**AFRICAN DEVELOPMENT BANK**

**ADB/BD/WP/2018/214/Approved**
**24 October 2018**
**Prepared by: RDGS/PICU/PGCL**
Original: English

| |
|---|
| **BOARD APPROVAL**<br>**Lapse-of-time Procedure**<br><br>**24 October 2018** |

| |
|---|
| **FOR INFORMATION** |

# MEMORANDUM

**TO : THE BOARD OF DIRECTORS**

**FROM : Vincent O. NMEHIELLE**
**Secretary General**

**SUBJECT : ESWATINI - DEVELOPMENT OF MANZINI GOLF COURSE INTERCHANGE***

**ADB LOAN OF USD 30.02 MILLION**

The **Grant** proposal and the draft **Resolution** relating to the above-mentioned project, were submitted for **your consideration on a Lapse-of-time Basis** on 11 October 2018.

**Since no objection was recorded by 5:00 pm on 24 October 2018,** the proposal is considered as **approved** and the Resolution **adopted**.

**Attach.**

**cc: The President**

***Questions on this document should be referred to:**

| | | | |
|---|---|---|---|
| **Mrs. J. NGURE** | **Deputy Director General** | **RDGS** | **Extension 8501** |
| **Mr. A. OUMAROU** | **Director** | **PICU** | **Extension 3075** |
| **Mr. G. PENN** | **Acting General Counsel** | **PGCL** | **Extension 3220** |
| **Ms. A. M. MECCA** | **Division Manager** | **PGCL.1** | **Extension 3309** |
| **Mr. F. KANONDA** | **Regional Manager** | **RDGS.1** | **Extension 8411** |
| **Mr. J. K. KABANGUKA** | **Sector Manager** | **PICU** | **Extension 2143** |
| **Mr. A. MWILA** | **Team Leader** | **RDGS** | **Extension 2417** |

SCCD: F.S.

# AFRICAN DEVELOPMENT BANK

**PROJECT : DEVELOPMENT OF MANZINI GOLF COURSE INTERCHANGE**

**COUNTRY : KINGDOM OF ESWATINI**

---

**APPRAISAL REPORT**

***Date: August 2018***

| | |
|---|---|
| **Preparation Team** | Team Leader : Aaron MWILA, Principal Transport Engineer, RDGS<br>Team Members: Maurice WANYAMA**,** Senior Financial Management Specialist, RDGS<br>Tom OPIYO, Consultant Transport Economist<br>Linet GATAKAA, Principal Gender Specialist, RDGS<br>Moustapha DIALLO, Principal Procurement Specialist, RDGS<br>Selpha NYAIRO, Senior Procurement Specialist, RDGS<br>Annah RUTEBUKA, Social Expert, RDGS<br><br>Deputy Director General (RDGS): Josephine NGURE<br>Sector Director (PICU): Amadou OUMAROU<br>Regional Manager (RDGS 1): Farai KANONDA<br>Sector Manager (PICU): Jean Kizito KABANGUKA<br>Country Manager: Josephine NGURE |
| | |
| **Peer Reviewers** | Evelynne CHANGE, Chief Governance Expert RDGS<br>Mukul KUMAR, Chief Procurement Coordinator, RDGE<br>Jonathan NYAMUKAPA, Regional Financial Management Coordinator, RDGS<br>Richard MALINGA, Principal Transport Engineer, RDGS<br>Jeremy AGUMA, Principal Transport Economist, RDGE<br>Uche DURU Environmental Officer, RDGS |

# AFRICAN DEVELOPMENT BANK

# KINGDOM OF ESWATINI



# DEVELOPMENT OF MANZINI GOLF COURSE INTERCHANGE

**RDGS/PICU/PGCL DEPARTMENTS**

October 2018

# Contents

# Currency Equivalents

*As of 31 August 2018*

| | |
|---|---|
| 1 Unit of Account | = 18.3833 Emalangeni (EML) |
| 1 Unit of Account | = 1.40487 United States Dollars (USD) |
| 1 Unit of Account | = 1.19706 European Euros (€) |
| 1 USD | = 13.08541 Emalangeni (EML) |

# Fiscal Year

*1 April – 31 March*

# Weights and Measures

| | | |
|---|---|---|
| 1metric tonne | = | 2204 pounds (lbs) |
| 1 kilogramme (kg) | = | 2.200 lbs |
| 1 metre (m) | = | 3.28 feet (ft) |
| 1 millimetre (mm) | = | 0.03937 inch (“) |
| 1 kilometre (km) | = | 0.62 mile |
| 1 hectare (ha) | = | 2.471 acres |

# Acronyms and Abbreviations

| | | | |
|---|---|---|---|
| AASHTO | American Association of State and Highway Transportation Officials | MTP | Medium Term Plan |
| ADT | Annual Daily Traffic | M&E | Monitoring and Evaluation |
| AADT | Annual Average Daily Traffic | MTS | Medium Term Strategy |
| ADB | African Development Bank | NDS | National Development Strategy |
| AIDS | Acquired Immune Deficiency Syndrome | PAP | Project Affected People |
| ADF | African Development Fund | PAR | Project Appraisal Report |
| CC | Climate Change | PBA | Performance-based Allocation |
| CPIA | Country Political and Institutional Assessment | PCN | Project Concept Note |
| CPR | Country Performance Review | PIS | Project Implementation Support |
| COLTO | Committee of Land Transport Officials | PRSP | Poverty Reduction Strategic Paper |
| COMESA | Common Market for Eastern and Southern Africa | QCBS | Quality and Cost Based Selection |
| CSP | Country Strategy Paper | RD | Road Department |
| EIRR | Economic Internal Rate of Return | REC | Regional Economic Community |
| ESIA | Environmental and Social Impact Assessment | SADC | Southern African Development Community |
| ESMP | Environmental and Social Management Plan | SATCC | Southern African Transport and Communication Commission |
| EU | The Commission of European Union | SANRAL | South Africa National Road Agency Limited |
| FS | Feasibility Study | SSDIG | Strategy for Sustainable Development and Inclusive Growth |
| GDP | Gross Domestic Product | SEA | Swaziland Environmental Authority |
| GoKE | Government of The Kingdom of Estwatini | STI | Sexually Transmitted Infection |
| HIV | Human Immunodeficiency Virus | TA | Technical Assistance |
| KoE | Kingdom of Eswatini | TOR | Terms of Reference |
| OCB | Open Competitive Bidding | UA | Unit of Account |
| LCS | Least Cost Selection method | VOC | Vehicle Operating Cost |
| LTS | Long Term Strategy | WB | World Bank |
| MIC | Middle Income Country | | |
| MoPWT | Ministry of Public Works and Transport | | |

