thoroughly in subsequent pages.

Table 4: Interventions to create productive start-ups and to scale-up existing firms

	Start-up firms		***Scale-up firms***	
	Constraints	*Interventions*	*Constraints*	*Interventions*
Subcomponent 2A: ***Skills***	Insufficient knowledge amongst potential entrepreneurs to identify new products and/or markets; and to properly formulate and operationalize viable business plans.	**SWADE and STA to deliver:** • Identification of **viable products and markets.** • Guidance to formulate **business plan.** • Training in book-keeping and **basic business skills.**	Insufficient knowledge of products and markets to restructure and scale-up. Technical skills to ensure quality and compliance with certifications.	**Fund Manager to deliver:** • **Business mentoring** **SWADE and STA to deliver:** • Technical assistance to **upgrade products** Training on business skills may be tendered out or provided by SWADE and STA.
Subcomponent 2B: ***Financing***	Large start-up costs to enter value chains (e.g. approx. US$40,000 for agricultural production; US$40,000 for community-based tourism; and US$10,000 for agribusinesses).	**Start-up cost-sharing contributions**: • Seed capital provided for initial investments and working capital.	Commercial institutions unwilling to finance entry to new markets or new products, especially for untested production.	**Scale-up cost-sharing contributions**: • Growth capital provided for investments not bankable with commercial institutions.

<u>Sub-component 2A: Competitive value chains in agribusiness and tourism</u>
<u>(Approx. US$5.2 million)</u>

51. **The objective of this sub-component is to facilitate the emergence of more and larger 'market linking' firms in both agribusiness and tourism.** The role of 'market linkers' is to connect rural households and communities with export markets. Such firms identify competitive opportunities and then choreograph their suppliers and employees (who are often rural households and communities) to work according to those market demands. In some cases these will link directly with export markets; in other cases they will link to larger firms in Swaziland that aggregate products and link to export markets (as in, for example, outgrower schemes in agribusiness).

52. **The type of firms supported may include producers, aggregators, providers of shared services, or others.** In other words, the Project is agnostic towards the extent of vertical integration that is chosen by a single firm. The key requirement for the Project is that it supports improved commercialization of agribusiness and tourism products, by linking producers and households to valuable markets, and facilitating their participation in those value chains.

53. **Project activities will therefore focus on the following elements**:

- ***Technical and market knowledge to identify competitive products.***

  Entrepreneurs will need to gain an understanding of their sector (focusing on agribusiness and tourism), including a buyer survey and gap identification, market research, feasibility study, and potential routes to product innovation. The goal of this process is to identify a product that can compete on quality, uniqueness or being difficult to replicate, and thus be in sustained demand over time (rather than competing on low cost alone which is vulnerable to competitors). In agribusiness, these products may include basic crops, but will likely focus on higher value processed products and niche produce.

- ***Value chain analysis to identify competitive markets.***

  Entrepreneurs will need to identify which stages of the value chain they need to operate, in order to ensure that they enter a product-market segment in which buyers and suppliers cannot bargain away their profits. Often this analysis will conclude that firms need to vertically integrate some stages of their value chain in order to capture more of its value.

- ***Business organization and skills.***

  In order to turn their idea into an operational business, entrepreneurs will need to be schooled in business planning, accounting, finance, branding, marketing, and operations management.

Through these interventions, Swazi firms will build a portfolio of products that are directly targeted to market demand, and are accompanied by business skills to operationalize them.

54. **Mentorship and training will be provided for agribusiness by SWADE[42] and for tourism by STA.[43]** Both organizations are already fully operational, and under this Project will build further their operations in order to play an increased role in building competitive value chains. Staff at SWADE and STA will be recruited and trained to become mentors that guide entrepreneurs to identify a competitive product-market segment and to exploit it. SWADE and STA will host mentorship officers, who can leverage detailed product and market information in order to develop agribusiness and tourism firms. Training will be done 'on-the-job' in the sense that it will be delivered to firms as they are actually starting up or scaling up, rather than in the classroom in the abstract. *In some cases where specialist training and mentoring requirements exceed the skills of SWADE and STA personnel, the project will support the procurement of consultants and experienced mentors according to the specific needs of firms.* These training and mentorship providers could be drawn from BDS providers in Swaziland,[44] or from further afield.

55. **Capacity building for SWADE and STA will therefore focus on building teams of staff that can coach businesses on technical knowledge, market insight, and business skills.** This capacity building will necessitate, first, recruiting staff and, second, the provision of initial training and ongoing mentoring. The training will be provided through a case-based approach to develop key practical skills. A curriculum for this training has been developed by World Bank Group staff for a similar lending Project in Haiti and can be repurposed for Swaziland. The curriculum is based on a proven methodology developed in the European Cluster Excellence Initiative. This training will include the following elements[45]:

- *Industry analysis*, with description of the strategic segments in which the firms compete today or could be competing in the future, their expected margins in the short (1 year) and medium term (5 years);
- *Cluster analysis*, with a description of the existing value chain;
- *Strategy analysis*, with the proposed segments to address and the new value chain needed to compete;
- *Buyer purchase criteria* for the targeted industry segment, with endorsements from at least 3 international buyers;
- *International benchmarking* of the proposed new activities in the Value Chain.
- *Detailed business planning*, under possible scenarios;
- *Financial planning* for investment and operation.

[42] The SOE established in 1999 which is mandated to facilitate planning and implementation of large agricultural projects.
[43] The SOE established in 2003 which is mandated to promote and develop the tourism sector in Swaziland.
[44] An overview of the current Business Development Services (BDS) landscape in Swaziland is provided by MFU & IDCA (2014), 'Baseline Survey of Swaziland's Business Development Support Community: Final Report', commissioned by MFU from the International Development Centre for Africa, Swaziland.
[45] These elements mirror those in the Haiti Business Development and Investment Project (Grant IDA-H8650) following the project restructuring in 2015.

56. **In SWADE's case, this involves scaling-up its existing work.** SWADE's approach combines technical productive knowledge with business training. Its business support team is comprised of extension officers, horticulturalists, livestock officers, and business development support officers. These are deployed in teams that work directly with the farmer companies that it supports, in order to help establish and nurture their businesses. Conventionally the role of training in business skills for MSMEs is performed by SEDCO, but SWADE is proposed as a more appropriate choice in agribusiness because of the sector-specific nature of the business skills that are required (e.g. marketing techniques for banana producers are markedly different from marketing techniques for print shops). Until now, SWADE has been working with 2,600 households under Lower Usuthu Small-holder Irrigation Project (LUSIP), concentrated in a few geographical areas of Swaziland. This project will expand SWADE's work to additional areas of the country, applying the existing proven techniques. A parliamentary Bill has been drafted to expand geographically SWADE's role, and thus the organization is readying itself for this enlarged role. This support will be provided in tandem with existing support from the European Union to SWADE for institutional development.

57. **In STA's case, this involves developing some new functions as well as scaling-up.** STA already has two Community-Based Tourism Officers that are responsible for working with communities to sensitize them to tourism opportunities and to develop community skills to manage tourism facilities. STA will be supported to further develop these skillsets, plus a set of business support functions. These will be combined with STA's knowledge of demand markets, which informs these activities. This market knowledge renders it the best choice to coach individual MSMEs in the tourism sector on market and business skills.

58. **A detailed cost estimate for this Component is shown in Table 5.** These cost estimates are made on the basis of similar commercial support organizations financed by World Bank projects in places such as Haiti, and on the basis of the structure of cluster management organizations elsewhere.

59. **Overall it is anticipated that approximately 200 firms would benefit from interventions under Component 2a over the five-year period of project implementation.** It is assumed that approximately three quarters of these would be in agribusiness value chains, and a quarter would be in tourism value chains (based on the existing proportions of firms in the economy, in which agribusiness accounts for a far larger share than tourism businesses).

60. **Firms benefiting from the Project interventions are anticipated to be as follows:**

- ***In agribusiness:*** This technical and business skills support will be delivered to farmer companies and leading MSMEs. Smallholders will then be nurtured by firms, to produce according to required specifications. *The key benefit of this approach is that the firms have first-hand knowledge of the products required—and indeed have a vested interest in* *seeing the smallholders succeed to produce according to those specifications.*[46] This approach contrasts with the prevailing approach in Swaziland whereby extension service officers are civil servants of the Ministry of Agriculture or of NAMBoard, and hence are not linked directly with buyers.

- ***In tourism:*** Technical and business skills will be delivered to community enterprises and leading MSMEs. The absence of these skills is found to be one of the main constraints on such firms. For example, the Community Tourism initiatives (Sibebe rock trails, Nsangwini rock art centre, Shewula mountain camp, Khelekhele horse trails, etc) funded by the European Union and Government of Swaziland only a few years ago have not been fully sustained largely owing to a lack of: long-term business planning; management skills; human resource development and customer service; and links to mainstream tourism markets. Adventure tourism initiatives can benefit from Operator Training and Certification on subjects such as Safety, Sustainability, Product Development, Customer Expectations and Management, Marketing and Promotion, and Basic Administration Techniques.

61. **As per the ESMF (and embodied in the Loan Agreement of this Project), the CFF will exclude a number of activities from receiving funding.** CFF recipients will not be permitted to invest the funds in projects involving: (1) any Involuntary Resettlement of persons and/or business; (2) any land acquisition, provided that: (aa) communally held land may be voluntarily pooled for the carrying out of collaborative Subprojects in conformity with the requirements of the ESMF and the Borrower shall ensure that such voluntary pooling is confirmed to be voluntary in accordance with a protocol acceptable to the Bank and the Borrower, and (bb) in the event that any privately held land is required for a proposed Subproject, the Borrower, in consultation with the Bank, shall ensure that such land shall be obtained on a willing-buyer-willing-seller basis, in conformity with the requirements of the ESMF; (3) the construction of dams, or any activity that will rely on the performance of an existing dam or a dam under construction; or (4) any activity that will impact an international waterway. These provisions are included in the Environmental and Social Screening Form (ESSF) provided in the ESMF.

62. **Mitigation measures for small dams can be addressed under OP/BP 4.01, but the ESMF does not currently include these measures so will need to be adjusted during the lifetime of the project should small dams be proposed as part of a CFF sub-project.** A pest management plan has been included in the ESMF, together with plans to manage impacts on physical cultural resources. Projects involving significant adverse impacts on natural habitats will not be funded.

63. **Broader interventions to build Swaziland skills base could be undertaken in subsequent projects.** The lack of the steady supply of skilled personnel could potentially stymie the growth of existing firms and the establishment of new firms. Longer term

[46] This approach follows the model already demonstrated to be successful by firms such as Sdemane Farms, Black Mamba, Eswatini Kitchen, Swazi Secrets, and others. Each of these firms has delivered extension services to smallholders; their experience dealing with buyers means they are in the best position to communicate to producers exactly what products are required of them.

interventions in Swaziland's skills supply would be part of a medium to long term agenda for the Government of Swaziland; in the shorter term, the Project will maintain a roster detailing the skills profile of the entrepreneurs who are beneficiaries of the Project. In addition, the Project will finance an ongoing skills needs assessment for firms in these strategic sectors. Data from both these exercises would be used to provide feedback to the TVET and higher education institutions as well as HOTAS that would benefit from this data to tailor new courses and respond to market demand.

Table 5: Estimated costs for Component 2A

OPERATIONAL COSTS		2016			2017			2018			2019			2020		5 YEAR COST
STAFFING	Number	Unit cost (USD)	Total (USD)	Number	Unit cost (USD)	Total (USD)	Number	Unit cost (USD)	Total (USD)	Number	Unit cost (USD)	Total (USD)	Number	Unit cost (USD)	Total (USD)	TOTAL (USD)
Administrative Assistant	2	$ 20,800	$ 41,600	2	$ 22,880	$ 45,760	2	$ 25,168	$ 50,336	2	$ 27,685	$ 55,370	2	$ 30,453	$ 60,907	$ 253,972
Market Development Specialist (Agribusiness)	2	$ 39,000	$ 78,000	2	$ 42,900	$ 85,800	2	$ 47,190	$ 94,380	2	$ 51,909	$ 103,818	2	$ 57,100	$ 114,200	$ 476,198
Market Development Specialist (Tourism)	1	$ 39,000	$ 39,000	1	$ 42,900	$ 42,900	1	$ 47,190	$ 47,190	1	$ 51,909	$ 51,909	1	$ 57,100	$ 57,100	$ 238,099
Business Skills Officer (MBA or similar) -- Agribusiness	2	$ 39,000	$ 78,000	2	$ 42,900	$ 85,800	2	$ 47,190	$ 94,380	2	$ 51,909	$ 103,818	2	$ 57,100	$ 114,200	$ 476,198
Business Skills Officer (MBA or similar) -- Tourism	1	$ 39,000	$ 39,000	1	$ 42,900	$ 42,900	1	$ 47,190	$ 47,190	1	$ 51,909	$ 51,909	1	$ 57,100	$ 57,100	$ 238,099
Industry Analyst (part-time) -- Agribusiness	1	$ 32,500	$ 32,500	1	$ 35,750	$ 35,750	1	$ 39,325	$ 39,325	1	$ 43,258	$ 43,258	1	$ 47,583	$ 47,583	$ 198,416
Industry Analyst (part-time) -- Tourism	1	$ 32,500	$ 32,500	1	$ 35,750	$ 35,750	1	$ 39,325	$ 39,325	1	$ 43,258	$ 43,258	1	$ 47,583	$ 47,583	$ 198,416
Staff overheads (insurance, SS, taxes..) @ 25%			$ 77,025			$ 84,728			$ 93,200			$ 102,520			$ 112,772	$ 470,245
TOTAL			**$ 417,625**			**$ 459,388**			**$ 505,326**			**$ 555,859**			**$ 611,445**	**$ 2,549,642**
ADMINISTRATION																
Office Rent	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	$ 40,000
Utilities	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	2	$ 4,000	$ 8,000	$ 40,000
Vehicle	2	$ 55,000	$ 110,000			$ -										$ 110,000
Office equipment (laptops, software, phones...)	11	$ 2,500	$ 27,500													$ 27,500
Projectors, screens, generators	2	$ 5,000	$ 10,000													$ 10,000
Drivers	2	$ 9,750	$ 19,500	2	$ 9,750	$ 19,500	2	$ 9,750	$ 19,500	2	$ 9,750	$ 19,500	2	$ 9,750	$ 19,500	$ 97,500
Maintenance and gas (car)	2	$ 5,000	$ 10,000	2	$ 5,000	$ 10,000	2	$ 5,000	$ 10,000	2	$ 5,000	$ 10,000	2	$ 5,000	$ 10,000	$ 50,000
TOTAL			**$ 193,000**			**$ 45,500**			**$ 45,500**			**$ 45,500**			**$ 45,500**	**$ 375,000**
ACTIVITIES																
Meeting room rental and refreshments	12	$ 500	$ 6,000	12	$ 550	$ 6,600	12	$ 600	$ 7,200	12	$ 650	$ 7,800	12	$ 700	$ 8,400	$ 36,000
Visits to international buyers (5 pax)	4	$ 18,750	$ 75,000	4	$ 20,625	$ 82,500	4	$ 22,688	$ 90,750	5	$ 24,956	$ 124,781	5	$ 27,452	$ 137,259	$ 510,291
Total travel cost per 1 person		*$ 3,750*														
Airfare costs per person+taxi		*$ 2,000*														
Hotels and Per diem 7 days		*$ 1,750*														
Mentoring support budget (travel, stipends, workshops)	5	$ 10,000	$ 50,000	5	$ 11,000	$ 55,000	5	$ 12,100	$ 60,500	5	$ 13,310	$ 66,550	5	$ 14,641	$ 73,205	$ 305,255
TOTAL			**$ 131,000**			**$ 144,100**			**$ 158,450**			**$ 199,131**			**$ 218,864**	**$ 851,546**
TOTAL OPERATIONAL COSTS			**$ 741,625**			**$ 648,988**			**$ 709,276**			**$ 800,490**			**$ 875,809**	**$ 3,776,188**
INTERNAL CAPACITY ACTIVITIES																
Training workshops for project staff (Faculty, Events, T	2	$ 80,000	$ 160,000	2	$ 88,000	$ 176,000	1	$ 96,800	$ 96,800	1	$ 106,480	$ 106,480	1	$ 117,128	$ 117,128	$ 656,408
Senior industry support mentor (150 days)	1	$ 90,000	$ 90,000	2	$ 99,000	$ 198,000	2	$ 108,900	$ 217,800	1	$ 119,790	$ 119,790	1	$ 131,769	$ 131,769	$ 757,359
TOTAL INTERNAL CAPACITY ACTIVITIES			**$ 250,000**			**$ 374,000**			**$ 314,600**			**$ 226,270**			**$ 248,897**	**$ 1,413,767**
TOTAL PROGRAM EXPENSES			**$991,625**			**#########**			**#########**			**#########**			**#########**	**$ 5,189,955**

Sub-component 2B: Catalytic Financing Facility for start-ups and scale-ups
(Approx. US$6.7 million)

64. **Constraints.** This subcomponent addresses systematic financing constraints for firms at two stages in their evolution: start-up and scale-up.

i. ***Start-up.* Entrepreneurs face a big hurdle in turning their ideas into businesses, because of a lack of start-up funding.** Few nascent businesses in Swaziland have a sufficient network of contacts to assemble a coalition of 'Friends, Family, and Fools' (FFF), which is usually a critical financing stage after the entrepreneur(s) maximize use of their own savings. Commercial financing institutions are usually unwilling to make loans without existing collateral (whether moveable or fixed), and a business without any credit history or existing operations with reliable cash-flows is a risky proposition. Amongst private investors in southern Africa (including angel investors, venture capital and private equity firms), seed capital is virtually non-existent.[47]

ii. ***Scale-up.* Swaziland has a relatively well developed financial sector, but even commercially viable firms are not able to obtain sufficient access to finance.** MSMEs in emerging economies can improve their competitiveness through the adoption of new technology and the acquisition of know-how. However, financial institutions which are by nature risk averse, are reluctant to fund such activities as they do not entail the purchase of fixed assets which can serve as collateral. Furthermore, in Swaziland, the situation is compounded due to the lack of credit information, challenges in enforcement against debtors, problem portfolios amongst banks and MFIs that have targeted MSMEs, and lack of capacity amongst financial institutions for conducting credit assessments. Furthermore, equity investors who typically fill the financing gap in southern Africa are typically unwilling to invest in deals smaller than approximately US$1 million per firm,[48] which is larger than almost all agribusiness and tourism firms in Swaziland except the existing Group D (Large firms and distributors) firms. While Component 1C of this project will help address some of the systematic constraints to access to finance (the 'supply of finance'), Component 2B will support firms' efforts to upgrade their managerial and technical capabilities, improve their products and processes, and access new markets (i.e. 'the demand for finance').