# Loan Information

## Client's information

**BORROWER:** KINGDOM OF ESWATINI

**EXECUTING AGENCY:** Ministry of Public Works and Transport (MoPWT) Through Roads Department

## Financing plan (million)

| Source | USD | (UA) | Instrument |
|---|---|---|---|
| ADB | 30.02 | 21.15 | Loan |
| Kingdom of Eswatini | 7.51 | 5.29 | Counterpart Funds |
| **Total Cost** | **37.53** | **26.44** | |

## Key financing information

| | ADB |
|---|---|
| Loan Type | Fully Flexible Loan |
| Loan | USD |
| Maturity | Up to 25 years inclusive of grace period |
| Grace period | Up to 8 years |
| Interest rate | Base rate + Funding Margin + Lending Margin + Maturity Premium |
| Base Rate | Floating Base Rate (6-month USD LIBOR reset each 1st February and 1st August)<br>A free option to fix the Base Rate is available |
| Funding Margin | The Bank funding cost margin as determined each 1st January and 1st July and applied to the Base Rate each 1st February and 1st August |
| Lending Margin | 80 basis points (0.8%) |
| Maturity premium | Up to 20 basis points |
| Interest rate features* | Option to fix, unfix and re-fix for a fee at any time, cap and collar |
| Currency features | Option to change currency at any time |
| Front end fees | 25 basis points to be charged on the new approved loan amount |
| Commitment fees | 25 basis points to be charged on the undisbursed balance of new loans |

## Timeframe - Main Milestones (expected)

| | ADB |
|---|---|
| Project approval | October 2018 |
| Effectiveness | December 2019 |
| Completion | December, 2022 |
| Last Disbursement | June, 2023 |
| Last repayment | October, 2044 |

*Project Summary*

## Project Overview

The project location at the Manzini Golf intersection represents a node along the country's only east-west corridor serving both urban and regional transit traffic. At peak hours, traffic exceeds 20,000 vehicles per day leading to congestion. The project will involve the upgrading of the junction to a grade separated interchange at an estimated cost of USD 37.53 million (UA26.244 million) to be implemented over 38 months (2018-2022). Project funding comprises a Loan from ADB USD 30.02 million (UA 21.15 million) and Counterpart Funding from Kingdom of Eswatini USD 7.51 million (UA 5.29 million). The project components include: (i) infrastructure investments and technical support; (ii) Project Management; and (iii) Cross cutting measures. The general population in the cities of Manzini and Matsapha will directly benefit from efficient and safe transport that will enable urban dwellers access social economic services and job opportunities. The intersection will enable easy and efficient access by taxis, cars, and other public transport in the urban environment as well as facilitate freight traffic to commercial and industrial sites. At the national level, the intersection provides easy access to the new international airport serving the entire population. From regional dimension, the improved intersection will benefit transit traffic between Mozambique and South Africa.

## Needs Assessment

The Project is of national and regional importance that provides a vital connecting point for the country and regional East-West Road corridor link. The high traffic volumes comprising of urban, national and regional traffic have constrained the capacity of the intersection that is no longer able to functional safely. Urgent intervention is needed to upgrade and improve its condition and ensure that it continues to optimally operate and contribute to the urban, national and regional economy. This intervention lies at the start of the on-going expansion of Manzini-Mbadlane (MR3) project financed by the Bank and will complement and improve functionality of the MR3 thus maximising its developmental impact on the economy. The project fits well with the country's development agenda (National Development Strategy- NDS-1999-2020s) and is in line with and the Bank's Ten Year Strategy and Country Strategy Paper (2014-18). It also directly addresses two (2) of the Bank's "High 5s" - Regional Integration and improving the quality of life of people and also indirectly the others on Industrialization and Feed Africa.

## Bank's Value Added

The Bank has wide experience in financing a range of flagship infrastructure of such scale in Africa and is thus preeminently placed to assist the Kingdom of Eswatini to successfully implement this project. The Bank's benefit is twofold: firstly, the Bank's wealth of experience in delivering projects across Africa will be applied; and secondly the Bank is also applying resources to address institutional challenges meant to improve the performance of the sector.

## Knowledge Management

The project will increase and consolidate the Bank's knowledge on the Transport Sector in the country. The proposed Road Investment and Maintenance Management Programme (RIMM) study is expected to not only generate knowledge in asset preservation and management but also contribute to government efforts to reform the sector. The study on railways will generate valuable knowledge in the sub-sector and assist the Bank's efforts to diversify the range of investment in other transport modes. During implementation the monitoring and evaluation components as well as awareness campaigns will provide opportunities for further knowledge accumulation. All these efforts will facilitate the Bank and KOE to improve project design and implementation activities that are not only unique to the country but other operations across the Bank's portfolio.