65. **Design of Catalytic Financing Facility.** The CFF will consist of two windows of cost-sharing contributions: one for start-up firms, and another to support the expansion of existing firms.

[47] Pp. 40-41, KPMG & SAVCA (2014), *Venture Capital and Private Equity Industry Performance Survey of South Africa covering the 2013 calendar year*, http://www.savca.co.za/wp-content/uploads/2014/06/KPMG-SAVCA-Private-equity-survey-2014.pdf.
[48] KPMG & SAVCA, Ibid. This is based on a survey of 48 private investors operating in southern Africa, such as Actis, Investec, and Abraaj.

Table 6: Key features of start-up and scale-up cost-sharing contributions

	Start-up financing	***Scale-up cost-sharing contributions***
Objective	Seed capital -- for initial investments and working capital	Growth capital --for investments not bankable with commercial institutions
Eligible entities	• Firms, cooperatives or other private entities in existence for less than 1 year.	• Firms, cooperatives or other private entities in existence for 1 year or more.
Value of contribution	Up to US$40,000 once-off, with a cofinancing requirement of 30 percent from own or external sources.	Up to US$250,000 annually, with a cofinancing requirement of 30 percent from own or external sources.
Eligible uses	• Any procurement category (Consulting services; Goods procurement; Non-consulting services), for capital costs or operational costs. • For production, processing and/or other operations *in Swaziland*. • Activities will be linked to start-up of firm and entry into production and sales.	• Any procurement category (Consulting services; Goods procurement; Non-consulting services), for capital costs or operational costs. • For production, processing, and/or other operations *in Swaziland*. • Activities must be linked to expansion of firm and entry into new products and markets (e.g. test marketing, investments in new machinery, rental of premises, specialized consultancy services).
Quality assurance	Funding awards are based on assessment of commercial viability, plus technical assistance to firms to improve financing proposals.	Link to mentoring and technical & business skills support under Component 2A, in order to ensure firms use the financial contributions according to best-possible product, market and business skills knowledge.

i. ***Start-up.*** The window for start-up firms will provide **funding on a competitive basis (up to the amount of US$40,000 per firm) with a co-financing requirement of 30 percent**. These contributions to private sector development will support the preparation and development of innovative business concepts, marketing and sales strategies, and other supportive studies and plans. Potential entrepreneurs with a new business idea will apply for the financing, and decisions will be made by a committee of evaluators, subject to pre-agreed eligibility criteria and to the conclusions of value chain analysis undertaken by SWADE and STA. The selection of these evaluators will be subject to review and no objection from the World Bank. Selected entrepreneurs will receive the funds and undergo intensive training and mentoring (either in person or virtual) by selected mentors to improve the potential for success of their business idea. The mentors must be experienced professionals who have succeeded in business. These trainings would be accompanied by loan management plan trainings or financial management trainings under Component 2A.

   The level of the ceiling amount and cofinancing requirement are both chosen on the basis of prior start-up programs in agribusiness and tourism industries in Swaziland. The ceiling of US$40,000 per recipient is chosen because this has proven to be a typical amount for starting up agricultural production in cash crops and products in Swaziland, on the basis of SWADE's experience in nurturing polytunnel projects for horticultural production and similar crops, plus STA's experience of community-based tourism projects funded by the EU and others. For instance: a polytunnel commercial farming operation costs approximately US$10,000 per tunnel including training, seeds and necessary equipment; and has required at least three tunnels to break even. In tourism, community-based tourism projects have tended to require US$30,000 or more upfront, plus ongoing financial support for several years given the longer lead time to develop a sustained customer base. The cofinancing requirement of 30 percent matches the successful LUSIP model administered by SWADE, in which 30 percent of the project is either financed through own contributions or—more commonly—financed by commercial financial institutions as loans subject to interest payments. If additional financing is required, this can be applied for during the second year of the project as a 'scale-up' contribution.

ii. ***Scale-up.*** This subcomponent will provide **cost-sharing contributions to firms on a competitive basis (up to the amount of US$250,000 per year) with a co-financing requirement of 30 percent. These disbursements will support the expansion of firms' operations through entering new markets, introducing new products and processes, or improving linkages to global value chains.** For most purposes, US$100,000 should be considered an upper limit; but a US$250,000 ceiling is provided for exceptional cases such as shared services and infrastructure (warehousing, packhouses, cold chain, etc). For an individual firm to receive assistance, the key requirement is that the applicant firm has an expansion plan showing that management understands the firm's current situation and has considered multiple options. Beneficiaries will be legally registered firms established and operating in Swaziland. Some of these recipients may be firms that had previously received start-up funding, given that (especially in the tourism sector) it often takes several years before a new enterprise can break even. For example: Shewula Mountain Camp was supported for at least five years before it became a commercially-sustainable enterprise.

66. **Overall it is anticipated that approximately 100 firms would benefit from CFF cost-sharing contributions during the five-year period of project implementation.** This estimate is made on the basis of the number of firms reached during implementation of major prior schemes in Swaziland, particularly the MIF. It is estimated that approximately 75 of these firms would be start-up enterprises, and approximately 30 enterprises would receive expansion capital. These are the assumptions that inform the Economic and Financial Analysis used for project appraisal. Further, most if not all of these firms would be Swazi businesses, assuming that international investors would be larger than the MSME size of target firm under the CFF.

67. **Both of these windows will be focused on firms in agribusiness and tourism value chains, in order to ensure that firms receive the necessary degree of specialized mentorship to maximize value creation from the CFF.** This need for active management was recommended to the Project team by the administrators of both prior attempts at innovative funding mechanisms in Swaziland: the Marketing Investment Fund (MIF) of approximately US$1 million from the European Union which disbursed grants to 49 firms between 2012 and 2014, and which did not include aftercare; and a business plan competition

with grants funded by USAID in 2012, which did include aftercare and reported that recipients felt the technical aftercare was a critically valuable dimension to their success.

68. **CFF disbursements will be permitted to be utilized for a full range of activities that support firm expansion.** Activities undertaken by recipients of CFF disbursements could include, for example: test marketing; investments in processing machinery; rental of processing premises; procurement of fencing and irrigation equipment for smallholder producers in the firm's supply chain (such infrastructures are currently provided to farmers mainly through aid-projects); input financing for smallholder producers in the firm's supply chain; and specialized technical consultancy services to improve operational efficiency, including from Business Development Services (BDS) providers and industry advisors on particular technical areas of the firm's business. In addition, firms will be able to identify technical and managerial training programs that would be valuable to their growth plans. These training programs can be within and outside of Swaziland.

69. **The staff of the Catalytic Financing Facility should include a manager responsible for assessing applications for agribusiness and tourism respectively and enforcing spending that is consistent with approved applications.** SWADE and STA will provide the technical specialists who will act as 'meta-entrepreneurs' responsible for nurturing recipients of the Facility disbursements, and will assist the CFF Manager with assessment and enforcement. In combining the roles of assessment, enforcement and mentoring, the technical specialists will become very intimately acquainted with the firm. Such staff should have a background as serial entrepreneurs—as per, for example, the EBRD's Small Business Support program,[49] in which experienced consultants provide regular advice to firms alongside equity investments.

70. **Likely recipients of CFF disbursements in the agribusiness and tourism are anticipated to be as follows:**

- In **Agribusiness**, new firms may emerge from the 'farmer companies' created by SWADE under LUSIP, or other producer cooperatives in Swaziland, which are a step-up from individual smallholders, and thus are closer to providing a foundation for any budding entrepreneur to harness in commercial production for an identified market. Swaziland tends to have a comparative advantage in products that are labor-intensive (because of its relatively lower labor costs and better work ethic), implying some potential in value chains like baby vegetables, strawberries, avocados, and others.
- In **Tourism**, recipients are likely to be new or existing firms that create community enterprises such as homestays and small cafés, or more elaborate business plans which leverage traditional festivals, cultural heritage, and natural endowments such as walking trails and horse trails. Financing will support development of new products, links to markets, and some physical infrastructures. Establishments will be able to identify training programs for managerial and non-managerial staff both within and outside Swaziland.

[49] http://www.ebrd.com/cs/Satellite?c=Content&cid=1395237311524&d=Default&pagename=EBRD%2FContent%2FContentLayout

71. **The CFF will not be exclusive to beneficiaries of the skills interventions in Component 2A.** The facility will also be open to applications from associations and other bodies who wish to apply for funds conforming to the overall objective of the facility to promote market linkages and build value chains.

72. Activities supported by the Project will include:

i. consultancy services to manage the CFF (the 'Facility Manager');
ii. the initial injection of financing into the CFF.

Application process

73. **The application process for both programs will be relatively simple, with procedures that are easy to understand, and guideline application materials that can be completed quickly.**

74. **The applications will be prepared jointly by the would-be recipients and the CFF staff.** The CFF Manager will recommend an application only if it meets all the required criteria. Both types of funding will follow a *two-step application process*. In doing so, the CFF will provide preliminary support for the refining of applications identified through initial expressions of interest, which are screened by CFF staff against set criteria. Eligible firms will then be invited to submit refined applications for further review and possible funding. The CFF staff will provide technical assistance in the preparation of proposals through local companies or individuals with a strong track record in business development services. The CFF will establish a roster of pre-screened consultants who have the proven capacity and track record of delivering satisfactory services. The full proposals will be submitted for approval of the CFF Selection Committee for possible funding.

75. **It is critical to develop an independent and transparent approval process for contributions, starting with the appointment of a highly qualified Selection Committee with majority private sector representation.** The committee is responsible for making the final selection of beneficiaries. The selection process must be transparent with the same information being made available to all potential beneficiaries and the final list of beneficiaries being published.

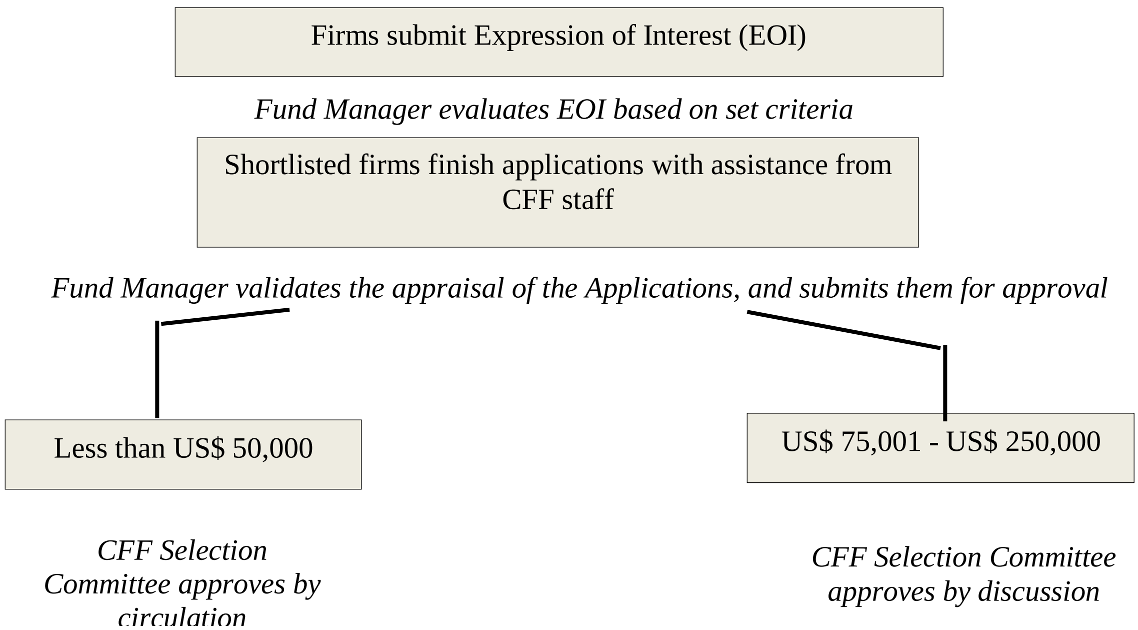
76. The application and approval process for the scale-up funding will have the steps shown in Figure 1.[50]

77. The choice of selection committee members may differ between the committee for start-up funding and the committee for scale-up funding—in order to reflect the skills that committee members require. In particular, the start-up committee should include more professionals with entrepreneurial experience who have successfully built companies from scratch; while the scale-up committee may put more emphasis on professionals who have managed successful MSMEs on a longer term basis. The committee should also include representatives of SWADE and STA in order to bring current market knowledge to the

[50] The approval thresholds are indicative. The official thresholds will be stated in the operations manual.

selection of proposals; and conversely in order to take knowledge of the recipient firms to inform the skills interventions administered by SWADE and STA.

Figure 1: Application and approval process for scale-up funding in the CFF



78. **Administration. The CFF will be an independent non-governmental unit, staffed by individuals recruited from the private sector.** World Bank experience with similar programs highlights the importance of operational independence. It will be vital for this Unit to withstand any attempt that might be made to exert political influence over approval decisions. It is expected that the manager of the Unit will have international experience and will bring to the task direct experience of operating similar schemes. The other professionals required by the Unit will bring direct experience in providing consulting and/or mentoring services to private firms. The Fund Manager will be responsible for promoting the CFF, establishing close relationships with beneficiary enterprises, supporting the development of their export development plans, evaluating projects to be financed by the CFF, presenting these projects to the Selection Committee for approval, and monitoring the performance of approved projects. Management and technical staff must be selected by a transparent and competitive process and staff must be trained on the functioning of cost-sharing contributions and on procedures and guidelines for World Bank-financed projects. In order to encourage good performance, the CFF contract could include performance-related pay, whereby the CFF Manager receives remuneration that is partially proportional to the sales revenue increases of the recipient firms.

79. **On receiving approval for financial support, each recipient would be required to sign a letter of agreement binding the recipient to present defined deliverables for evaluation to the management team.** All outputs from supported activities would remain the exclusive property of the beneficiary enterprise, with commercial confidentiality fully preserved. Procurement will be done by the recipient firm following World Bank procurement practices. However, the CFF Manager will seek to satisfy himself/herself as to the supplier's competence for the task intended, and that there is a genuine arms-length commercial relationship between the supplier and user.

80. **Extensive monitoring and evaluation is key.** Experience shows that these programs come with the risk of capture and government failure in the design process. A Monitoring & Evaluation officer will be hired at the CFF to provide periodic updates on the status of the program. The World Bank will closely monitor the continuing performance and independence of the CFF throughout the project. The monitoring and evaluation framework envisioned under the project is designed to minimize the risk of capture by systematically evaluating the impact and effectiveness of public funded instruments to support firm growth.

COMPONENT 3: Project Implementation
(US$2.0 million)

81. **This component will support the costs of the Project Management Unit at ACMS including: external consultants; office costs; staff training; and monitoring and evaluation**. Implementation arrangements are detailed below in Annex 3, and will require the following main expenditures:

(i) *Contractual staff*. ACMS will establish a full-time team to manage implementation of this Project, consisting of two Programme Officers (civil servants) who will be complemented by one contracted Accountant, one Procurement Specialist, and one Technical Assistance support. The external contracts will be financed by the project.

(ii) *Equipment and capacity building.* Office equipment, cars, and training courses and study tours may be procured in order to support the work of the PMU team. Training courses and study tours may be undertaken by the Head of ACMS and the two Programme Officers.

(iii) *Technical support on Safeguards and Monitoring & Evaluation.* Subject to initial performance of the Programme Officers on Monitoring and Evaluation responsibilities, extra services may need to be procured in order to satisfy World Bank requirements on safeguards and monitoring and evaluation. ACMS does already have a M&E Specialist, and it is anticipated that M&E responsibilities for the project could be covered by them—though this can be reviewed and revised subsequently. For Safeguards monitoring and compliance, extra personnel may need to be procured. Hence this has been budgeted in Component 3.

82. Estimated costs are shown in Table 7.

Table 7: Estimated costs for Component 3

			2016			2017			2018			2019			2020	5 YEAR COST
STAFFING	Units	Unit cost	Total (USD)	Units	Unit cost	Total (USD)	Units	Unit cost	Total (USD)	Units	Unit cost	Total (USD)	Units	Unit cost	Total (USD)	TOTAL (USD)
Accountant / FM Specialist	1	$ 54,000	$ 54,000	1	$ 59,400	$ 59,400	1	$ 65,340	$ 65,340	1	$ 71,874	$ 71,874	1	$ 79,061	$ 79,061	$ 329,675
Procurement Specialist	1	$ 54,000	$ 54,000	1	$ 59,400	$ 59,400	1	$ 65,340	$ 65,340	1	$ 71,874	$ 71,874	1	$ 79,061	$ 79,061	$ 329,675
Senior Technical Assistance Officer	1	$ 108,000	$ 108,000	1	$ 118,800	$ 118,800	1	$ 130,680	$ 130,680	1	$ 143,748	$ 143,748	1	$ 158,123	$ 158,123	$ 659,351
Safeguards Specialist (part-time)	1	$ 35,000	$ 35,000	1	$ 38,500	$ 38,500	1	$ 42,350	$ 42,350	1	$ 46,585	$ 46,585	1	$ 51,244	$ 51,244	$ 213,679
Staffing Total			**$ 251,000**			**$ 276,100**			**$ 303,710**			**$ 334,081**			**$ 367,489**	**$ 1,532,380**
OPERATIONAL COSTS																
Office Rent & Utilities	1	$ 6,000	$ 6,000	1	$ 6,000	$ 6,000	1	$ 6,000	$ 6,000	1	$ 6,000	$ 6,000	1	$ 6,000	$ 6,000	$ 30,000
Vehicle	3	$ 30,000	$ 90,000			$ -										$ 90,000
Equipment (laptops, software, phones, etc)	5	$ 2,500	$ 12,500													$ 12,500
Maintenance and gas (car)	3	$ 5,000	$ 15,000	3	$ 5,000	$ 15,000	3	$ 5,000	$ 15,000	3	$ 5,000	$ 15,000	3	$ 5,000	$ 15,000	$ 75,000
Survey and data collection budget	1	$ 20,000	$ 20,000	1	$ 20,000	$ 20,000	1	$ 20,000	$ 20,000	1	$ 20,000	$ 20,000	1	$ 20,000	$ 20,000	$ 100,000
Operational Costs Total			**$ 143,500**			**$ 41,000**			**$ 41,000**			**$ 41,000**			**$ 41,000**	**$ 307,500**
ACTIVITIES																
Training and/or visits for program officers	3	$ 6,000	$ 18,000	3	$ 6,000	$ 18,000	3	$ 6,000	$ 18,000	3	$ 6,000	$ 18,000	3	$ 6,000	$ 18,000	$ 90,000
Activities Total			**$ 18,000**			**$ 18,000**			**$ 18,000**			**$ 18,000**			**$ 18,000**	**$ 90,000**
TOTAL			**$ 412,500**			**$ 335,100**			**$ 362,710**			**$ 393,081**			**$ 426,489**	**$ 1,929,880**

Annex 3: Implementation Arrangements

SWAZILAND: Private Sector Competitiveness (P151433)

Project Institutional and Implementation Arrangements

1. A description of the institutional and implementation arrangements for the project is contained in the main body of this document, in section IV.A. A description of the monitoring and evaluation arrangements for the project is contained in section IV.B and Annex 1.

2. Supplementary information on Financial Management, Disbursements, Procurement, and Safeguards follows here.

Financial Management, Disbursements and Procurement

Financial Management

3. A financial management assessment was undertaken in order to evaluate the adequacy of the project arrangements in accordance with OP/BP 10.00 *Investment Project Financing* and the Financial Management Practices Manual as issued by the Financial Management Sector Board. The assessment covered the proposed implementing agency, the Aid Coordination and Management Section (ACMS) in the Ministry of Economic Planning and Development. The ACMS currently manages several projects funded by other development partners.

4. Based on the assessment of the project team, it was established that the ACMS has the financial management staff that possess the relevant qualifications and the appropriate experience with regard to the Bank Financial Management (FM) procedures and requirements. It was established that the ACMS has the financial management staff that possess the relevant qualifications and the appropriate experience with regard to the financial management procedures and requirements of various development partners. In light of the considerable volume of work related to other donor-funded projects, it will be necessary to recruit a Project Accountant who will specifically be responsible for the financial management of the World Bank-funded project.

5. The overall financial management residual risk rating is assessed as *Moderate*.

Financial Management Arrangements for the Project

(a) ***Budgeting and planning:*** The ACMS will prepare the annual budget, on the basis of the annual work plans agreed with all implementing partners. The project will also be responsible for producing variance analysis reports comparing planned to actual expenditures on monthly and quarterly bases. The periodic variance analysis will enable the timely identification of deviations from the budget. These quarterly variance analysis reports will be part of the interim unaudited financial reports (IFRs) that will be submitted to the Bank on a quarterly basis.

(b) ***Accounting software:*** The ACMS will use its existing Pastel accounting software for transaction processing and preparation of the quarterly interim financial reports and the annual financial statements.

(c) ***Internal controls/FM procedures manual:*** The ACMS will prepare an FM procedures manual (as part of the Project Implementation Manual) in order to meet the requirements of this project. It will periodically review the manual over the project life to ensure its continued adequacy and compliance with the requirements set out therein.

(d) ***Internal audit:*** The internal audit function will be the responsibility of the Government of Swaziland's internal audit department which will prepare quarterly reports for submission to the Project Steering Committee. The internal audit department will perform an objective assurance function and will not be involved in carrying out operational tasks to ensure their independence in executing their work.

(e) ***Financial reporting:*** The ACMS will prepare quarterly un-audited IFRs for the project in form and content satisfactory to the Bank, which will be submitted to the Bank within 45 days after the end of the quarter to which they relate. The format of the IFRs was discussed and reflected in the minutes of the negotiations and the annual financial statements will be prepared using internationally accepted accounting standards. At the end of each fiscal year, the project will prepare annual financial statements which will be subjected to an external audit.

(f) ***Staffing:*** The ACMS will be responsible for the financial management of the project. It has financial management staff that possess the relevant qualifications and the appropriate experience with regard to the financial management procedures and requirements of various development partners. In light of the considerable volume of work related to other donor-funded projects, it will be necessary to recruit a Project Accountant who will specifically be responsible for the financial management of the World Bank-funded project.

Disbursements

6. ***Flows of Funds - Designated Account.*** The ACMS will open a Designated Account (DA) denominated in US Dollars to enable payment of eligible project expenditures. It would also open a Project Account denominated in local currency to facilitate payment of eligible expenditure incurred in Emalangeni. Interest income received on the DA will be deposited into the project account. Additional advances to the DA will be made on a monthly basis against withdrawal applications supported by Statements of Expenditure (SOE) or other documents as specified in the Disbursement Letter (DL).

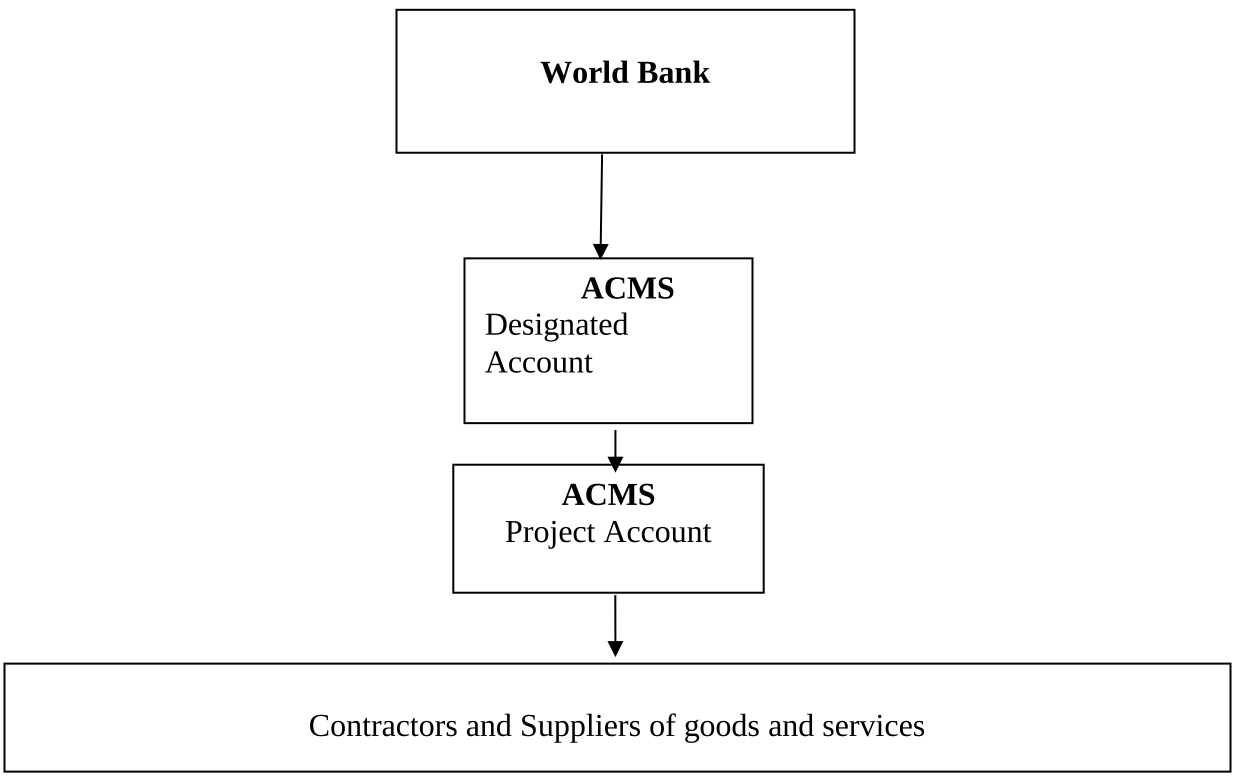
7. ***Disbursement arrangements.*** Upon the effectiveness of the financing, transaction-based disbursements will be used. An initial advance up to the ceiling of the DA and representing four months forecasted project expenditures payable through the DA will be made into the

designated accounts and subsequent disbursements will be made on a monthly basis against submission of the SOE or other documents as specified in the DL.

8. In addition to the "advance" method, the option of disbursing the funds through direct payments to a third party, for contracts above a pre-determined threshold for eligible expenditures, will also be available. The project can also withdraw proceeds from the IDA credit using the special commitment method whereby IBRD may pay amounts to a third party for eligible expenditures to be paid by the Recipient under an irrevocable Letter of Credit (LC).

9. ***Disbursement of Funds to Service Providers, Contractors and Suppliers.*** The ACMS will make payments to service providers', contractors and suppliers of goods and services for specified eligible activities under the Credit. Such payments will be made on the basis of the terms and conditions of each contract.

Funds Flow Diagram



10. **External Audit:** The project accounts will be audited annually and the audit report will be submitted to the World Bank no later than six months after the end of each Fiscal Year in Swaziland (six months after March 31). The Terms of Reference of the Project external auditor will be finalized following effectiveness to enable the commencement of the procurement of external audit services. The Project will comply with the Bank disclosure policy on audit reports (e.g., make publicly available, promptly after receipt of all final financial audit reports (including qualified audit reports) and place the information provided on the official website within one month of the report being accepted as final by the Bank.

11. ***Supervision plan***: Based on the current overall residual FM risk of this operation, the project will be supervised at least twice a year, in addition to routine desk-based reviews, to ensure that Project's FM arrangements operate as intended and that funds are used efficiently for the intended purposes.

12. ***FM Risk assessment and mitigation.*** The Bank's principal concern is to ensure that project funds are used economically and efficiently for the intended purpose. Assessment of the risks that the project funds will not be appropriately used is an important part of the financial management assessment work. The risk features comprise two elements: (i) the risk associated to the project as a whole (inherent risk), and (ii) the risk linked to a weak control environment with regard to the project implementation (control risk). The content of these risks is described below:

Risk	**Risk Rating**	**Risk Mitigating Measures Incorporated into Project Design**	**Conditions for Effectiveness (Y/N)**	**Resi-dual Risk**
Inherent risk	**S**			**S**
Country level: The latest Country Integrated Fiduciary Assessment (CIFA) identified critical Public Financial Management (PFM) weaknesses and rated fiduciary risk as substantial	S	There has been slow progress in the implementation of PFM reforms in recent years. The quality of financial management is inadequate. The ring-fencing of the project under the ACMS will mitigate these weaknesses.	N	S
Entity level: The implementing entities may not be able to meet the financial management requirements due to lack of financial management capacity	M	The PMU will recruit a qualified and experienced Project Accountant to ensure the appropriate management of the project funds.	Y	M
Project level: The resources of the project may not be used for the intended purposes.	M	The PMU will comply with the internal control processes as set out in the FM procedures manual. The internal audit department will also continuously review the adequacy of internal controls and make improvement recommendations.	N	M
Control Risk	**M**			**M**
Budgeting: Weak budgetary execution and control leading to budgetary overruns or inappropriate use of project funds.	M	The FM procedures manual (as part of the Project Implementation Manual) will spell out the budgeting and budgetary control arrangements to ensure appropriate budgetary oversight.	Y	M
Accounting: The accounting function might not be able to execute its duties and to generate financial information in a timely manner.	M	The PMU will recruit a suitably qualified and experienced Project Accountant to ensure appropriate performance of the accounting and financial management functions. The financial reporting processes will also be facilitated by use of the existing information systems.	Y	M

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Resi-dual Risk
Internal Control: Specific aspects of the project activities may not be appropriately addressed in the FM procedures manuals;	M	The FM Procedures Manual will be reviewed to ensure continuing adequacy over the course of the project life. The manuals will contain all the key internal control processes pertaining to the various project activities.	N	M
Funds Flow: Risk of misused and inefficient use of funds;	M	The rigorous review of all transactions prior to final payment will be performed by the Project Coordinator and the Project Accountant. Internal audit reviews will also mitigate the risk of the use of funds for unintended purposes.	N	M
Financial Reporting: The project may not be able to produce the financial reports required in a timely manner as required for project monitoring and management	M	ACMS will recruit an Accountant appropriately experienced in financial reporting and conversant with the related Bank requirements. The PMU will use the computerized accounting system that will enable the efficient and timely generation of financial information.	Y	M
Auditing: Delays in submission of audit reports or delays in implementing the recommendations of the management letter.	M	An independent external audit firm will be hired by the project in order to ensure compliance with the audit submission timelines set out in the financing agreement. The Bank will monitor audit submission compliance and ensure implementation of management letter recommendations.	N	M
Governance and Accountability: Possibility of corrupt practices including bribes, abuse of administrative & political positions, misprocurement and misuse of funds etc, are a critical issue.	S	Robust FM arrangements (including a comprehensive annual audit of project accounts, Bank FM supervision including review of transactions and asset verification) designed to mitigate the fiduciary risks in addition to the PMUs' overall internal control systems.		S
OVERALL FM RISK	**M**			**M**

13. The overall FM risk rating, taking into account the mitigation measures, is deemed Moderate.

Financial Management Action Plan

14. The Financial Management Action Plan described below has been developed to mitigate the overall financial management risks.

Issue	Remedial action recommended	Responsible entity	Completion date	Effectiveness Conditions
FM Staffing	Recruitment of a Project Accountant	ACMS	Prior to effectiveness	Yes
Procedures Manual	Preparation of the FM Procedures Manual	ACMS	Prior to effectiveness	Yes

LIST OF CONDITIONALITIES AND COVENANTS

(i) FM effectiveness conditions:

- The ACMS will recruit a Project Accountant prior to effectiveness.

(ii) Financial covenants/ Dated covenants

- Preparation of the FM Procedures Manual (as an effectiveness condition)

(iii) Other FM standard covenants

- IFRs will be prepared on a quarterly basis and, submitted to the Bank with 45 days after the end of each quarter.
- Annual detailed work program and budget including disbursement forecasts will be prepared each year by December 15th.
- The overall FM system will be maintained operational during the project's entire life in accordance with sound accounting practices.

Procurement

15. The key issues identified regarding procurement for project implementation are: (a) the current setup of ACMS does not have a dedicated team to implement the project; (b) limited capacity for staff in project implementing partners (eg. SWADE, SIPA, MTEA, STA, etc.) to assure adherence to World Bank Procurement and Consultant Selection Guidelines; (c) as the ACMS also implements projects using other development partner procedures, there may be a lack of clarity of what procedures to use under the project.