# RESULTS BASED LOGIC FRAMEWORK

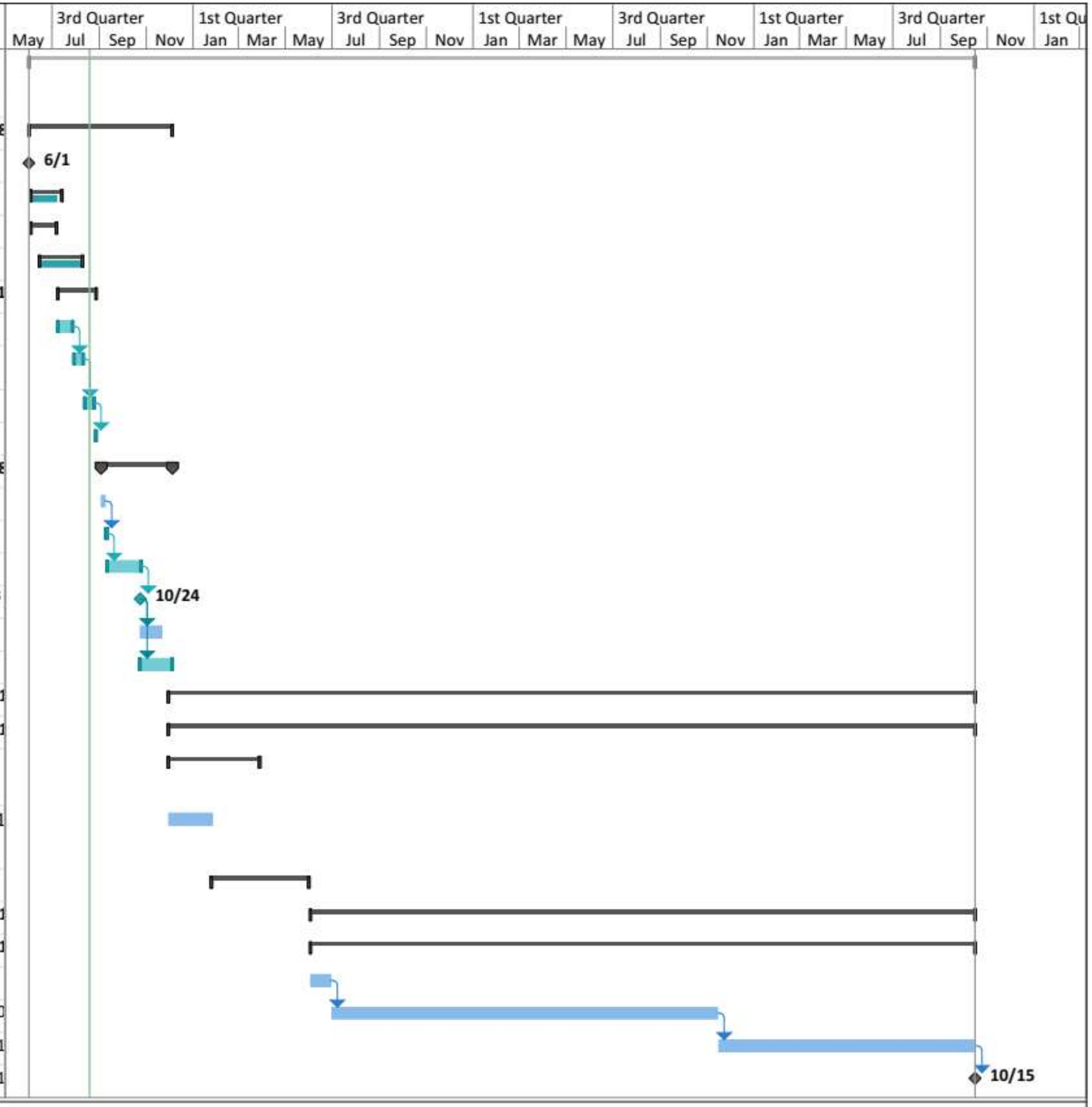
**Country and project name**: Development of the Manzini Golf Course Interchange
**Purpose of the project:** To support the country's growth through investing in safe, efficient and cost-effective transport systems that contribute to improving regional trade connectivity and improves urban mobility

| | RESULTS CHAIN | PERFORMANCE INDICATORS: INDICATOR (INCLUDING CSI) | PERFORMANCE INDICATORS: BASELINE 2018 | PERFORMANCE INDICATORS: TARGET 2021 | MEANS OF VERIFICATION | RISKS/MITIGATION MEASURES |
|---|---|---|---|---|---|---|
| IMPACT | **Impact**<br>Contribute to improved socio-economic development and trade | Poverty Incidence | 63% | 61% | • National Statistics from the Ministry of Economic Planning and Development<br>• By inspection/ RD Traffic Counts<br>• Monitoring and evaluation Report | Risk: Failure to achieve national and regional trade corridors free of barriers<br>Mitigation: Development Partners are committed to assist mobilise financial resources to regional initiatives |
| | | Value of Trade Goods (USD) | USD 0.95 Billion | USD 1.1 Billion | | |
| OUTCOMES | **Outcome 1**: Efficient and cost-effective transport system developed | Vehicle Operating Costs (Cost/veh-km) | Large bus = 1.33;<br>Medium truck = 1.57;<br>Heavy Truck = 2.08 | Large bus = 0.86<br>Medium truck = 0.07;<br>Heavy Truck = 0.07. | • By inspection/ RD Traffic Counts<br>• Monitoring and evaluation Report | <u>Risks:</u> (i) Lack of Axle Load Control; and (ii) Poor road maintenance practices.<br><u>Mitigation Measures:</u> (i) on-going project includes construction of permanent axle load scales on the MR3; and; (ii) road reforms aimed at creating a road fund are underway and project includes preparation a Road Investment and Maintenance Management Programme; other forms of financing like PPPs are actively being pursued with some success i.e. concession of the Lukhula-Big-Bend road. |
| | | Weighted average journey times (min) | 80 seconds | 10 seconds | • By inspection/ RD Traffic Counts<br>• Monitoring and evaluation Report | |
| | | Operating efficiency of interchange (Volume/capacity) ratio | Link 1 - 1.20<br>Link 2 - 0.5<br>Link 3 - 1.03 | Link 1 – 0.34<br>Link 2 - 0.28<br>Link 3 - 0.19 | • By inspection/ RD Traffic Counts<br>• Monitoring and Evaluation Report | |
| | **Outcome 2:** Contribute to improved road safety | No. of accidents and fatalities on the MR3 | Accidents = 3127/ year<br>Fatalities =175/year | 5% reduction | • Road Safety Unit Reports | |
| | **Outcome 3:** Contribute to increased job opportunities | No. permanent jobs generated (% female, % youth) | No jobs | 100 permanent jobs (30% female, 20% youth) | • Monitoring and Evaluation Report | |
| OUTPUTS | **Component 1**: **Infrastructure Improvements**<br>(i) Interchange constructed<br>(ii) Studies conducted<br>(iii) Internships trainings for graduate engineers & technicians | (i) Km<br>(ii) Studies<br>(iii) Graduates trained | Zero (0)<br>Zero (0)<br>Zero (0) | (i) 3 Km<br>(ii) Three (3) studies<br>(iii) 10 (50% women) | • By inspection/ Substantial completion of works (RD)<br>• Quarterly Progress Reports | <u>Risks</u>: counterpart funds; implementation delays; cost over-runs; project control; and poor tender response<br><u>Mitigation</u>: budget commitment; advance procurement to be used; provision of adequate contingencies; provision of adequate logistics support to carry out project supervision; and use of ICB to increase competition |
| | **Component 3: Cross cutting**<br>(i) ESMP Implementation<br>(ii) Communities/Workers Sensitized | (i) ESMP measures<br>(ii) Awareness campaigns (No. Sensitised) | Zero (0)<br>Zero (0) | (i) ESMP implemented<br>(ii) 200 sensitized | • Project quarterly progress reports<br>• Annual ESMP Compliance Monitoring Report<br>• Project Quarterly Progress Reports | <u>Risks</u>: (i) Delay in payment of land compensation<br><u>Mitigation</u>: (i) GoKE committed to implement ESMP with a budget commitment |