16. Proposed corrective measures to mitigate the overall risks include: (a) ACMS will establish a fifth thematic team and engage a procurement officer dedicated to procurement under the project; (b) capacity building will be undertaken of staff in the implementing partners (SIPA, SWADE, STA, IRM Unit, etc.) on World Bank Procurement and Consultant Selection Methods and Procedures and selected contracts to be subject to prior review; (c) ACMS will develop a Procurement Manual to guide procurement procedures under the project.

17. The implementing agency risk assessment from the Procurement Risk Assessment Management System (PRAMS) is moderate.

18. Risk mitigation action plan. The following actions are suggested to mitigate the procurement risk and facilitate the implementation of the project.

Table A3.2: Procurement Management Action Plan to Mitigate Procurement Risk

Risk	Mitigation/Action	Responsibility
Current setup of ACMS does not have a dedicated team to implement the project;	ACMS will establish a fifth thematic team and engage a procurement officer dedicated to procurement under the project	ACMS
Limited capacity for staff in other project partners (eg. SWADE, SIPA, MTEA, STA, etc.) to assure adherence to World Bank Procurement and Consultant Selection Guidelines;	Capacity building of staff in other project partners on World Bank Procurement and Consultant Selection Methods and Procedures and selected contracts to be subject to prior review	Bank /ACMS
As the ACMS also implements projects using other development partner procedures, there may be a lack of clarity of what procedures to use under the project	ACMS will develop a Procurement Manual to guide procurement procedures under the project	ACMS

19. All procurement to be financed under the project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011 (revised July 2014), and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 (revised July 2014), and the provisions stipulated in the Loan Agreement. The project will carry out implementation in accordance with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD and IDA and Grants" dated October 15, 2006 and revised January 2011 (the Anti-Corruption Guidelines).

20. The Public Procurement Act of 2011 came into force when the Notice issued by the Minister of Finance was published in the Government Gazette in May 2013 whilst the Swaziland Public Procurement Regulatory Agency (SPPRA) Board was appointed in April 2013 and the Chief Executive Officer began duties in November 2013. The draft Public Procurement Regulations are yet to be finalized and to be made consistent with the 2011 Act. The 2008 Regulations are still being applied until the new Regulations foreseen in the 2011 Act are finalized and adopted. A draft Procurement Manual has been developed but is not yet in use whilst the Standard Bidding Documents have been disseminated and are required to be used by all government agencies as directed by the Government Tender Board.

21. Government Tender Board (GTB) and Technical Secretariat (TS) were appointed in April 2013 and began operating in August 2013. The terms of reference of the GTB and the TS are not clear and both need capacity building. The TS is currently understaffed and does not have operational guidelines. Because there is no procurement cadre, procurement practices in ministries are unsatisfactory leading to lengthy review times by TS. There is a need for close collaboration between the GTB and the SPPRA in managing the transitional period to clarify roles, improve efficiencies, and manage stakeholder expectations. Ministry of Health (MOH) and the Ministry of Works (MOW) have been prioritized in the reform process whilst other ministries do not have fully functioning procurement units.

22. SPPRA and the Bank are currently conducting a procurement baseline assessment to inform proposed activities under the public sector modernization project that will also support national procurement system enhancement.

23. National Competitive Bidding shall follow the national procurement procedures, based on the conditions and exceptions as will be agreed with the World Bank.

Procurement of Works

24. Works to be procured under this project are estimated in aggregate at not more than US$350,000. The procurement of works will be done using the World Bank's Standard Bidding Documents (SBDs) for all procurement under ICB and NCB as appropriate. Direct Contracting may be used when competition is not advantageous with the World Bank's prior review and approval. Pre-qualification of contractors is not envisaged under this project as only small works are expected to be carried out.

Procurement of Goods

25. Goods to be procured under this project are estimated in aggregate at not more than US$2.5 million. The procurement of goods will be done using the World Bank's SBDs for all procurement under ICB and NCB as appropriate. Direct contracting may also be considered with the World Bank's prior review and approval.

Procurement of Services (other than consultants' services)

26. Services (other than consultants' services) to be procured under the project estimated in aggregate at not more than US$535,000 will include printing, services for contracts for installation and technical support of telecommunication and computerized systems among others. The project will use the World Bank's SBDs for both ICB and NCB as appropriate.

Commercial Practices

27. Procurement of goods, works, services and consultant services under the Catalytic Financing Facility involving the use of a financial intermediary for on lending to beneficiaries may where appropriate follow well-established private sector procurement methods or commercial practices that shall be acceptable to the Bank. These commercial practices will be explained in detail in the Project Implementation Manual to be reviewed and approved by the Bank and should include adequate mitigation and control measures against fraud and corruption. Consideration will also be given whenever practical to the use of competitive methods as outlined in the Banks Procurement and Consultant Selection guidelines. The management of the CFF will be based on detailed procedures stated in the Project Implementation Manual acceptable to the Bank.

Selection of Consultants

28. Consultants' services required for firms and individuals by the overall project are estimated in aggregate at not more than US$12.9 million to cover consultancies for: (a) Technical Assistance support to the project; (b) technical reviews and evaluations; (c) various studies; (d) training module development; (e) legal reviews; and (g) project management services among others.

29. **Training**. This category would cover all costs related to the carrying out of study tours, training courses and workshops, i.e., hiring of venues and related expenses, stationery, and resources required to deliver the workshops as well as costs associated with financing the participation of community organization in short-courses, seminars and conferences including associated per diem and travel costs. Training projects would be part of the Annual Work Plan and Budget and will be included in the procurement plan. Prior review of training plans, including proposed budget, agenda, participants, location of training, and other relevant details, will be required only on annual basis.

30. **Operating Costs**. Incremental operating costs include the reasonable costs incurred on account of the implementation of the Project, including office rent, office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, travel, per diem, and excluding the salaries of the Borrower's civil service. These will be procured using the Borrower's administrative procedures, acceptable to the World Bank.

31. **Procurement Manual**. The procurement procedures and SBDs to be used for World Bank-funded procurement will be presented in the Procurement Manual in line with the guidelines of the World Bank. The Procurement Manual will include the component descriptions, institutional arrangements, regulatory framework for procurement, approval systems, activities to be financed, procurement and selection methods, thresholds, prior review and post reviews arrangements and provisions, filing and data management and the procurement plan for the first 18 months for all project components. The Procurement Manual will be updated from time to time by the ACMS.

32. **Assessment of the agency's capacity to implement procurement**. A procurement assessment has been made of the Aid Coordination and Management Section (ACMS) in the Ministry of Economic Planning and Development who have over the last 8 years implemented projects financed by various development partners such as the **EU** *(10th EDF at €80m, 11th EDF at €65m, National Adaptation Strategy at €120m)* ; **UNDP** *(approx.US$20m/ year)* ; **JICA** *(approx. US$15m from 2010)* ; and **Taiwan, China aid** *(approx. US$20m/year)*. The projects included technical assistance services, equipment procurement, school construction, rural electrification and other large infrastructure projects. The capacity is deemed adequate subject to fulfilling the risk mitigation measures identified.

33. **Procurement Supervision**. Given the country context and the project risk indicated above, an annual Post Procurement Review will be conducted in addition to the semi-annual supervision missions by the World Bank. The annual Post Procurement Review will be carried out either by the World Bank or World Bank-appointed consultants. The frequency of procurement supervision missions will be once every six months and special procurement

supervision for post procurement reviews will be carried out at least once every twelve months.

34. To enhance the transparency of the procurement process, the Recipient shall publish the award of Contracts procured under ICB procedures or selected under QCBS method, generally within two weeks of receiving the World Bank no-objection to the recommendation of award of Contract, in accordance with the Procurement and Consultant's Guidelines. Additional procedures, as elaborated in the procurement manual, will govern the disclosure under other procurement and selection methods.

35. **Procurement Plan**. The Borrower has developed a draft Procurement Plan for project implementation. The Procurement Plan will be updated annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Goods and Works and Non-consulting Services

36. **Prior Review Threshold**. Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement.

Prior Review Threshold: Good, works and non-consulting services

	Procurement Method	**Procurement Method Threshold US$**	**Prior Review Threshold**
	WORKS		
1.	ICB	≥$5,000,000	As per procurement plan
2.	NCB	>$200,000–5,000,000	As per procurement plan
3.	Shopping (Small contracts)	<$200,000	As per procurement plan
4.	Direct Contracting	N/A	All
Goods and Services (Excluding Consultants Services)			
1.	ICB	>$3,000,000	As per procurement plan
2.	NCB	>$100,000 - $3,000,000	As per procurement plan
3.	Shopping	<$100,000	As per procurement plan
4.	Direct Contracting	N/A	All

Selection of Consultants

37. **Prior Review Threshold**. Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants.

Prior Review Threshold: Consultants

	Selection Method	**Selection Method Threshold**	**Prior Review Threshold**
1.	QCBS	>, =$300,000	As per procurement plan
2.	LCS , FBS, and CQS	<$300,000	As per procurement plan
2.	Single Source (Firms)	N/A	All
3	Individual Consultants	N/A	As per procurement plan
4	Single Source (Individual Consultants)	N/A	All

QCBS = Quality- and Cost-Based Selection (Section II of the Consultants' Guidelines)
LCS = Least Cost Selection (Para 3.6, of the Guidelines)
CQS = Selection based on Consultants' Qualifications (Para 3.7 of the Guidelines)
FBS= Fixed Budget Selection (Para 3.5 of the Guidelines)

QBS = Quality Based Selection (Para 3.2 of the Guidelines)

38. **Short list comprised entirely of national consultants**. Short list of consultants for services, estimated to cost less than US$300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. All Terms of Reference irrespective of the value of the consultancy assignment are subject to prior review.

Table 8: Initial proposed procurement plan

Package No.	Description of Contract Packages	Estimated Cost (US$) (including local taxes)		Procurement Method	Review By Bank (PRIOR / Post)	Tender documents (Bidding document, RFP, ITQ) Submision to WB
	Component 1: Improving the business environment					
	Subcomponent 1a: Support for implementation of the Investor Road Map					
	1a.i : Improved legal underpinnings for implementation					
	CONSULTANTS					
1	Companies legal framework (one contract per year for three years)	$250,000	Individual	Individual Consultants	Prior	Comparison of CVs
2	Licensing legal framework (one contract per year for three years)	$250,000	Individual	Individual Consultants	Prior	Comparison of CVs
3	Insolvency legal framework (one contract per year for three years)	$250,000	Individual	Individual Consultants	Prior	Comparison of CVs
4	Commercial Arbitration legal framework (one contract per year for three years)	$250,000	Individual	Individual Consultants	Prior	Comparison of CVs
	1a.ii : Refined IRM plan and institutional structure for					
	CONSULTANTS					
5	Support IRM strategy and operations (yearly support)	$400,000	Individual	Individual Consultants	Prior	Comparison of CVs
6	Subject matter expert on non-legal reforms (yearly support)	$400,000	Individual	Individual Consultants	Prior	Comparison of CVs
	TRAINING & WORKSHOPS					
7	Meetings between public and private sector (including international roundtables)	$150,000	Firm	Shopping/Quotations	Post	ITQ
	TRAVEL					
8	Study tours to best practice jurisdictions (average of approximately one per year)	$250,000	Firm	LCS	Prior	RFP
	1a.iii : Adoption of new ICT systems to streamline key business processes.					
	GOODS					
9	Design and deployment of business registration system and integration with tax revenue collection system (incl. equipment & software)	$900,000	Firm	ICB	Prior	RFP

10	Design and deployment of licensing system and integration with tax revenue collection system (incl. equipment & software)	$900,000	Firm	ICB	Prior	RFP
	TRAINING & WORKSHOPS					
11	Institutional capacity development for use of systems, and workshops	$500,000	Firm	ICB	Prior	RFP
	Subcomponent 1b: Promotion of investment, trade, tourism, entrepreneurship					
	1b.i : Strengthened investment promotion and facilitation					
	CONSULTANTS					
12	Investment Promotion and Facilitation Stratey	$106,000	Individual	Individual Consultants	Post	Comparison of CVs
13	SIPA daily operations process improvement	$212,000	Individual	Individual Consultants	Prior	Comparison of CVs
14	Investor tracking system	$121,000	Individual	Individual Consultants	Post	Comparison of CVs
15	Aftercare function	$67,500	Individual	Individual Consultants	Post	Comparison of CVs
	GOODS					
16	Investor tracking system and software	$50,000	Firm	Shopping	Post	ITQ
	1b.ii : Strengthened export promotion and facilitation					
	CONSULTANTS					
17	Export Promotion and Facilitation Strategy	$100,000	Individual	Individual Consultants	Post	Comparison of CVs
	1b.iii : Improved strategic planning and regulations for tourism growth					
	CONSULTANTS					
18	Marketing strategy, destination promotion, and marketing activities with STA	$150,000	Firm	CQS	Prior	RFP
19	Capacity building in marketing techniques including online and social media with STA	$50,000	Individual	Individual Consultants	Post	Comparison of CVs
20	Policy and regulation advisory to MTEA and STA	$100,000	Individual	Individual Consultants	Post	Comparison of CVs
21	Institutional structure for tourism sector with roles and responsibilities	$50,000	Individual	Individual Consultants	Post	Comparison of CVs
22	Institutional strengthening and background analysis with HOTAS	$100,000	Individual	Individual Consultants	Post	Comparison of CVs
23	Revenue generation and management of national parks with SNTC	$150,000	Firm	CQS	Prior	RFP
24	Community tourism roadmap/strategy	$50,000	Individual	Individual Consultants	Post	Comparison of CVs
	TRAINING & WORKSHOPS					

25	Adoption of new skills curricula with MoE, MTEA and others	$100,000	Firm	Price Quotations	Post	ITQ
26	Roll out of service standards and quality labels with STA	$100,000	Firm	Price Quotations	Post	ITQ
	WORKS					
27	Signage, development of trails for SNTC	$350,000	Firm	NCB	Prior	Bidding Document
	1b.iv : Renewed entrepreneurship development strategy for SEDCO					
	CONSULTANTS					
28	Support to SEDCO's management team on strategy and operations	$250,000	Firm	QCBS	Prior	RFP
	Subcomponent 1c: Access to finance for MSMEs					
	Component management					
	CONSULTANTS					
29	Component coordination via MFU	$150,000	Individual	Individual Consultants	Prior	Comparison of CVs
	1c.i : Update and complement demand-side information					
	CONSULTANTS					
30	Firm-level survey	$750,000	Firm	QCBS	Prior	RFP
31	Mapping of government-funded MSME initiatives	$50,000	Individual	Individual Consultants	Prior	Comparison of CVs
	1c.ii : Develop and strengthen credit infrastructure					
	CONSULTANTS					
32	Review of regulation and legislation	$150,000	Individual	Individual Consultants	Prior	Comparison of CVs
33	Implementation of identified reforms	$200,000	Individual	Individual Consultants	Prior	Comparison of CVs
34	Research on impact of making data contributions mandatory to CRS	$100,000	Individual	Individual Consultants	Post	Comparison of CVs
	TRAINING & WORKSHOPS					
35	International and domestic discussion forums on CRS	$150,000	Firm	Price Quotations	Post	ITQ
	GOODS					
36	Establish credit registry (software and hardware)	$500,000	Firm	ICB	Prior	Bidding Document
	1c.iii : Restructure the ECGS and SSELGS					
	CONSULTANTS					
37	Review of ECGS and SSELGS schemes	$125,000	Individual	Individual Consultants	Post	Comparison of CVs
38	Implementation of revised schemes (training and capacity building)	$225,000	Firm	QCBS	Post	RFP

	1c.iv : Strengthen supply capacity for access to finance					
	CONSULTANTS					
39	Product design, market segmentation, credit risk management, institution building, MIS, and core banking system	$2,100,000	Firm	QCBS	Prior	RFP
	Component 2: Job creation in Agribusiness and Tourism					
	Subcomponent 2a: Competitive value chains					
	CONSULTANTS					
40	Lawyer (part time)	$122,000	Individual	Individual Consultants	Post	Comparison of CVs
41	Administrative Assistant	$254,000	Individual	Individual Consultants	Prior	Comparison of CVs
42	Market Development Specialist (Agribusiness)	$476,000	Individual	Individual Consultants	Prior	Comparison of CVs
43	Market Development Specialist (Tourism)	$238,000	Individual	Individual Consultants	Prior	Comparison of CVs
44	Business Skills Officer (Agribusiness)	$476,000	Individual	Individual Consultants	Prior	Comparison of CVs
45	Business Skills Officer (Tourism)	$238,000	Individual	Individual Consultants	Prior	Comparison of CVs
46	Industry Analyst (part-time Agribusiness)	$198,500	Individual	Individual Consultants	Prior	Comparison of CVs
47	Industry Analyst (part-time Tourism)	$198,500	Individual	Individual Consultants	Prior	Comparison of CVs
48	Staff overheads (insurance, SS, taxes..) @ 25 percent	$531,000				
49	Senior industry support mentor (150 days per year)	$757,000	Individual	Individual Consultants	Prior	Comparison of CVs
	OPERATING COSTS					
50	Office Rent	$40,000	Firm	Price Quotations	Post	ITQ
51	Utilities	$40,000				
	GOODS					
52	Vehicle	$110,000	Firm	Price Quotations	Post	ITQ
53	Office equipment (laptops, software, phones...)	$27,500	Firm	Price Quotations	Post	ITQ
54	Projectors, screens, generators	$10,000	Firm	Price Quotations	Post	ITQ
	NON-CONSULTING SERVICES					
55	Drivers	$97,500				
56	Maintenance and gas (car)	$50,000				
	TRAINING & WORKSHOPS					
57	Meeting room rental and refreshments	$60,000	Firm	Price Quotations	Post	ITQ
58	Visits to international buyers (5 pax)	$229,000	Firm	Price Quotations	Post	ITQ
59	Training workshops (Faculty, Events, Travel)	$656,000	Firm	Price Quotations	Post	ITQ
60	Domestic travel expenses to joint trainings, 20pax	$200,000	Firm	Price Quotations	Post	ITQ

61	Mentorship support budget (travel, stipends, meetings)	$191,000				
	Subcomponent 2b: Catalytic Financing Facility for start-ups and scale-ups					
	CONSULTANTS					
62	Fund Manager	$700,000	Firm	QCBS	Prior	RFP
	COST-SHARING CONTRIBUTIONS					
63	Cost-sharing contributions	$6,000,000				
	Component 3: Project Implementation					
	CONSULTANTS					
64	Accountant / FM Specialist	$330,000	Individual	Individual Consultants	Prior	Comparison of CVs
65	Procurement Specialist	$330,000	Individual	Individual Consultants	Prior	Comparison of CVs
66	Senior Technical Assistance Officer	$660,000	Individual	Individual Consultants	Prior	omparison of CVs
67	Safeguards specialist (part-time)	$213,500	Individual	Individual Consultants	Prior	Comparison of CVs
	OPERATIONAL COSTS					
68	Office Rent & Utilities	$30,000				
69	Vehicle (Program Officers, not contracted staff)	$90,000				
70	Equipment (laptops, software, phones, etc)	$12,500				
71	Maintenance and gas (car)	$75,000				
72	Survey and data collection budget	$100,000				
	TRAINING & WORKSHOPS					
73	Training and/or visits for program officers	$90,000		Shopping/Quotations		ITQ
	GRAND TOTAL	**$24,937,500**				

Environmental and Social (including safeguards)

39. An Environmental and Social Management Framework (ESMF) was prepared for this Project, which is deemed to be a Category B. This section highlights the implementation arrangements for ensuring the Project complies with safeguards requirements. An assessment of the social and environmental risks and impacts of the project is given in sections VI.E and VI.F of this document, and should be considered alongside this section.

40. While Swaziland's Environmental Assessment (EA) procedures are generally consistent with the Bank's there exists a gap regarding the screening of small-scale subprojects where the sites and potential adverse localized impacts cannot be identified prior to implementation. Therefore the Project will use an environmental and social screening process to ensure that the investments are implemented consistent with the requirements of OP 4.01. The Screening process proposed by the ESMF will be in compliance with Swaziland Environmental regulations, and consistent with the environmental and social safeguards requirements of the World Bank. In cases where there are gaps between the national legislation and the Bank's policies, the latter prevail.

(a) **Screening.** Screening of subprojects will commence right at the subproject inception phase as soon as the specific subproject details are known including nature and scope, and location. Screening will be conducted together with any subproject specific feasibility studies so that any potential impacts identified through screening are immediately incorporated into the feasibility study to help ensure that environmental and social sound design of the subprojects takes place during the subproject design phase.
An Environmental and Social Screening Form (ESSF) has been designed to assist subproject proponents with assistance from SWADE and STA or other approved agency in the environmental and social screening of subprojects to be funded under the Project. The form is designed to place information in the hands of subproject implementers and qualified reviewers so that impacts and their mitigation measures, if any, can be identified, assessed and mitigated and/or that requirements for further environmental analysis be determined.
The environmental and social screening process will be the responsibility of ACMS, but will be facilitated by SWADE, STA or any other authorized agency with the subproject proponent. The screening process is considered a vital part of training and awareness raising.

(b) **Review and Approval.** Upon receipt of all the relevant subproject documentation, CFF staff will review the environmental and social screening results to ensure that all environmental and social impacts have been identified and have credible mitigation measures. The CFF Fund Manager will recommend an application only if it meets all the required criteria. Both types of funding will follow a two-step application process. In doing so, the CFF will provide preliminary support for the refining of applications, identified through initial expressions of interest. Eligible firms will then be invited to submit refined applications for further review and possible funding. The ESSF is part of the selection criteria, and CFF project staff will be trained to assess subprojects in terms of their overall sustainability, including the environmental and social components. The CFF must also ensure that the subproject designs include monitoring and institutional measures to be taken during their implementation and operation. Based on the review of the subproject documentation, the CFF, upon advice of its qualified members, will recommend to the CFF Selection Committee approval or rejection of a particular subproject. If the Committee finds that the submitted proposal is not consistent with the requirements of the environmental screening based on the environmental checklist, then the CFF would be requested to help re-design (e.g. make additional modifications and/or choose other sites) and re-screen the subproject until it is consistent with the environmental and social screening requirements.

The qualified member of the CFF Selection Committee will then review again the revised application; if now acceptable, will recommend approval. If it is not acceptable for the second time, it would be referred back to the Project for more work or denied clearance altogether. Any proposed subprojects that do not comply with the requirements of Swaziland laws, policies and regulations and the World Bank Safeguards policies will not be cleared for approval.

(c) **Supervision and Monitoring.** Environmental monitoring will be carried out during operation and maintenance of subprojects in order to measure the success of the mitigation measures implemented. Subproject design must include a monitoring framework, together with indicators. The CFF will be responsible for the implementation of the monitoring framework and reporting of feedback throughout the life of the subproject. This monitoring and reporting will be done by adequately trained Project staff, under the supervision of Safeguards specialist in the PMU.

Members of the farmers associations or communities should participate (after training) in both compliance monitoring and effects monitoring. This will be done throughout the subproject cycle namely:

i. During the planning phase, farmers, communities or other Project proponents will participate in the identification of indicators for monitoring the mitigating measures;
ii. During implementation phase, monitoring the execution of any works with respect to environmental aspects, e.g. verifying compliances of the contractors with their obligations;
iii. During operation and maintenance phase, the overall environmental and social monitoring and alerting on any emerging environmental hazards or social issues in conjunction with the ongoing subproject activities. Communities will pass on their observations and concerns through the CFF, STA or SWADE representative as appropriate.

(d) **Annual Reviews.** Performance reviews will be undertaken by an independent consultant contracted to visit each of the subproject sites at least once a year. The purpose of these reviews is to support compliance with ESMF objectives and procedures, to determine lessons learnt during subproject implementation, to provide recommendations to the PMU for improving future performance and to provide an early warning to the PMU about potential cumulative impacts. These reports will form part of the Bank's implementation support missions and the Mid-Term Review.

(e) **Institutional arrangements.** The Aid Coordination and Management Section (ACMS) in the Ministry of Economic Planning and Development (MEPD) is charged with the implementation of the Project through its Project Implementation Unit (PMU). The ACMS will constitute a permanent focal point. An inter-ministerial Steering Committee will be established for project governance, chaired by MEPD and with focal points from the key ministries and agencies as members. It will report to the Ministry of Finance. The Catalytic Financing Facility (CFF) will be implemented under the PMU. The CFF manager will oversee the selection process for the subprojects and will be supported by technical specialists recruited from the private sector who will assess applications, and enforce spending that is consistent with the approved applications.

Training is required for ESMF implementation at different levels. The Program Officers attached to the PMU who are responsible for Monitoring and Evaluation, should be well versed in sustainability indicators for environmental management and social development. Technical staff recruited to the CFF, will also be trained on environmental and social impacts and indicators relevant to subproject implementation. At the community level, community monitors will be trained to provide on-the-ground capacity to observe and respond to most of the environmental and social impacts foreseen, as well as to either help implement the mitigation measures or to help evaluate their effectiveness.

Potential proponents of the CFF subprojects are individual enterprises as well as community tourism trusts, farmer companies or other forms of Community Based Organizations (CBOs). Training in environmental management and social development will be integrated into capacity building for sustainable business development and factored into the business training programs. Business Development Services (BDS) who are engaged in supporting may receive training to improve their capacity and understanding on environment and social issues with particular pertinence to Swaziland. Training will be done both through specialized and tailor made courses and through on-the-job training with the technical assistance of a safeguards specialist.

At Project level, SWADE and STA will require capacity to support the following:

- Business planning for agribusiness and tourism – business plans need to be seen in the context of the '3 pillars of sustainability' and look at an integrated financial, environmental and social approach;
- Guidance to prospective subproject proponents to develop sound business plans and proposals and to fill in the screening forms;
- Assess subproject proposals in the light of the 'sustainable business plan' approach;
- Support the supervision, monitoring and evaluation of the subprojects.

Annex 4: Implementation Support Plan

SWAZILAND: Private Sector Competitiveness (P151433)

Strategy and Approach for Implementation Support

1. The Implementation Support Plan (ISP) is formulated with a particular emphasis on: (a) monitoring and evaluating results on the ground; (b) facilitating timely implementation of the risk management measures; and (c) providing technical advice to the implementing agencies to build capacity. The ISP is derived from the description of the project risks in the SORT, combined with specific features of the project.

2. The most substantial project risks come from institutional capacity and fiduciary risks (in addition to macroeconomic factors, which are outside the scope of the Project to address). As such, Implementation Support will be relatively intensive, especially in the first year of the Project in order to: monitor and support the build-up of capacity in the PMU; ensure that arrangements for project governance, financial management, disbursement, and procurement are all correctly in place; and to support the technical initiation of project activities.

3. There are Moderate risks for: sector strategies and policies; and stakeholders. Thus continued attention and staff time will be given for interactions with the responsible Ministries and agencies in Swaziland—even when not formally included as implementing agencies in the Project—plus private sector associations, civil society and development organizations, in order to ensure continued buy-in and support for the Project.

4. In the initial stages of the project it is anticipated that most of the implementation support missions will focus on working in the offices of the PMU and implementing agencies. Once mentorship under Component 2a, and disbursements from CFF under Component 2b, commence, missions will also conduct site visits to verify and assess progress by recipients of these project activities.

5. The resource requirements for Implementation Support are summarized in the table below. Currently it is anticipated that all of these can be met using qualified staff from within the World Bank Group. In case of non-availability, the project team will be supplemented by short-term consultants.

Implementation Support Plan

Time	*Focus*	*Skills Needed*	**Resource Estimate**	**Number of Trips**
First 12 months	Task Management	Project Management(HQ and Pretoria based)	12 Staff Weeks	4
	Implementation Monitoring and Support	Investment Climate team; *(HQ and Johannesburg based)* Investment Promotion team; *(HQ based)* Financial Sector Development team; *(HQ based)* Trade & Competitiveness team; *(HQ based)* Education team; *(HQ based)* Agriculture team. *(Maputo based)*	4 Staff Weeks 2 Staff Weeks 4 Staff Weeks 8 Staff Weeks 2 Staff Weeks 2 Staff Weeks	2 2 2 2 1 1
	Procurement support	Procurement Specialist (Pretoria based)	2 Staff Weeks	2
	FM support	FM Specialist (Pretoria based)	4 Staff Weeks	2
	Safeguards	Environmental/Social Specialists(HQ and Pretoria based)	3 Staff Weeks	2
12-48 months	Task Management	Project Management (HQ based)	10 Staff Weeks per year	2 per year
	Implementation Monitoring and Support	Investment Climate team; *(HQ and Johannesburg based)* Investment Promotion team; *(HQ based)* Financial Sector Development team; *(HQ based)* Trade & Competitiveness team; *(HQ based)* Education team; *(HQ based)* Agriculture team. *(Maputo based)*	4 Staff Weeks per year 2 Staff Weeks per year 4 Staff Weeks per year 8 Staff Weeks per year 2 Staff Weeks per year 2 Staff Weeks per year	2 per year 2 per year 2 per year 2 per year 1 per year 1 per year
	Procurement support	Procurement Specialist (Pretoria based)	2 Staff Weeks per year	2 per year
	FM support	FM Specialist (Pretoria based)	4 Staff Weeks per year	2 per year
	Safeguards	Environmental/Social Specialists (HQ and Pretoria based)	3 Staff Weeks per year	2 per year

6. The ISP will be reviewed at least once a year to ensure that it continues to meet the implementation support needs of the Project.

Annex 5: Opportunities and Constraints in Agribusiness and Tourism in Swaziland

This Annex provides a full review of commercial opportunities and constraints in Swaziland's agribusiness and tourism sectors.

Agribusiness opportunities and constraints

1. **Despite high potential, Swaziland's agricultural sector** remains relatively undeveloped: most activities are low-value; and exports are constituted mainly by two products (Coca-Cola concentrate and sugar). Most households engage in subsistence farming, with haphazard efforts to produce for sale (often growing crops first and then looking for markets later, rather than growing specifically for an identified market).

2. **The biggest growth opportunity for Swaziland lies in the gradual transformation of the sector from subsistence farming to commercial farming.** Swaziland would leverage its existing agricultural base, and orient it towards higher-value activities in a greater diversity of crops. Good opportunities do however exist: gross margins are estimated at 54 percent for potatoes, 78 percent for tomatoes, 70 percent for carrots, 68 percent for beetroot, and 76 for green peppers—which compare favorably with 53 percent for sugarcane, 64 percent for maize, 52 percent for cotton, 40 percent for sorghum, and 40 percent for soy.[51] Moreover, vegetable production can achieve substantially higher gross margins per hectare (tomatoes and green peppers, for example, can achieve margins that are over twenty times larger than sugarcane, maize, cotton, sorghum, or soy). In some cases, margins can be further increased where these vegetables are processed into jams, chutneys, sauces, or other branded products. Further opportunities may exist in value chains such as honey[52], milk, maas (a fermented milk product), and other dairy products.[53] Such 'agribusiness'—rather than merely agriculture—would entail increased export values, GDP, productivity translating to increased wages, and number of formal jobs.

3. The main constraints to agricultural transformation in Swaziland are as follows:

On the **supply** side:

- *Poor choices amongst farmers about crops and production techniques.* The underlying causes of this problem are: a lack of information about commercial market demand; limited access to research and technical knowledge on improved agricultural practices; and limited access to extension services.
- *Lack of access to water* for agricultural and livestock producers;
- Smallholders' *lack of certainty and ability to invest in irrigation*, particularly in the context of the regime of Swazi National Land (SNL);[54]

[51] Technoserve (2008), 'Feasibility Study of Conventional Vegetable Expansion in Swaziland', Discussion Document, August 2008.
[52] Technoserve (2007), 'The Honey Industry in Swaziland', May 2007.
[53] Technoserve (2008), 'Dairy Industry Development in Swaziland', May 2008.
[54] This point has been disputed in discussions between representatives of the Government of Swaziland and the World Bank team, on the basis that formal titles are not necessarily required in order for farmers to have certainty.

- *Lack of access to financial services* by smallholder farmers, micro and small enterprises.

On the **demand** side:

- *Limited access to export markets.* Swazi agricultural producers are not linked to regional and international value chains which could increase their incomes. A parastatal ('NAMBoard': the national agricultural marketing board) was established in 1985 with the mandate to market Swazi agricultural produce and link farmers to markets; but according to most industry stakeholders in Swaziland it has not yet been able to perform this role satisfactorily.

4. **Supply side constraints are already being addressed by a number of initiatives and donor projects**. These projects include:

- The Lower Usuthu Smallholder Irrigation Project (LUSIP) has invested approximately US$277 million financed by IFAD, the AfDB, ABEDA, DBSA, EIB, the EU, Taiwan, China and others in large irrigation infrastructure, dams and canals, and in programs with smallholders to obtain more secure access to land;
- A large EU grant (the Higher Value Crop and Horticulture Project) of US$18 million focuses on extension services, technical assistance to NAMBoard, and the provision of packhouses and warehousing;
- A new IFAD smallholder project of US$21 million[55] will focus on rain-fed areas of the lowveld in Lubombo and Shiselweni regions, working with approximately 25 chiefdoms. SWADE will be delegated with most of the implementation duties. Project activities focus on extension services (mainly through the Ministry of Agriculture), business development services (through NAMBoard), chiefdom development planning (through supporting the traditional leadership with respect to functions that can be undertaken on Swazi National Land), and infrastructure investments (focusing on erosion control and the rehabilitation of small earth dams and rainwater harvesting equipment). The project focuses mainly on production for domestic markets, rather than export markets;
- Improvements by the Ministry of Agriculture in the quality of its extension services;
- SWADE (Swaziland Water and Agricultural Development Enterprise) provides extension services including corporate governance and agricultural expertise for reaching export markets;
- Ad hoc training by FINCORP.