| KEY ACTIVITIES | COMPONENTS | INPUTS | |
|---|---|---|---|
| | <u>Component 1:</u> Infrastructure Investments + Technical Support: construction of junction & ESMP, Supervision, Studies –Railways, Manzini Bypass and Road Investment and Maintenance Management Programme, Road Safety Audit<br><u>Component 2:</u> Project Management (Project Implementation Support, Financial &Technical Audits, Monitoring and Evaluation and Fiduciary Management Support)<br><u>Component 3</u>**:** Cross cutting : ESMP Implementation, Awareness Campaigns ( HIV/AIDS , Malaria, Ebola, Gender Sensitisation, Road Safety) | <u>Budget</u> <u>(USD Million)</u><br>Component 1 29.83<br>Component 2 1.25<br>Component 3 0.15<br>Contingencies 3.24<br>**Total** **<u>37.53</u>** | <u>Financing Plan</u> <u>(USD Million)</u><br>ADB Loan 30.02 80%<br>KoE Counterpart Fund 7.51 20%<br>**Total** **<u>37.53</u>** 100% |

**PROJECT TIME FRAME**

| ID | Task Name | Duration | Start | Finish |
|---|---|---|---|---|
| 0 | **Development of Manzini Golf Course Interchange** | **44.05 mons** | **Fri 6/1/18** | **Fri 10/15/21** |
| 1 | **1 Project Processing** | **6.65 mons** | **Fri 6/1/18** | **Tue 12/4/18** |
| 2 | 1.1 Start | 0 wks | Fri 6/1/18 | Fri 6/1/18 |
| 3 | **1.2 Preparation** | **1.5 mons** | **Mon 6/4/18** | **Fri 7/13/18** |
| 4 | **1.2.1 Project Concept Note** | **1.25 mons** | **Mon 6/4/18** | **Fri 7/6/18** |
| 9 | **1.3 Summary ESIA and ESMP** | **2 mons** | **Fri 6/15/18** | **Thu 8/9/18** |
| 11 | **1.4 Project Appraisal Report** | **1.8 mons** | **Mon 7/9/18** | **Mon 8/27/1** |
| 12 | 1.4.1 Appraisal Mission and Preparation of P | 3 wks | Mon 7/9/18 | Fri 7/27/18 |
| 13 | 1.4.2 Peer Review + Consolidation of Comments + IWG | 10 days | Mon 7/30/18 | Fri 8/10/18 |
| 14 | 1.4.3 Country Team Review | 10 days | Mon 8/13/18 | Fri 8/24/18 |
| 15 | 1.4.4 CT Submitts PAR to VP | 1 day | Mon 8/27/18 | Mon 8/27/18 |
| 16 | **1.5 Loan Preparation** | **3.35 mons** | **Mon 9/3/18** | **Tue 12/4/18** |
| 17 | 1.5.1 Preparation of Loan Proposal by Count | 1 wk | Mon 9/3/18 | Fri 9/7/18 |
| 18 | 1.5.2 Negotiations | 1 day | Mon 9/10/18 | Mon 9/10/18 |
| 19 | 1.5.3 Presentation of Loan Proposal for Boa | 6.5 wks | Tue 9/11/18 | Thu 10/25/18 |
| 20 | 1.5.4 Board Approval | 0 mons | Wed 10/24/18 | Wed 10/24/18 |
| 21 | 1.5.5 Signature | 4 wks | Wed 10/24/18 | Tue 11/20/18 |
| 22 | 1.5.6 Effectiveness | 6 wks | Wed 10/24/18 | Tue 12/4/18 |
| 23 | **2 Implementation of project component** | **37.55 mons** | **Fri 11/30/18** | **Fri 10/15/21** |
| 24 | **2.1 Road Infrastructure Investment A** | **37.55 mons** | **Fri 11/30/18** | **Fri 10/15/21** |
| 25 | **2.1.1 Procurement of supervision consultants** | **4.25 mons** | **Fri 11/30/18** | **Thu 3/28/19** |
| 43 | 2.1.2 Finalisation of Bidding Doc | 2 mons | Fri 11/30/1 | Thu 1/24/1 |
| 44 | **2.1.3 Procurement of civil works** | **4.55 mons** | **Fri 1/25/19** | **Fri 5/31/19** |
| 55 | **2.1.4 Construction** | **31 mons** | **Mon 6/3/19** | **Fri 10/15/21** |
| 56 | **2.1.4.1 Road Construction** | **31 mons** | **Mon 6/3/19** | **Fri 10/15/21** |
| 57 | 2.1.4.1.1 Mobilization | 4 wks | Mon 6/3/19 | Fri 6/28/19 |
| 58 | 2.1.4.1.2 Substantial Completi | 18 mons | Mon 7/1/19 | Fri 11/13/20 |
| 59 | 2.1.4.1.3 Defects Liability Peri | 12 mons | Mon 11/16/ | Fri 10/15/21 |
| 60 | 2.1.4.1.4 Project Closure | 0 wks | Fri 10/15/21 | Fri 10/15/21 |



**REPORT AND RECOMMENDATION OF THE MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO KINGDOM OF ESWATINI**

Management submits the following Report and Recommendation on a proposed ADB Loan of **USD 30.02 million** to KINGDOM OF ESWATINI.

# 1. STRATEGIC THRUST & RATIONALE

## 1.1. Project linkages with country strategy and objectives

1.1.1 For the past five (5) years, The Kingdom of Eswatini's economy has remained generally subdued with weak Gross Domestic Product (GDP) growths averaging 2.2%. Key contributing factors have included a drop in government revenues, slumped agriculture output due to a devastating drought, poor performance of the mining sector, weak business confidence, low Foreign Direct Investment (FDI) and poor prospects with South Africa that accounts for over 80% of its trade import and exports. Signs of recovery have remained elusive and hinge on government's ability to increase revenues, manage fiscal imbalances in expenditure, improve the business environment and promote growth of the private sector. Robust and wide-ranging sustainable growth is needed to boost the economy to one that not only reduces the notoriously high levels of poverty, but is also inclusive.