These projects continue efforts that have been made over several decades, and have achieved notable gains and improvements, but as yet have not led to the desired dramatic transformation of agriculture in Swaziland. Swaziland has greater potential than is currently being realized.

5. **There are two critical gaps remaining unaddressed by these existing projects, which will be addressed by this World Bank project: access to finance and access to demand markets.**

[55] Comprised of an IFAD loan of US$8.8 million, a proposed GEF grant of US$5.2 million, and co-financing from the Government of Swaziland of US$6.6 million.

- On **Access to Finance**: Sub-component 1C will create an enabling environment for access to finance more broadly. Sub-component 2B will focus on providing financial support for firms and activities that are excluded by mainstream financial institutions.

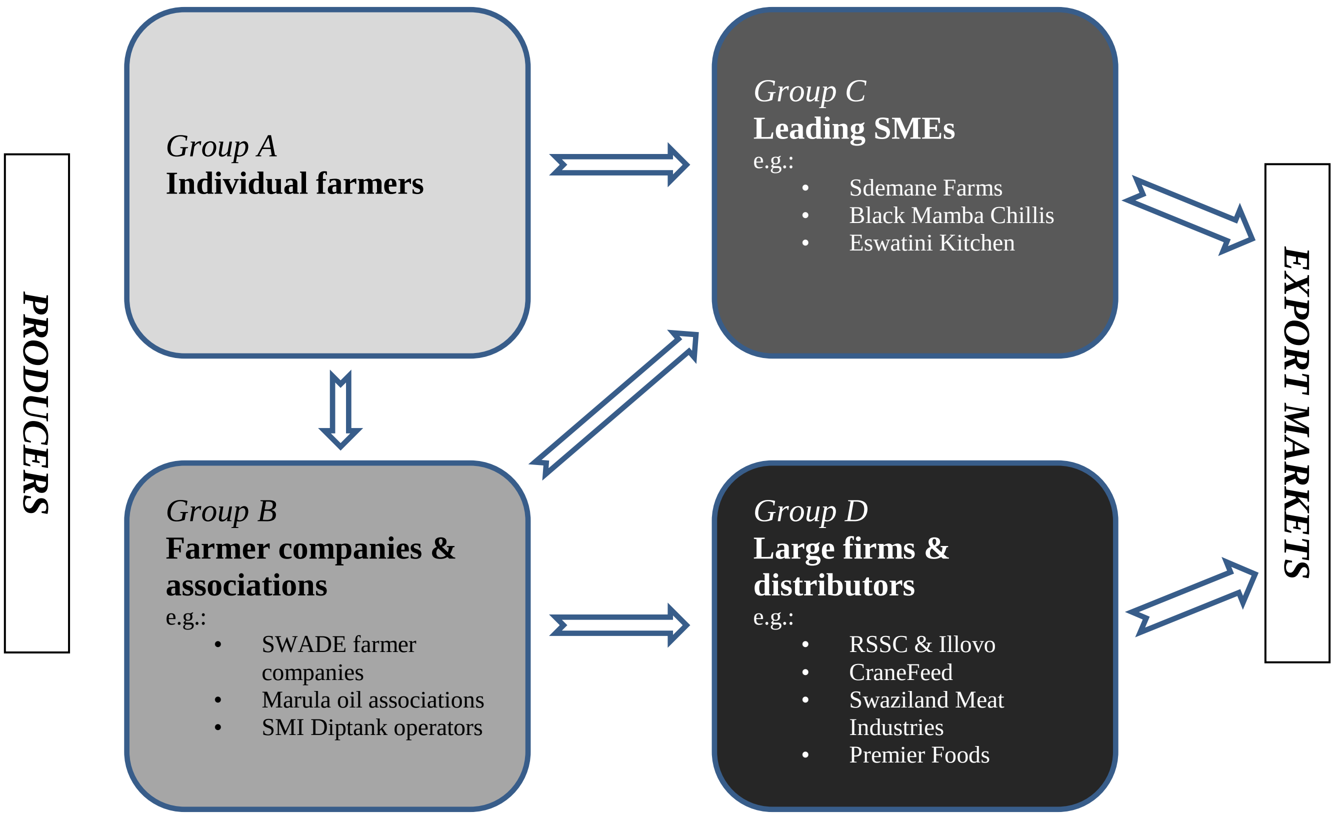
- On **Access to Demand Markets**: Sub-component 2A will foster the identification of competitive market opportunities, and the establishment and scaling-up of private sector firms to act as the link from smallholders and rural households to larger international buyers.[56] The rationale for this export focus is that Swaziland, as a relatively small economy, can find much larger and more valuable markets internationally than it can domestically. Yet in order to seize these opportunities, Swaziland will need to develop agribusiness products and export-quality commodities, which require a step-change in the standards of agricultural production and processing. In tourism, Swaziland will need to develop compelling products that take it beyond a 'stop-over' destination. These agribusiness and tourism markets are not simply 'found'; they require a concerted effort by farmers and firms to build their products, branding, marketing, and links with buyers.

6. **Activities in this project are inspired by those entrepreneurs in Swaziland who have already managed to identify export opportunities and have grown fast as a result.** These successful agribusiness exporters include large firms like SwaziCan and Swaziland Meat Industries, and smaller firms like Sdemane Farms and Black Mamba. All of them have identified an export market demand, and initiated relationships with buyers, sustaining and growing those relationships over time—including to sophisticated buyers like the South African supermarket chain Woolworths and also to export markets in Europe. Each of these firms uses a different supply chain model, but all of them have established linkages with local farmers including smallholders, to which they outsource some proportion of their agricultural production (Sdemane Farms sources 70 percent of its produce from smallholder farmers; Black Mamba sources 100 percent of its chilies from cooperative groups; and SwaziCan outsources 100 percent of its citrus supplies, albeit mainly from large plantations). The smaller firms like Sdemane Farms and Black Mamba work directly with smallholders to improve the quality of their production. The larger firms like Swaziland Meat Industries engage with a number of intermediaries who in turn work with a number of smallholders. In some cases, aggregator firms such as GroMore have been able to play a similar role in terms of advising smallholders on production, though they are dealing mainly with commodities rather than packaged products.

[56] The efforts to link agricultural production to demand markets will be broader than the current support to NAMBoard, and thus hedge Swaziland's bets on achieving better export performance. Attempts by international partners to improve access to demand markets have until now focused largely on technical assistance to NAMBoard, which has not led to a step change in performance, and remains premised on the judgment that it can be efficient for a single organization to have a monopsony for agricultural products.

7. The key quality of these enterprises is to build links with buyers while also encouraging farmers to produce according to the specifications of buyers. Figure 2 shows a simplified summary of the structure of Swaziland's agribusiness industry. Group A (individuals) are the smallest operators, with Group D (large firms) as the largest. Predominantly groups A and B are selling commodities on the open market, while groups C and D have managed to identify branded products of higher value. The critical way that groups C and D have done so is by understanding their target sources of demand and focusing their production on satisfying those markets—including the active pursuit of relationships with buyers.

Figure 2: Schematic structure of the agribusiness industry in Swaziland



8. The main growth pathway for groups A and B is to link to groups C and D.

- Group A is the worst off: smallholders produce undifferentiated products for the open market. They may receive assistance from Ministry of Agriculture and/or NAMBoard extension service officers, but generally are left to fend for themselves in terms of quality—and are at risk of harvesting without finding any buyers.

- Group B have achieved gains over group A: they benefit from economies of scale in production; improve quality through collaboration; and have usually found reliable markets for their products.[57] But they still produce commodity products, such as sugar, bananas, sugar beans, or livestock.

- Groups C and D have managed to link to more lucrative markets, through identifying and exploiting commercial opportunities in branded and/or differentiated products. They can be termed 'agribusinesses'. *In Swaziland, it is notable that groups C and D often already benefit groups A and B, through outgrower schemes, contract farming, and the provision of extension services that increase the value of products produced by individual farmers and associations.*

9. **Groups C and D are relatively scarce in Swaziland because it is relatively unusual for firms to successfully identify a true competitive niche which can be exploited sustainably over time.** During previous efforts to establish innovative funding mechanisms in Swaziland, the overwhelming proportion of applications had a business idea but not an investable plan that would be commercially viable. This was the experience of the USAID business plan competition, where the former received 700 initial applications but only 80 passed its first technical filter. Thus under this Project, entrepreneurs will be mentored and nurtured to identify and develop market opportunities, and to formulate a business plan tightly around those opportunities. This mentorship would need to be provided throughout firm development, not just at the idea stage and establishment stage.

10. **Enterprise support initiatives supported by this project will be targeted at Groups B and C, and will have the objective of helping entrepreneurs identify a competitive product-market segment and then to develop a business plan around that opportunity.[58]** Interventions will support the following growth pathways:

- **Improving the attractiveness of products from groups A and B.** Quality is often poor, and these groups lack the commercial knowledge necessary to develop products for specific markets. This project proposes to improve the produce of groups A and B through commercial extension services, rather than conventional public extension service workers. This approach follows the model already demonstrated to be successful by firms such as Sdemane Farms, Black Mamba, Eswatini Kitchen, Swazi Secrets, and others. Each of these firms has delivered extension services to smallholders; their experience dealing with buyers means they are in the best position to communicate to producers exactly what products are required of them.

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[57] Experience from many countries suggests that cooperatives or associations are most sustainable if they are made around identified common economic interests (e.g. group negotiations for better price, which becomes more efficient than when done by individual farmers), and continuous investments on the management of natural resources of common interest (e.g. water management).

[58] Competitive firms arise when two opportunities are found together:
(a) A product in which it is possible to make money (which depends on the availability of substitute products, and on the threat of new market entrants).
(b) A market in which it is possible to keep the money made on that product (which depends on the bargaining power of suppliers and of buyers).
This critical need to find a competitive product-market segment does not come naturally to many entrepreneurs, and is one of the main reasons why business plans fail, unless they are fully developed with these concepts in mind.

In practice, this will include initiatives like those of SWADE or NAMBoard in investing in rural, farmer-managed pack-houses for various horticulture products. Bananas and high value vegetables seem to prevail as the pilot produce stored in the pack-houses. Given that this is relatively new to many farmers in Swaziland, many farmers still do not have the necessary skills for managing both the pack-houses and the produce. Proper and continued training programs on the management of the infrastructure and the produce is therefore critical to ensure quality, and to ensure that the experience is replicated to a wider audience among Swaziland's farmers.

- **Facilitating the growth of groups C and D.** Component 2 will focus particularly on Group C, to create more such firms and to scale-up existing ones. The needs of Group D are largely addressed by Component 1a (business operating environment, and ability to export across borders).

Tourism opportunities and constraints

11. **Despite its small geographical area, Swaziland offers a diversity of attractions including nature- and culture-based resources, diverse wildlife, and adventure activities.** Additionally, tourists to Swaziland are shown to leave with a high level of satisfaction (97 percent intend to visit Swaziland again). Yet the tourism sector remains small, and directly employs only around 5,500 people, or 1.8 percent of the working population.[59] International tourist arrivals to the country were 1,298,803 in 2013, growing only 1.6 percent over 2012.[60] In 2012, there were 542,771 accommodation rooms with a 54 percent occupancy rate. Swaziland has low average tourist length of stay of 2.4 nights with about 60 percent of visitors staying in the country under 2 days. International tourism receipts were only US$30 million in 2012, and tourism's direct contribution to GDP was 2.1 percent[61], compared to an average in the Sub-Saharan Africa (SSA) region at 2.8 percent—a figure which includes many countries with far less accessible and attractive offerings than Swaziland.

12. **The key strategic opportunity for Swaziland is to attract high-value visitors through a diversified portfolio of activities and an excellent quality of services.** This is the most natural niche for a relatively small country that would be overwhelmed by mass-market tourism and moreover is endowed with subtle natural and cultural attractions that appeal most to discerning visitors rather than those in search of iconic landmarks. Swaziland's attractions include the following: privately- and publicly-owned game reserves, some of which offer viewing of the Big Five in a less commercialized setting than in neighboring countries; an array of traditional festivals (which are not yet widely publicized outside Swaziland or packaged for foreign visitors); cultural heritage and community tourism (which has not yet achieved much market penetration); a range of soft and hard adventure tourism offerings; and gentle and accessible landscapes such as the Sibebe granite hills.

[59] (WTTC 2014). Total contribution, including direct and indirect jobs, is estimated at 12,400 jobs.
[60] (STA 2014).
[61] (WTTC 2014),

13. This product offering can include community-based tourism (CBT) initiatives and adventure tourism activities, which are most likely to have a direct impact on rural poverty.

- *Community Based Tourism.* Efforts at improving Swaziland's tourism offering with community-linked enterprises (such as mountain camps, horse trails, and community lodgings) have been attempted previously—such as under an EU-funded project which invested in horse trails, walking trails, and community hotels (eight investments in total). Unfortunately only one of these investments has been self-sustaining, owing to a lack of management capacity and weak connections with mainstream tourism markets (such as operators and individual travelers). However, there are intrinsic opportunities in Swaziland to identify and develop products such as rural homestays and small cafés, bring in greater numbers of tourists to traditional festivals and cultural heritage, and diversify Swaziland's offering with attractions based on natural endowments such as walking trails and horse trails.

- *Adventure tourism* is a form of travel that includes at least two of the following three elements: physical activity, natural environment, and cultural immersion.[62] For example, a trip to Swaziland that involves trekking (physical activity) trekking in Bulembu (natural environment) and genuine interaction with local residents and/or engaging in a traditional cooking class (cultural immersion), would be categorized as an adventure trip. Both Community tourism and Adventure tourism operations can have an impact on rural poverty as these offerings typically involve local experiences and engage local service providers, and entrepreneurs allowing for an excellent way to diversify the Swaziland tourism offer and to create distinctive attractions.

14. Currently in Swaziland's tourism sector, the main actors are as follows:

- The **accommodation** sub-sector in Swaziland has 140 registered accommodation establishments, with an average size per establishment of just 19 rooms. Approximately 70 percent of the establishments are hotels, guest houses or B&B's, and the remainder are mostly self-catering. Only 9 hotels/resorts have more than 50 rooms each, and only 29 hotels have more than 25 rooms. This is a *prima facie* hindrance for tour operators who will need to lodge larger groups. Existing establishments would need to upgrade their facilities in order to provide high standard services.

- The **craft** sub-sector in Swaziland is amongst the best-known in the southern African region, specializing in basket ware, wood and stone carving, glassware, candles, batik items, jewelry—a few of which have reach international markets (i.e. Gone Rural, Swazi Candle, Ngwenya Glass). Even though a few MSMEs in the sector have been highly successful there is still need for mentoring and business support to create additional products to add to the tourism product of Swaziland.

- **Community Tourism** enterprises have strong potential in Swaziland, but the success of these enterprises has been mixed. Eight Community Tourism products were developed

[62] ATTA: http://www.adventuretravel.biz/

nearly a decade ago through an EU-funded project, including mountain camps, hiking trails, craft shops, and horseback riding trails. Of these, only Shewula Mountain Camp has enjoyed sustained success. Currently SNTC, in partnership with the Lubombo Conservancy and several Swazi tour operators, has engaged in a more sustainable approach to community tourism development in the Lubombo Eco-Trails project—which includes an extensive community engagement process and linked business services support.

- **Adventure tourism:** Swaziland boasts a range of soft and hard adventure tourism. *Soft adventure activities* include: Guided and independent walking and trekking, Horseback riding, Quad biking in the Ezulwini Valley, Boat trips on power boats, yachts, dinghies and canoes are available at Hawane Dam, Maguga Dam, Sand River Dam and Van Eck Dam. *Hard adventure activities* include: Guided and independent mountain biking trails, caving in the only major granite cave system known in Southern Africa formed by the Kophola River that flows underground between Msunduza and Kophola Mountains, Canopy tours, Independent climbing and abseiling are available from Swaziland's mountains, Tubing and white water rafting trips at Grade III rapids (that rise to Grade IV or V in the rainy season). MSMEs in the sector are increasingly common, but will need to become more professionalized in order to appeal to larger markets. Local entrepreneurs will need either to start or to professionalize their operating businesses and to invest in basic hard and soft infrastructure, in order to create quality products.

- There are additional linked sectors such as: the **Food and Beverage** sector (restaurants, bars, coffee shops, vendors); and tourism **transportation** operators, travel agencies and tour operators. These are also important parts of the Swaziland tourism value chain, but currently are not developed enough to augment Swaziland's tourism offering.

15. **SMEs in the tourism value chain would benefit from mentorship support, especially to increase the attractiveness of their products and to link to markets**. For example, community enterprises would benefit from a coherent, well-informed approach to the development of community enterprises that is based on lessons learned from the mistakes of past initiatives and the successes from initiatives such as Shewula Lodge and the ongoing Lubombo Eco-Trails project. An institutionalized Community-Based Tourism (CBT) framework would include guidelines for the selection of target communities, identification of potential products, location and governance structures. An objective evaluation of Swaziland's existing community products would be conducted to determine which are viable and those that need additional business mentoring support. New community enterprises would need technical assistance to include: development of feasibility study and scoping, including identification of project areas, participating communities, key stakeholders, markets and economic opportunities, associated enabling infrastructure, and cost-benefit analysis for identified new CBT products—and also ongoing support in running the business once established (which has been a missing element in prior CBT support in Swaziland).

Annex 6: Economic and Financial Analysis

1. The project aims to contribute to increased private sector investments, firm growth and jobs creation by targeting key constraints in the agribusiness and tourism sectors. This will enable higher incomes for smallholders and entrepreneurs in addition to agro-processing jobs. The project will comprise two mutually reinforcing components: (i) improving the business environment; and (ii) job creation in agribusiness and tourism.

2. The economic analysis of this project is built as a financial analysis with the estimated difference in cash flows to beneficiaries (smallholders, medium and large commercial farms, households, and MSMEs, including new jobs created) accounted for as cash flows to the project. In Component 1, the project will support structural business environment reforms to reduce the administrative burden on existing and future businesses. In sub-component 2(a), the project will address key knowledge constraints in the agribusiness and tourism sectors via key business and farmer mentoring organizations. In sub-component 2(b), the project will provide seed capital to launch new businesses and expand existing businesses. An attempt has been made to quantify the costs and benefits that are expected to accrue from these investments, and the Net Present Value (NPV) and the Economic Rate of Return (ERR) for these sub-components have been calculated. These valuations are constructed through scenario based analyses with sensitivity testing.

3. The economic analysis of component 1 (Improving the business environment) presents a special challenge due to the indirect relationship between the business environment reforms supported under the project and the stream of benefits that these are expected to trigger. In the absence of commonly accepted methodologies for the economic analysis of these types of investments, these types of projects are based on cost effectiveness and more general analytical work on the effects of business environment reforms on private sector growth and entrepreneurship. As such, the economic analysis of this component is based on its value as a channel for investment promotion, increasing the annual number of investment projects per year. Additionally, a qualitative analysis has been included for component 1 to provide further support for these investments, based on the literature discussing the impact of business environment reform on competitiveness and firm entry.

4. The total investment under components 1 and 2 is estimated to result in an NPV of US$13,223,259 million at the discount rate of 12 percent[63], and an ERR of 25.6 percent[64] with the base case scenario. Different assumptions and detailed data from multiple sources are used for the analysis of specific components. Correspondingly, each component includes its own sensitivity analyses, which follow.

5. The estimated NPV and ERR reflect the value for money of the investments under these components. These investments are expected to generate increases in income for beneficiaries that exceed the net present value of the project investment. The opportunity cost of World Bank funds is estimated at 10-12 percent. Since the ERR exceeds this percentage, the value of the

[63] Discount rate: This is based on the risk-adjusted opportunity cost of capital for World Bank financing in Swaziland.
[64] Valuation calculations are given over a fifteen year period.

Project activities outweighs the opportunity cost of using these funds for other investments in this or a similar country.

Component 1 Improving the business environment

6. This component will focus on three priority areas of the business environment: (i) implementation of the investor road map for a more favourable investing atmosphere; (ii) investment, trade, tourism, and entrepreneurship promotion; and (iii) supporting the access to finance infrastructure for MSMEs. As a result of the investments under this component, the number of investment projects in Swaziland is expected to increase, channelling both money and jobs into the local economy. The project is investing a total of US$10.1 million in this component disbursed over the five years of the project.

7. Assumptions:

(a) The technical data on the investment value and the number of jobs associated with the average investment project in Swaziland, the number of projects per year between 2003 to 2015, and the average local wage are taken from World Bank studies of investment projects, combined with data gathered during the identification and pre-appraisal missions, along with benchmarking provided by comparator country estimates. In many cases, these numbers were adjusted to arrive at more conservative estimates.

(b) The total number of additional investment project announcements per year as a result of the project is estimated at 1-2 additional announcements per year, of which 20 percent are actually implemented within 3 years.

Table A6.1: Economic analysis of Component 1

NPV (12% Discount rate)	**$10,608,419**
ERR	*34%*

Assumptions – Component 1

Without the project	
# of project announcements per year	1
Average project investment	57,000,000
Average number of jobs	169
Average salary (US$)	1500
Percentage of announcements implemented	20%
Percentage of investment allocated to initial costs	75%
Investment receipt delay (years)	3

With the project	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Number of additional investment announcements per year	-	-	1	1	2	2

8. A sensitivity analysis of the component's ERR is as follows:

Sensitivity Analysis with Different Scenarios
1. Reduction in portion of investment projects implemented from the assumed 20% to 10%
➔ Reduces ERR to 18%
2. Increase in portion of investment projects implemented from the assumed 20% to 30%
➔ Increases ERR to 46%
3. Increase in the delay of investment project implementation from the estimated 3 years to 5 years
➔ Reduces ERR to 22%
4. Reduction in the delay of investment project implementation from the estimated 3 years to 2 years
➔ Increases ERR to 45%

9. To provide further support for investments under this component, the relationship between the characteristics of the business regulatory environment and the performance of firms has also been documented (Djankov et. a1, 2002; Botero et. al, 2004, Acemoglu and Johnson, 2005; Mastruzzi, 2006; and Kaufmann et. a1, 2006) but most of this work is non-experimental and hence faces problems of endogeneity.

10. A recent study finds that barriers to starting a business are negatively and significantly correlated with business density and entry rate. Fewer procedures are associated with a greater number of registered firms and higher entry rates (Klapper, 2006). A similar relationship can also be found with the cost of starting a business. It is estimated that for every 10 percent decrease in entry costs, density and the entry rate increase by about 1 percent (Klapper, 2006). Simpler entry encourages the creation of new companies. Easier start-up is also correlated with higher productivity among existing firms. A study which analyzes data in 157 countries, finds that a reduction in entry costs raises output per worker by an estimated 29 percent (Barseghyan, L "Entry Costs and Cross-Country Differences in Productivity and Output." *Journal of Economic Growth* 13 (2008)). These targeted interventions are a key portion of the business environment reforms supported under the Project.

11. The 2008 World Bank Group Entrepreneurship Survey (WBGES 2008) includes new data on the impact of modernization of business registries on business creation. It gathers extensive data on the functioning and structure of business registries in 71 countries from the registrar of companies, as well as complementing data on the number of total and newly registered businesses in over 100 countries. This new empirical evidence suggests that greater ease in starting a business and better governance are associated with increased entrepreneurial activity. After controlling for economic development (GDP per capita), higher entrepreneurial activity is significantly associated with cheaper, more efficient business registration procedures (as measured by the *Doing Business 2009* "Starting a Business" indicators) and better governance (as measured by Kaufmann and others, 2008).

12. Similar research also highlights the importance of trade and investor facilitation on costs and ability to export. Delays in getting goods back and forth through the customs, as well as the overall unpredictability of transport times constrain firms from participating in time-sensitive production often important for manufacturing and agribusiness industries. Nordas (2005) finds that an additional day required for exporting is equivalent to being 70 km farther away from the

trade partner. Similar calculations suggest that if time to export can be reduced by 1 percent, exports on average could increase by more than 1.5 percent.

13. The data also show a positive and significant relationship between economic and financial development and entrepreneurship. The log of GDP per capita and domestic credit to the private sector (as a percentage of GDP) are both positively and significantly correlated with entry rates (see below) and business density. This suggests that greater business opportunities and better access to finance are related to a more robust private sector (Klapper et al. 2008), lending further credence to the access to finance investments supported by the Project.

Component 2(a.) Competitive Value chains in agribusiness and tourism

14. Component 2(a) will provide financing to address key knowledge constraints in agribusiness and tourism through support of business and farmer mentoring organizations. As a result, farmers and tourism businesses will be able to expand and improve their businesses and link into larger markets. The increased revenues will also increase the number of formal and informal jobs in both sectors. The project is investing a total of US$5.2 million in this sub-component disbursed over the five years of the project.

15. The particular channels through which this component impacts farmers' and tourism businesses are documented in detail in Annex 2 (Detailed Project Description). In the economic analysis of this component, the ERR is expected to be 16.1 percent. The NPV is expected to be about US$971,432, with a discount rate of 12 percent. The positive valuation indicates that the returns on investment for this sub-component exceed the returns that could otherwise be earned by investing in a project in the country. Hence, the additional tourism business revenue, improvements in farmers' income, and the monetized value of the jobs created outweigh the cost of investments under this sub-component.

16. Assumptions:

(a) The technical data on revenues, costs, and average wage are taken from data gathered during the identification and pre-appraisal missions, along with benchmarking provided by comparator country estimates. In many cases, these numbers were adjusted to arrive at more conservative estimates.

(b) The total number of beneficiaries is estimated at 120 farms, 25 associations, and 50 tourism businesses based on the project targets and validated by local experts in the cashew industry.

(c) In the base case scenario, the analysis assumes a revenue growth additionality of 7 percent for farmers, associations and tourism businesses. These assumptions have been tested according to the sensitivity analysis below.

Table A6.2: Economic analysis of Component 2(a)

NPV (12% Discount rate)	**$971,432**
ERR	*16.1%*

Assumptions – Component 2(a)

Total number of farm beneficiaries	120
Total number of associations	25
Total number of tourism businesses	50

Farmer companies	
Average number of employees	20
Average revenue	$30,000
Percentage costs	75%
Average value added	$7,500
Annual growth (without Project)	1%
Annual growth increase due to Project (Years 2-5)	7%
Number of years growth increases due to Project	3
Percentage formal	100%
Corporate tax rate	30%
Personal income tax rate	10%
Average salary (skilled)	$900
Average salary (unskilled)	$300
Annual growth in wages (skilled)	6%
Annual growth in wages (unskilled)	6%
Jobs created per $ increase in revenue (skilled)	0.0001
Jobs created per $ increase in revenue (unskilled)	0.0005

Tourism businesses	Micro/small	Medium	Large
Average number of employees	5	20	100
Average revenue	$5,000	$30,000	$100,000
Percentage costs	75%	75%	75%
Average value added	$1,250	$7,500	$25,000
Annual growth (without Project)	1%	1%	1%
Annual growth increase due to Project (Years 2-5)	7%	7%	7%
Number of years growth increases due to Project	3	3	3
Percentage formal	-	100%	100%
Corporate tax rate	-	30%	30%
Personal income tax rate	-	10%	10%
Average salary (skilled)	-	$900	$1,500
Average salary (unskilled)	$200	$300	$500
Annual growth in wages (skilled)	-	6%	6%
Annual growth in wages (unskilled)	6%	6%	6%
Jobs created per $ increase in revenue (skilled)	-	0.0001	0.0001
Jobs created per $ increase in revenue (unskilled)	0.0001	0.0005	0.0005

Associations	
Average number of members	75
Average income	$30,000
Annual income growth (without Project)	3%
Annual income growth additionality with Project	7%
Number of years growth increases due to Project	3

17. The sensitivity analysis shows that Component 2(a)'s ERR with only 4 percent revenue additionality will reduce the ERR 4 percent. In contrast, an 8 percent revenue additionality means that the component's ERR would increase to 20 percent with everything else held constant. The results of the sensitivity analysis are:

Sensitivity Analysis with Different Scenarios

1. Reduction in additional revenue growth to 4 percent
   ➔ Reduces ERR to 4%
2. Increase in additional revenue growth to 8 percent
   ➔ Increases ERR to 20%
3. Reduction in the number of impacted farms from 120 to 60
   ➔ Reduces ERR to 10%
4. Increase in the number of impacted farms from 120 to 140
   ➔ Increases ERR to 18%
5. Reduction in the number of impacted tourism businesses from 50 to 30
   ➔ Reduces ERR to 14%
6. Increase in the number of impacted tourism businesses from 50 to 70
   ➔ Increases ERR to 18%

18. The major impact of this component comes from improved income to farmers and tourism businesses and wages paid for jobs created as beneficiaries of the Project. The change in these affects the economic analysis and the returns of the project.

Component 2(b) Catalytic financing facility for start-ups and scale-ups

19. This sub-component aims at equipping entrepreneurs and existing businesses in Swaziland with seed capital to launch and expand sustainable new business ideas. As a result, a portion of participant entrepreneurs will be able to successfully launch and expand their businesses, thereby leading to the creation of jobs and income. Although a portion of these will fail, those that remain and grow will be able to employ others and continue to grow. The potential growth of individual businesses of different sizes with different failure rate scenarios has been estimated as part of this analysis. The project is investing a total of US$6.7 million for this component.

20. In the economic analysis of this component, the ERR is expected to be 15.7 percent. The NPV is expected to be about US$798 thousand, with a discount rate of 12 percent. Improvements in MSME income and the monetized value of the jobs created (beneficiaries for this sub-

component) outweigh the cost of investments under this sub-component. The sensitivity results of this component and the underlying assumptions are summed below.

21. Assumptions:

(a) The technical data on revenues, costs, annual growth rates, and average wage are taken from data gathered and validated by discussions with local experts (both private sector and government) during the identification and pre-appraisal missions and benchmarking against comparator countries. In many cases, these numbers were adjusted to arrive at more conservative estimates for the sub-component ERR.

(b) The total number of beneficiaries is estimated at 75 new entrepreneurs and 30 existing companies. Many of these companies will also be receiving mentorship services under component 2(a), which could further multiply the impact of financing. For the sake of conservatism, this multiplier effect has been excluded from the analysis. These estimates are derived from the amount of funding available for the sub-component and projected demand assessments. The failure rate in the base case scenario is estimated at 80 percent for entrepreneurs and 30 percent for existing businesses, due to the high failure rate of start-ups overall. The scenario without the project is that these companies would not be created given that the project is specifically targeting industries and ideas which would otherwise not receive financing in the credit market in Swaziland.

(c) The main impacts of the project are expected in the form of new business income and employment created through the start-up and scaled-up companies. The economic analysis assumes a job creation rate specified for businesses that develop to different sizes based on initial increases in revenue. These assumptions are based on revenue to labor ratios for the manufacturing and services sectors in comparator countries (data from the Enterprise Survey).

Table A6.3: Economic analysis of Component 2(b)

NPV (12% Discount rate)	US$798,468
ERR	*15.7%*

Assumptions – Component 2(b)

Scale-up	30
Failure rate (after 2 years)	30%
Number of beneficiaries	21

Start-ups	75
Failure rate (after 2 years)	80%
Number of beneficiaries	15

Assumptions, by type of business		
	Micro	Small/medium
Average number of employees	5	10
Average revenue	$5,000	$30,000
Percentage costs	75%	75%
Average value added	$1,250	$7,500
Annual growth due to Project initial financing	15%	15%
Percentage formal	0%	50%
Average salary (unskilled)	$400	$400
Average salary (skilled)		$900
Annual growth in wages	2%	4%
Jobs created per $ increase in revenue (skilled)		0.0002
Jobs created per $ increase in revenue (unskilled)	0.0002	0.0002

22. The sensitivity analysis shows that Component 2(b)'s ERR with a 90 percent failure rate for start-up entrepreneurs will only result in a 10 percent ERR. In contrast, a 70 percent failure rate will increase the component ERR to 21 percent with everything else held constant. The results of the sensitivity analysis include:

Sensitivity Analysis with Different Scenarios on the Failure Rate for Entrepreneurs and existing businesses receiving catalytic financing

1. Increase in failure rate to 90% for start-ups from the assumed 80%
   - ➔ Reduces ERR to 10%
2. Reduction in failure rate to 70% for start-ups from the assumed 80%
   - ➔ Increases ERR to 21%
3. Increase in failure rate to 40% for scale-ups from the assumed 30%
   - ➔ Reduces ERR to 14%
4. Reduction in failure rate to 20% for scale-ups from the assumed 30%
   - ➔ Increases ERR to 17%

23. The major impact of this component comes from the income created by each new and expanded business and the monetized value of the jobs created. The change in these affects the economic analysis and the returns of the project.

Rationale for public financing

24. Private capital for investment in Swaziland does not provide adequate financing for local businesses, particularly for proof-of-concept investments with high economic, financial and social returns, but accompanied by high levels of risk, uncertainty and initial investments. Additionally, the existing provisions for consulting services and financing of start-ups and scale-ups are minimal, emphasizing the need for public investment.

World Bank's value added

25. The World Bank's added value is substantial, encompassing its experience in the country, technical expertise, coordination support, and channeling global knowledge. The Bank's value added in low-income states is acknowledged to be substantial. For this project, this will include

direct technical expertise through intensive supervision; support for the coordination required, through a Bank team that incorporates members from all relevant sectors; and the channeling of global knowledge through connections to WB teams and counterparts working on similar projects (past or present) in other low-income states.

Annex 7: Lesson Learned and Reflected in the Project Design

a) Within Swaziland, since 2010, preparatory analytical and advisory activities have been undertaken on each of the areas covered by this Project. These include:

(i) Component 1A (Improving the Business environment):

- Jan 2012: A Time Release Study with the Swaziland Revenue Authority at land borders;
- Dec 2012: A rapid assessment on Investor Road Map progress with SIPA;
- June 2013 to Nov 2014: Implementation of a Customs Modernization project with the Swaziland Revenue Authority.