1.1.2 The country's GDP growth is articulated in the National Development Strategy (NDS-1999-2022) and underscores infrastructure development as key to stimulating economic development and enhancing productivity, income and consumption that result in improved standards of living for the poor. Other key development strategies include the Strategy for Sustainable Development and Inclusive Growth (SSDIG-2030). The SSDIG-2030 is a review of the NDS and provides an over-arching framework that provides a platform for the achievement of the country's sustainable development. Of relevance to this project is the pillar "Infrastructure Development, Balanced Regional Growth and Urbanisation" that largely recognises that " a well a developed and reliable functional infrastructure is a catalyst for growth, prosperity, enhanced investment inflows, trade expansion and creation of employment opportunities. Through this pillar, the country has identified strengthening and investing in efficient transport and communication systems that contribute to reducing trade costs and boost the country's national and regional competiveness.

1.1.3 The project aligns with the Bank's Ten-Year twin objectives that promotes inclusivity through development of infrastructure as a key priority area and promotion of green growth through development of sustainable infrastructure. The project aligns with: (i) the country's CSP (2014-18), Pillar 1- Supporting Infrastructure Development for Sustainable and Inclusive Growth so as to position the country as a competitive centre for the region; and (ii) the Bank's Regional Integration Strategy (RIS 2014-2023) – Pillar I: support to projects that foster regional integration. The project also aligns with the "High-5" - as it aims to minimize transport and logistics costs, travel times, and uncertainties on the section of the MR3 thereby boosting regional connectivity (**Regional Integration**), opening opportunities for the country's participation in global industrial activities (**industrialisation**) and agribusiness opportunities (**Feed Africa)** in addition to improving access to social services, jobs and opportunities for social inclusiveness (**Improve quality of life**). The project is also aligned with the Bank's Urban Strategy, which recognises the transformation and benefits of urban centres into transport hubs.

## 1.2. Rationale for Bank's involvement

1.2.1 Landlocked and nestled between two (2) large economies, Eswatini lies on a nexus that closely interlinks the economies of South Africa and Mozambique. The country's economy benefits from the spill-over of these countries' economic activities. South Africa absorbs about 60% of its exports and Eswatini hosts some of its blue chip industrial footprint. In fact, Eswatini is ranked 3rd/4th on the intra-regional trade within the Southern Africa Development Community (SADC) region, reaffirming the need and importance of an efficient network of transboundary connections. The transport sector is critical for the country and together with storage contributes at least 11% of GDP to the economy.

1.2.2 The three (3) primary modes of transport include roads that predominate, railways and aviation. Railways make up a substantial share of the country's freight transport and have provided a lucrative North-South link for mining related transit traffic from Northern to Southern parts of South Africa and the East -West link has been critical to the country's import and export traffic. Roads, however, provide the dominant form of transportation in the country and account for at least 86% of the trade logistics. It is estimated that 2-3 million tonnes or 100, 000 Twenty-foot Equivalent Unit (TEU) s annually are transported on the network. High transport costs however affect the country's competiveness and unsurprisingly contribute to the country's lowly ranked Global Competitiveness Index of 122 compared to its neighbours including South Africa (61) and Botswana (63) with comparable MIC status. Contributing factors in the road sector such as congestion and road accidents compound the inefficiencies.

1.2.3 As highlighted above Government is set to address these inefficiencies through the SSDIG that broadly advocates investing in development of infrastructure that reduces transport costs and improves competitiveness. The National Transport Master Plan (2013) broadly articulates the investment priorities in the sector and advocates for sustainable infrastructure, asset preservation and institutional strengthening coupled with the need to develop an integrated and seamless system that reduces transport cost and improves efficiency.

1.2.4 The interchange proposed for upgrading is a critical node on the country's only east-west transboundary road corridor (MR3) that connects the country with South Africa (at Ngwenya) and Mozambique (at Lomahasha). The MR3 is a designated SADC regional road used as a facilitator for regional trade and integration for the region as a whole. The road also importantly passes through the country's capital Mbabane and the second largest city Manzini as well as the industrial town of Mustapha. The major drivers of Eswatini's GDP (manufacturing, agriculture, services, retail) are thus within or in proximity of the proposed project and the MR3 corridor. The city of Manzini is the second largest city and the location of the commercial business district. Not surprisingly, traffic on MR3 on the Mbabane-Matsapha-Manzini corridor is congested with traffic exceeding 20,000 Average Daily Traffic (ADT) either heading to or passing through Manzini at the proposed junction.

1.2.5 The improvement of the junction has become inevitable to increase capacity and improve traffic flow and safety. This intervention lies at the start of the on-going expansion of Manzini-Mbadlane project financed by the Bank and will complement and improve functionality of the MR3 and also builds on the benefits of the Bank's previous (2003,2009) interventions on the MR3 thus maximising its developmental impact on the economy. As an added rationale, the solution ensures seamless vehicle flow of thoroughfare and trade traffic and boosts the City of Manzini's economic prospective and competiveness through increased mobility for its population to access in the urban environment, social-economic services and jobs.

## 1.3. Donor Coordination

1.3.1 In 2017, total external assistance to Swaziland amounted to USD 224 million making up least 23% of government revenue and 5.7% of GDP. The share of assistance was led by health (47%), followed by infrastructure (14%), Agriculture (21.3%), Multi-Sector (7.4%) and Water and Sanitation (7.2%). To date, the Bank and the Arab States (BADEA, Kuwait, etc.) have dominated the transport sector. The EU, the United States - Presidents Emergency Plan for Aids Relief (PEPFAR) and Global Fund concentrate on the agriculture and health sectors. Similarly, the UN focuses on the social-economic development, as well as environmental and climate change. Others include Taiwan (Multi-Sector), the World Bank (Health/Social Protection) and JICA (Education/Capacity Building). Donor coordination at both national and sector level exists. At national level, coordination is led by Aid Coordination and Monitoring Section (ACMS) of the Ministry of Economic Planning and Development (MoEPD). At the sector level, Sector Wide Approach (SWAps) have been used since 2008 in established sub-sectors of Education & Training, Water & Sanitation, Health and Agriculture. There is however no formal coordination in the transport sector, though the Bank's on-going operation did provide some level of co-operation with the Arab States through Abu Dhabi Fund for Development (ADDF), BADEA, OFID, and KUWAIT FUND who are co-financing the project. As this project marks a subsequent major transport investment in the last five (5) years, the Bank will exploit the opportunity to actively participate in promoting coordinating sector support.

**Table 1.1: Donor Coordination**

| Sector or subsector | Size | | |
|---|---|---|---|
| | GDP | Exports | Labor Force |
| Transport (+ storage) | [11%] | [N/A] | [N/A] |
| **Players - Public Annual Expenditure-Roads (average)*** | | | |
| **Government** | **Donors** | Taiwan | 0.10 % |
| 70 million UA | 28 million UA | Kuwait | 1.44 % |
| 72% | 28% | BADEA | 2.43 % |
| | | OFID | 2.78 % |
| | | ADB | 7.80 % |
| | | Others | 13.46% |
| **Level of Donor Coordination** | | | |
| Existence of Thematic Working Groups | | | Y** |
| Existence of SWAPs or Integrated Sector Approaches | | | Y** |
| ADB's Involvement in donors coordination*** | | | Y*** |

** averaged of six (6) years* *** In other sectors* **** Informal engagement*

# 2. PROJECT DESCRIPTION

## 2.1. Development Objectives

2.1.1 The project aims to support the country's growth through investing in safe, efficient and cost-effective transport systems that contribute to improving regional trade connectivity and improves mobility in the urban areas thereby opening up opportunities for economic activities, access to social economic services and jobs. The specific objective is to provide an efficient cost effective and safe transport system. The project will positively impact (i) vehicle operating costs; (ii) travel time between regional and urban centres; and (iii) road safety through reduced road accidents on the MR3. The project is also expected to provide gender balanced job opportunities for skilled/semi-skilled Emaswati.

## 2.2. Project components

2.2.1 The Project constitutes an important node on the MR3 corridor, which is of strategic national and regional importance. Given the corridor's inability to cope with present and future traffic, its upgrade is necessary to maintain it as a route of choice providing safe and efficient movement of freight and services. The components that have been included in the project are firstly, aimed to ensure that the MR3 as a unit continues to provide its intended primary functions and secondly, broadly address other closely related cross cutting issues in the sector. A summary of the components to be financed is provided in Table 2.1. Details on Project Components are provided in the Annex B.3.

**Table 2.1: Project Components**

| No. | Component | Estimate (million) | | Description |
|---|---|---|---|---|
| | | US$ | UA | |
| 1 | **Infrastructure Investments and Technical Support** | 21.01 | 14.83 | Construction of the Golf Course Interchange including ESMP implementation |
| | | 3.15 | 2.22 | Design Review and Construction Supervision Services |
| | | 0.22 | 0.15 | Road Safety Audit |
| | | 2.00 | 1.41 | Detailed Design for the Swazi Rail Link Project (Sidvokodvo and Phuzumoya) |
| | | 2.18 | 1.53 | Road Investment and Maintenance Management Programme |
| | | 1.33 | 0.93 | Update of Studies for Manzini Bypass |
| 2 | **Project Management** | 0.28 | 0.19 | Monitoring and Evaluation |
| | | 0.64 | 0.45 | Financial, Procurement and Technical Audits |
| | | 0.16 | 0.11 | Project Implementation Support (PIS) |
| | | 0.17 | 0.12 | Fiduciary Management Support + Project Accountant |
| 3 | **Cross Cutting** | 0.15 | 0.10 | Sensitisation of communities on Communicable Diseases and Road Safety |

### 2.3. Technical solution retained and other alternatives explored

2.3.1 The inclusion of studies for the Swazi Rail Link Project is premised on its significance. The project promoted by South Africa and Eswatini is conceived as a building block towards a more integrated national and regional rail system. The project includes construction of missing links (150km) in the two (2) countries and upgrades (130km) in Eswatini at a total estimated cost of USD1.5 billion. The section between Sidvokodvo and Phuzumoya is prioritised for upgrading and the studies included are intended to prepare bankable documents.

2.3.2 In 2016, updated traffic data collected as part of the design review of the Manzini-Mbadlane Project (originally designed in 2010), presently being upgraded, indicated substantial increases of up to 100% traffic volumes from 13,000 to over 26,000 ADT at the intersection pointing to likely poor operation should traffic signals under the current scope be returned. The three (3) principal arms of the intersection indicate demand flows of 2,683 veh/hr (Link 1-Manzini Circle to Golf Course), 1,820veh/hr (Link 2-Golf Course to Carson Motors) and 2,544 veh/hr (Link 3-Carson Motors to D29) with respective volume capacity (vc) ratios of 1.2 v/c, 0.5 v/c and 1.03 v/c for which the Level of Service (LoS) are classified as congested as per [1]Highway Capacity Manual 2000.

2.3.3 Three (3) alternative interchange configurations were proposed to address the expected poor traffic conditions at the intersection in the future, and contribute to decreases in travel

[1]The Transport and Research Board (TRB) Highway Capacity Manual provides state of the art techniques for estimating the capacity and determining the level of service for transportation facilities including intersections and roadways as well as facilities for transits , bicycles and pedestrians. For more than 50 years, the HCM has fulfilled this goal earning a unique place in the esteem of the transportation community.

times and vehicle operating costs, as well as increases in comfort and safety. A Multi-Criteria Analysis of the three (3) alternative interchange configurations involved an assessment on: flexibility for future expansion; safety; traffic capacity; service to the neighbouring land developments; environmental and social impacts; and aesthetics was undertaken. Alternative two (2) was scored the highest on these considerations.

**Table 2.2: Project Alternatives Considered and Reasons for Rejection**

| | Options | Brief description | Reasons for rejection |
|---|---|---|---|
| 1 | Alternative 1 | Directional type of interchange that wholly fulfils the High Highway (HCM) standards | • Uneconomical as it incorporates extended flyovers at two points, inflexible for future extension and less access to the surroundings |
| 2 | Alternative 2 | A combined Trumpet Interchange that wholly fulfils the HCM standards. It is safe, economical, flexible with extended Right of Way (RoW), future extensions and accessible to the surroundings | • Selected Alternative |
| 3 | Alternative 3 | Trumpet Interchange that wholly fulfils the HCM standards | • Uneconomical, inflexible, Limited RoW |

2.3.4 The detailed design of the selected alternative is based on codes of practice commonly used in the region including SATCC, SANRAL, AASHTO and COLTO. The interchange is designed for geometry, pavement and structures and has 10 segments totalling 3kms. The geometry was influenced by land availability, right of way limits and number of access roads. Conventionally designed earthworks are applied for the ramp sections and upper pavements consistent with those of the on-going project. There are two (2) major reinforced concrete bridge structures of 40m and 30m. Both bridges are located on the main MR3 road and carry traffic over interlinking roads.