(ii) Component 1B (Promotion of investment, trade, tourism, and entrepreneurship):

- June 2012: Investment Spillovers study presented to SIPA (focus on agribusiness);
- June 2013: Assisting SIPA to formulate an Agribusiness linkages project proposal;
- May 2014: Conducting with SIPA and Institutional Assessment of investment and export promotion;

(iii) Component 1C (Improved access to finance for MSMEs):

- 2014 and ongoing: Provision of technical assistance on financial sector development under the FIRST trust fund.

(iv) Component 2 (Growth in agribusiness and tourism industries):

- 2011: Research and publication of a Rural Sector Review in two volumes, with special emphasis on smallholder agriculture, horticulture and livestock value chains;
- 2014: Research and publication of a detailed study on skills development in agribusiness.
- 2010: Drafting of a study on tourism as a source of economic growth.

These prior activities have allowed the project to benefit from more accurate sectoral information in Swaziland, and have built working relationships between various government bodies and the World Bank.

b) Proposed project activities reflect lessons from World Bank projects and broader experience as follows:

(i) Component 1A (Improving the Business environment):

- The design of Component 1A follows over 30 years of global reform experience, building up on 860 active and completed WB/IFC projects and a multitude of KM and lessons learnt in the areas of Investment Climate and Business Environment reforms.[65] The combination of legal, institutional and ICT reforms is well tested and established by the World Bank and other development partners like the United

[65] See Doing Business 2015, the IEG report on WBG's Investment Climate Reforms, EBG 2014; Reforming Business Registration Regulatory Procedures at the National Level, WBG 2006, How Many Stops in a One-Stop Shop, D.Christow, D.Walke, WBG 2010.

Nations Commission for International Trade Law (UNCITRAL), IADB, ADB and bilateral donors. This best practice approach has worked well in Africa, particularly in Doing Business reform champions like Rwanda, Liberia, Uganda, Ghana and Lesotho, recognized by the WB's Doing Business report. In Gambia, Liberia, Uganda and Rwanda, similar projects succeeded in creating fully operational One-Stop Shops centers for business services, including business and tax registration, licensing and permits. Globally such reforms prove to be the most effective form of service delivery for Government-to-Business (G2B) services, while also ensuring the secured storage of business information, interoperability between agencies and reduction of red tape and corruption. Small countries like Mauritius, the Seychelles and Rwanda (all supported by the WBG) are at the forefront of such reforms as acknowledged by Doing Business and the Enterprise Surveys.

These international practices are reflected in Component 1A as follows:

- The component focuses on providing a legislative and regulatory underpinning for investment climate reform;
- Appropriate technology will be deployed to improve service delivery, reduce time and cost for the private sector, while reducing operational cost of the government, thus reducing human interaction and opportunities for rent-seeking;
- Respected non-national and non-resident entrepreneurs and businesspersons would be engaged on an advisory council to ensure that appropriate and unbiased feedback on the investment climate is provided for policy makers.

(ii) Component 1B (Promotion of investment, trade, tourism, and entrepreneurship):

- The design of the investment promotion activities is consistent with the findings of various recent studies of investment promotion best practices, in particular that IPIs should have: (i) a clear strategy and targets; (ii) targeting of competitive sectors for FDI; (iii) strong cooperation with other investment promotion actors; and (iv) a conducive organizational culture, working methods, and organization.[66] The components of this project address all four of these best practice areas.

  In addition, sector-focused investor outreach (in this case, on agribusiness and tourism) is significantly more effective than generic economy-wide investment promotion. Evidence from WBG research and academic evidence show clearly that sector promotion based on well-worked out investment propositions attract more investor interest. A recent study by the University of Oxford found that sector-targeted investment promotion increase FDI inflows by 155 percent in the targeted sectors relative to non-sector targeted promotion.[67]

  Further, proactive investor facilitation is deemed important according to various

[66] "An Exchange of Good practice in Foreign Direct Invest Promotion", European Commission, A study carried out under the EU Framework ENTR/2009/033. Published by ED Enterprise and Industry, April 2013.
[67] Source: Harding, T. and B. S. Javorcik (2011), ''Roll Out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows'', Economic Journal 121, 1445–76.

research studies and investor surveys. For example in a recent survey by Development Counsellors International[68] of senior corporate executives with site selection responsibilities, 47 percent indicated a strong likelihood that they would use IPI Web sites and 83 percent said they would normally make direct inquiries with IPIs during the site selection process. In other words, investors seem open to persuasion if IPIs communicate effectively. If IPIs use carefully prepared information and good customer service, they have the opportunity to sway some investors that would otherwise not select their locations.

Finally, investor aftercare is a highly cost-effective way ensuring investment retention, expansion and diversification of the existing FDI base in any location. In a 2008 UNCTAD report[69], the potential of aftercare was well illustrated through a survey of 69 Investment Promotion Intermediaries. While the responding agencies devoted on average only 10 per cent of their resources to aftercare activities, some 84 per cent of the agencies stated that aftercare had higher or equal effectiveness to their other activities for generating reinvestment or expansion of existing activities, and 32 per cent of all inward FDI was estimated to come from reinvestment. Some countries – e.g. Ireland, Scotland, Thailand, Malaysia, Singapore, and others - report even higher proportions, up to two-thirds of all new FDI coming from aftercare activities.

- With respect to tourism promotion and development, the project will build on good practices from other World Bank operations, by focusing on strengthening competitiveness and improving performance of the sector. Experience suggests that public sector interventions in emerging destinations such as Swaziland should focus on four main areas: (i) Institutional support to improve the knowledge base on which good decision-making and policy-making depends; (ii) Capacity development to empower client countries to make better use of tourism knowledge and information; (iii) Enterprise development to help clients to create forward and backward linkages between tourism and other sectors of the economy; and (iv) Product Competitiveness to assist with partnership projects to upgrade tourism attractions and improve destination positioning. In line with best practices this operation will finance activities in all main focus areas by investing in sector diagnostics and institutional capacity, innovation, and entrepreneurship program, value-chain mapping and analysis, access to finance, and cost-sharing contributions for MSMEs, marketing assessments and destination positioning assistance, and support to investment promotion.

(iii) Component 1C (Improved access to finance for MSMEs):

- Activities in Component 1C aim to fill the information and infrastructure gaps that deter the development of financial sector in Swaziland, based on the evidence from the Swaziland Financial Sector Development Implementation Plan and international experience in countries facing challenges similar to those of Swaziland.

[68] Development Counsellors International, “A View from Corporate America: Winning Strategies in Economic Development Marketing,” (September 2011).
[69] http://unctad.org/en/Docs/webiteiia20082_en.pdf

- The development of credit infrastructure has contributed to improve access to finance and better the terms of financing for MSME, as suggested by cross-country evidence from WBG research.[70] These studies show that the introduction of a secured transaction framework results in an increase of almost 8 percentage points in access to bank finance, through credit, lines of credit and overdraft. Moreover, smaller firms are those that benefit the most. Even MSMEs that were already able to receive credit before the reform appear to profit from it, through: (i) extensions on the loan maturity (on average by 6 months); and (ii) cheaper interest rates (on average 3 percentage points lower) Cross-country evidence points also to large gains from credit bureau. On average, access to credit increases by 7 percentage points, loan maturity are extended by 7 months, while interest rates fall by 5 percentage points. The share of working capital funded by banks rises by 4 percentage points, potentially accelerating growth and improving allocation of capital towards most productive purposes.

- Similarly, academic and policy analytical works point to the benefits for MSME from optimizing partial credit guarantee schemes. The WBG and First Initiatives are finalizing the principles for public Credit Guarantee Schemes (CGS) for MSMEs. These lessons learned and best practices from around the world will inform the implementation of the Component. USAID local experience with the Development Credit Authority (DCA) warns that *per se* a review of the partial credit guarantees is unlikely to unlock MSMEs access to finance. If financial institutions are unable to assess the riskiness of potential borrowers, providing partial risk coverage would not be sufficient to expand loan portfolio. Hence, to address these issues, the Component is supporting additional measures geared to improve credit infrastructure and credit and risk assessment of MSMEs by financial institutions.

- Finally, investment in capacity building activities for financial institutions will build on the experience and lessons learned from other countries where similar interventions were carried out by the WBG as well as other international organizations such as USAID and Development Alternatives Incorporated.

(iv) Component 2 (Growth in agribusiness and tourism industries):

- The project takes a demand-driven approach for skills development to accompany the effort in job creation in agribusiness and tourism sectors. This approach is in line with a global trend to configure skills training according to the specific needs of economic development, especially in priority industries/sectors. For example, Brazil in the past two decades has used a technical and vocational training system where the funds collected through a levy are managed by the private sector and used for training skills which are demanded by the industries including agriculture/agribusiness under SENAR (the National Rural Learning Service) and tourism under SENAI (the National Service for Industrial Training).

[70] Peria, M. S. M., & Singh, S. (2014). The impact of credit information sharing reforms on firm financing? World Bank; and Love, I., Pería, M. S. M., & Singh, S. (2013). Collateral Registries for Movable Assets: Does Their Introduction Spur Firms' Access to Bank Financing? Journal of Financial Services Research, 1-37.

Project interventions will be guided through the institutional development of SWADE and STA as sector / industry management organizations. This approach reflects the experience of initiatives such as the European Cluster Management Foundation, and the approaches embodied in organizations such as TCI[71], in which private firms in particular industries can be assisted by sector-specific expertise and shared services.

- One of the key issues to get right is the functioning of the CFF (Component 2b). Globally, cost-sharing contributions have been used often in private sector development—including in many World Bank-financed projects—but their impact has varied and has sometimes been disappointing. Two salient lessons from this experience have been that success appears to depend on: (a) the readiness of the project design for implementation, including the preparation of a detailed implementation manual for the CFF and the preparation of a plausible list of recipient firms; and (b) the quality and commitment of the project management team, including on both the government side and the World Bank side. This project will reflect these lessons by preparing a project implementation manual as an effectiveness condition, and also by ensuring a frequent and effective coordination between technical specialists, the World Bank team, the PMU, and the Fund Manager. In addition, the project design has already benefited from consultations with many private sector firms in Swaziland (some of which are named in the main text of this document) who have expressed strong interest in the CFF and are anticipated to apply as soon as it is set up.

If these institutional challenges can be overcome, the economic development benefits from business plan competitions and cost-sharing contributions can be large. For example, a recent evaluation of the YouWiN! Business plan competition in Nigeria[72] found that firms generated thousands more jobs through making use of funding to purchase more capital and hire more employees. The business plan competition committed US$58 million to 1,200 firms. Firms operated mostly in agricultural production, IT and computer services, and some manufacturing. Winning firms received an average of approximately US$50,000 each, and managed to achieve a return to capital of approximately 19.5 percent per year. These firms generated 7,000 more jobs between them. Overall these grants cost US$8,538 per job created—which is equivalent to approximately 60 months of employment in Nigeria. By comparison, fiscal stimulus in the United States is estimated to cost US$92,136 per job created for government spending, and US$145,351 per job created for tax cuts.[73] In another comparison, the cost per job created by wage subsidies and vocational training programs range from US$11,000 to US$80,000.[74]

[71] http://www.tci-network.org – formerly known as The Competitiveness Institute.
[72] McKenzie, David (2015), 'Identifying and Spurring High-Growth Entrepreneurship: experimental evidence from a business plan competition', *Policy Research Working Paper 7391*, Washington DC: World Bank.
[73] https://www.whitehouse.gov/administration/eop/cea/Estimate-of-Job-Creation/
[74] Appendix 8 in McKenzie, 2015.

Annex 8: Project relationship with Land in Swaziland

1. Owing to the unusual institutional structure for landholding in Swaziland, a short annex is included giving an overview of land in Swaziland, together with the Project's relationship to land.[75]

2. Swaziland has a dual land tenure system. The country has a dual system of land management and administration covering two main types of land: Swazi Nation Land (SNL) and Title Deed Land (TDL).

- **SNL** vests in the King in trust for the Swazi nation, and tenure over SNL is not defined by legislation; the land is controlled and held in trust by the king and allocated by tribal chiefs according to traditional arrangements. This form of duality is a legacy from the early 1900s, when the Kings of Swaziland granted several land concessions to foreign interests. SNL is used predominantly for smallholder agriculture. Sixty-one per cent of SNL farm holdings are less than one hectare in size.
- **TDL** is privately owned, and is managed and administered by the formal government. It comprises predominantly cropland, livestock ranches, timber and fruit plantations, and mining concessions. A significant proportion of this subsector also consists of unused land, owned by absentees. Production techniques on most of the farms are large scale and capital intensive, using modern inputs and mechanization. The bulk of output produced on TDL is intended for the market. Sugar and timber are the principal commodities and account for a sizeable proportion of merchandise exports. Other important commercial crops are citrus, pineapples and livestock. Private commercial investment tends to be concentrated in this sector.
- A third (much smaller) sub-category of land is found in so-called "**Government land**", held by various ministries. It has its origins in concession and freehold land bought back before and after Independence. It is registered in the Deeds Registry in the names of the various government departments.

3. Initially, approximately two-thirds of Swaziland was conceded to private land owners. However, by repurchasing concession and privately held land, Swaziland has been able to expand the SNL to about 69 per cent of the 1,739,000 hectares comprising its land area. Today just over 500,000 hectares remains TDL.

4. Under Swazi custom, a chief allocates communal Swazi National Land only to married men and this does not result in ownership of the land. Land access rights are held by the community as a whole. Allocated land does not form part of the estate of a deceased person, but the death of a family head does not mean the end of a family's rights to the land. All SNL land belongs to the community and the chiefs have the right to allocate land in their respective areas to all members. Every chief has a responsibility to the King to ensure availability of land for cultivation to heads of all homesteads. The rights to land in the community are defined principally with respect to arable land. On the other hand, the rights to graze stock, gather fruits and hunt have traditionally been unrestricted. As a member of the community, a Swazi is entitled to the nation's resources and particularly its productive land. Thus a Swazi man technically always has a place where he can stay and he is entitled also to

[75] Much of the material in this annex is drawn from Chapter 4 in World Bank (2014), 'Institutions, Governance and Growth: Identifying Constraints to Growth in Swaziland', Washington DC: World Bank.

derive a living from the land on which he resides, both arable and pastoral. Theoretically, a chief can banish a family from his chiefdom, but such banishment is rare. A 2012 High Court case which upheld such a banishment found that "…land, including land concessions, in terms of the Constitution vests in the Ingwenyama [King Mswati III], save for privately-owned land…the Ingwenyama rules through the chiefs, with the assistance of Inner Councils." The judge did observe that "the Constitution did not allow a person to be deprived of land without due process of law and if that happened, a person was entitled to compensation for improvements on the land or loss".

5. A Land Policy was drafted in 1999 with the intention of addressing a number of issues, such as improving gender equity in land allocation and protection of property rights; the use of SNL as collateral for loans, the introduction of an efficient, effective and comprehensive system of land administration, and rangeland management issues. This Policy was not enacted and land law has not been updated. In the absence of a revision of the land law SADC has begun to collect geo-coded data for land parcels in which they specify land that is SNL, TDL, and a third category of land which is title deed land which has been resold. To the extent that this database is maintained and updated, it could serve as an important resource for private sector development.

6. A promising approach for agricultural development on SNL has been piloted by SWADE, in the Komati River basin and near the Lower Usutu River. These projects cover approximately 17,500 hectares, and include assistance to consolidate plots of Swazi National Land (SNL) into larger blocks that can be irrigated. The novelty of this approach lies particularly in its success in securing SNL, through working with local Chiefs to issue formal letters of consent. A letter of consent provides more security since it formally grants rights to use the land to family households for development purposes. Each letter includes the hectarage granted, and a membership list of the homesteads on that particular land. Currently there are 52 farmer companies in total, and most have already repaid their loans. Each farmer company involves multiple households; the largest of these is 127 hectares, containing 45 households. Most farmers in the SWADE projects are growing sugar cane, though some have ventured into bananas, sorghum, sweet potato, and maize.

7. In terms of the relationship between this Project and land in Swaziland, the CFF will be excluded from financing land that involves involuntary resettlement or land acquisition. However, voluntary pooling of smallholders' land for collaborative farming—as per the SWADE approach—is acceptable and would not be prohibited. Further, CFF funds can be used for commercial operations on TDL, which is formally administered and managed as described above—again, where it does not involve involuntary resettlement or land acquisition other than through willing buyer / willing seller.

8. An ESMF has been prepared for the project as the specific subprojects to be supported under the CFF are not known at this time. The ESMF includes a screening checklist. Under the screening checklist, subprojects which would require involuntary land acquisition and/or resettlement are specifically excluded for support under the Catalytic Fund. Stakeholder interviews during preparation found that time required for re-classification of land from Swazi National Land to title deed land can vary dramatically, but is usually quite time consuming. Similarly, the experience with participatory Chiefdom development plans has also noted the lengthy time needed for preparation. Given these factors, the relatively small size of the CFF and the small number of anticipated subprojects, and that land acquisition would not be necessary for the project to achieve the project development goals, the screening will exclude those subprojects which would be unlikely to be realizable in the time frame of the project and the CFF.