## 2.4. Project type

2.4.1 The project is designed as a single investment operation to be financed through ADB loan facilities from the Banks's country allocation for Estwatini and counterpart funding. The investments against which the funds are to be disbursed are well defined and specific. As such, the project approach is the most appropriate arrangement for Bank's intervention in this operation.

## 2.5. Project cost and financing arrangement

2.5.1 The total project cost as shown in table 2.3 is USD 37.53 million (UA 26.44 million) of which the foreign exchange cost is USD 29.83 million (UA 21.01 million) or 80% of the total, and the local cost is USD 7.70 million (UA 5.43 million) or 20% of the total cost. These cost estimates are based on 2017-2018 detailed design studies of the project as well as international norms and average unit prices for the works and services.

**Table 2.3: Project cost estimates by component**

| No | Components | US$ (millions) | | | UA (millions) | | | % FE |
|---|---|---|---|---|---|---|---|---|
| | | Currency | | | | | | |
| | | Foreign | Local | Total | Foreign | Local | Total | |
| 1 | Infrastructure Investments + Tech. Support | 23.89 | 6.00 | 29.89 | 16.83 | 4.24 | 21.07 | 80% |
| 2 | Project Management | 0.86 | 0.39 | 1.25 | 0.60 | 0.27 | 0.87 | 80% |
| 3 | Cross Cutting | 0.12 | 0.03 | 0.15 | 0.08 | 0.02 | 0.10 | 80% |
| | **Base Cost** | **24.87** | **6.42** | **31.29** | **17.51** | **4.53** | **22.04** | |
| | **Physical Contingency** | 2.48 | 0.64 | 3.12 | 1.75 | 0.45 | 2.20 | |
| | **Price Contingency** | 2.48 | 0.64 | 3.12 | 1.75 | 0.45 | 2.20 | |
| | **Project Cost** | **29.83** | **7.70** | **37.53** | **21.01** | **5.43** | **26.44** | |

2.5.2 As shown in table 2.4 total ADB contribution to the project would be USD 30.02 million (UA 21.15 million). The KoE is expected to contribute a total of USD 7.51 million (UA 5.29 million) as counterpart funding which is less than 50% required for ADB countries. The Bank Policy on Eligible Expenditures allows for the Government's contribution of less than 50% for ADB financing against a justification. This is provided in Annex V. The basis for this recommendation is that the country is currently facing a challenging macroeconomic environment and reducing its financing contribution to this project will provide the needed fiscal space for the Government to implement growth centric and inclusive development programmes as the country embarks on consolidating the budget and returns to fiscal stability.

**Table 2.4: Sources of financing**

| Source | USD million | UA million | % |
|---|---|---|---|
| ADB Loan | 30.02 | 21.15 | 80 |
| KoE Contribution | 7.51 | 5.29 | 20 |
| **Total** | **37.53** | **26.44** | |

2.5.3 The project cost by category of expenditure and schedule by component are presented in tables 2.5 and 2.6 respectively.

**Table 2.5: Project cost by category of expenditure**

| No | Category | US$ (millions) | | | UA (millions) | | | Funding Source | |
|---|---|---|---|---|---|---|---|---|---|
| | | Currency | | | | | | (US$ million) | |
| | | Foreign | Local | Total | Foreign | Local | Total | ADB | KOE |
| 1 | Civil Works | 16.80 | 4.21 | 21.01 | 11.86 | 2.97 | 14.83 | 14.74 | 6.27 |
| 2 | Services | 8.07 | 2.05 | 10.12 | 5.65 | 1.45 | 7.10 | 10.12 | |
| 3 | Goods (PIS) | | 0.02 | 0.02 | | 0.01 | 0.01 | 0.02 | |
| 4 | Other (PIS Logistics) | | 0.14 | 0.14 | | 0.10 | 0.10 | 0.14 | |
| | | | | | | | | | |
| | **Total Base Cost** | **24.87** | **6.42** | **31.29** | **17.51** | **4.53** | **22.04** | **25.02** | **6.27** |
| | Physical Contingency | 2.48 | 0.64 | 3.12 | 1.75 | 0.45 | 2.20 | 2.50 | 0.62 |
| | Price Contingency | 2.48 | 0.64 | 3.12 | 1.75 | 0.45 | 2.20 | 2.50 | 0.62 |
| | **Total** | **29.83** | **7.70** | **37.53** | **21.01** | **5.43** | **26.44** | **30.02** | **7.51** |

**Table 2.6: Expenditure schedule by component**

| No | Components | USD millions | | | | |
|---|---|---|---|---|---|---|
| | | **2019** | **2020** | **2021** | **2022** | **Total** |
| 1 | Infrastructure Investments + Tech. Support | 5.97 | 10.46 | 10.46 | 3.00 | 29.89 |
| 2 | Project Management | 0.25 | 0.43 | 0.43 | 0.14 | 1.25 |
| 3 | Cross Cutting | 0.03 | 0.05 | 0.05 | 0.02 | 0.15 |
| | **Total Base Cost** | **6.25** | **10.94** | **10.94** | **3.16** | **31.29** |
| | Physical Contingency | 0.62 | 1.09 | 1.09 | 0.31 | 3.12 |
| | Price Contingency | 0.62 | 1.09 | 1.09 | 0.31 | 3.12 |
| | **Total Project Cost** | **7.49** | **13.12** | **13.12** | **3.78** | **37.53** |

## 2.6. Project's target area and population

2.6.1 The project will not only provide benefits for the population of over 250,000 in Manzini City but also influence nearby satellite cities including Matsapha - the industrial heartland - and the country and region at large. The population in Manzini will directly benefit through efficient and safe transport that will enable urban dwellers to access social economic services and job opportunities. The intersection will enable easy and efficient access by taxis, cars, and other public transport. Small-scale commercial and agriculture activities will also directly benefit through reduced transport costs of inputs and produce along the value chain. The industrial city of Matsapha with a broad manufacturing base in textiles, metal works, food processing, paper mills, engineering, beverage processing, building and construction, and others, provides employment to a population of over 30,000. The project will ensure efficient flow and reduced transport costs for commercial freight providing inputs and deliveries to the city's industries thereby boosting the competitiveness of products. The sugar producing regions to the east of the country that transport raw products to processing plants at Matsapha will greatly benefit from ensuing efficiencies. The city's population will also benefit from improved mobility. At the national level, the intersection provides easy access to the new international airport serving the entire population. From a regional dimension, the improved intersection will benefit transit traffic between Mozambique and South Africa.

## 2.7. Participatory process for project identification, design and implementation

2.7.1 The involvement of all stakeholders at the national and local levels has been the overriding concern at all stages of project design and appraisal. An extensive public consultations process was undertaken during the preparation of the ESIA by the design consultants, Beza Consulting Engineers Plc. [Ethiopia]. The consultation process involved various stakeholders including Political/Local Leaders, Transport Associations, Technocrats and people living and working along the project alignment. Consultations were in the form of group discussions, town hall and office meetings. During the pre-appraisal mission by the Bank, further consultation meetings were held with the Manzini Transport Association, the Swaziland Environmental Agency, the Gender Coordination Unit and various relevant government departments. From the feedback received during consultations it is clear that the project is well appreciated and is seen as a great catalyst for social-economic development in the area.

2.7.2 In the short term the communities expect that the project will generate employment opportunities and other spin-off benefits. To ensure that all stakeholders are adequately informed throughout implementation phase and that there is effective communication and feedback with all stakeholders, the Contractor shall liaise with the Project's supervising consultant regarding all issues related to community consultation and negotiation as soon as possible after construction commences. An Environment Compliance Officer (ECO) shall be appointed as part of the contractor's team to take responsibility for the implementation of all provisions of the ESMP and to liaise between the Contractor, Community, Client, Consultant and all other stakeholders.

2.7.3 **Bank Activities**: The Bank commenced operations in Eswatini in 1972 with cumulative approvals to-date amounting to more than UA 240 million in grants and concessional lending. The Bank's active portfolio in the country comprises eight (8) operations worth UA 122 million primarily financed from the ADB (96%) window and a mix of grants (4%). The portfolio is spread across agriculture (40.1%), transport (27.6%), finance (16.7%) and water & sanitation (14.9%). Commitment in transport comprise a single project for the expansion of the Manzini –Mbadlane road which will complement this project. Previous interventions in the sector were also on the same corridor (MR3) and included the 27km Mbabane-Matsapha road upgrade (completed 2003; UA 49.8 million) and the Mbabane Bypass (completed 2009; UA37.2 million). The current disbursement rate of the portfolio is 18.8% while the average age is 2.3 years. Ratings for the Implementation Progress (IP) and Development Objectives (DO) are 2 and 3 respectively. All 1st disbursement conditions for the previous sector operation are fulfilled. Start-up delays, fiduciary and implementation feature as key challenges, to which the Bank has proactively engaged government for timely resolutions.

2.7.4 **Lessons Learnt**: Specific sector issues incorporated as lessons in this project design include: (i) weaknesses in project and contract management exacerbated by capacity constraints have resulted in implementation slippages; (ii) lack of logistical resources have poorly impacted project administrative operations and coordination; (iii) fiduciary challenges in procurement and financial management have resulted in lengthy procurement processes and failure to produce timely audit reports; (iv) constrained cadre of local competent contractors has restricted tender participation and limited competition; and (v) weak institutional and governance structures to administer projects. The project design thus includes: (i) continued training in project and contract management under the on-going transport project; (ii) provision of logistical support to the Executing Agency to improve project/contract management administrative operations; (iii) provision of rigorous procurement guidance by the Bank to strengthen experience gained by project staff on the current operation in addition to continuance of technical support for Fiduciary Management; (iv) Open Competitive Bidding (OCB) International procurement through post-qualification will likely attract regional contractors and boost competition; and (v) Technical Assistance to reform the roads sector under the on-going Manzini-Mbadlane Project is expected to address perennial institutional weaknesses to administer the sector.

## 2.8. Key performance indicators

2.8.1 The key performance indicators are shown in the results-based log-frame. Data on these indicators will be collected under the framework of the Monitoring and Evaluation Component of the Project. This activity shall facilitate refining of baseline values, monitoring during implementation and at the end of construction period. At the bassline study other indicators will be included for the purposes of arriving at reasonable development impacts and outcomes. In addition, the performance monitoring and evaluation mechanisms shall also cover monitoring the social, economic and environmental impact within the project's zone of influence.

# 3. PROJECT FEASIBILITY

## 3.1. Economic performance

3.1.1 Traffic counts for the Golf Course intersection were undertaken as part of the traffic studies for rehabilitation and expansion of the MR3 road from Manzini to Mbadlane in 2010, and updated in June 2018 for capacity analyses and selection of the best design option for the intersection. Future traffic volumes were estimated on the basis of the growth trends in Swaziland, taking into account growth rates for: population; GDP; road sub-sector services; and, the agricultural sector. The projection also took into account the normal and generated traffic. An average medium traffic growth rate of 5.3% (for cars and utilities), 5% (for buses) and 4.6% (for trucks) was adopted to obtain the traffic projections summarized in Table 3.1.

**Table 3.1: Base Year and Projected Traffic (AADT) (2018 – 2039)**

| Sections | 2018 | 2021 | 2034 | 2039 |
|---|---|---|---|---|
| Link 1 Manzini to Golf Course | 26,064 | 32,540 | 68,654 | 80,137 |
| Link 2 Golf Course to Carson Motors | 21,595 | 26,835 | 55,238 | 65,079 |
| Link 3 Carson Motors to D29 | 13,012 | 16,735 | 33,754 | 39,152 |
| Link 4 Bypass | 22,576 | 28,032 | 56,953 | 67,238 |
| Link 5 Acacia | 5,240 | 6,539 | 13,820 | 16,149 |
| Link 6 Carson Motors | 1,811 | 2,220 | 4,699 | 5,536 |

3.1.2 Three (3) alternative interchange configurations were proposed to address the expected poor traffic and road safety conditions at the intersection in the future. The three options were subjected to a Multi-Criteria analysis and an economic analysis using the Highway Development and Management (HDM-4) model version 2.10. The measures of project worth used were the Economic Internal Rate of Return (EIRR) and Net Present Value (NPV). The results of HDM-4 economic analysis for the three (3) alternative configurations are presented in Table 3.2 below. Alternative 2 was found to be the most economically beneficial, with an EIRR 20.7% and NPV of E275.95 million.

**Table 3.2: Summary of Base Case Economic Evaluation Results**

| Project Road | Estimated Economic Investment Cost (Million Emalangeni) | EIRR (%) | NPV (Million Emalangeni) |
|---|---|---|---|
| Construct interchange using Alternative 1 | 243.7 | 19.6 | 247.16 |
| Construct interchange using Alternative 2 | 232.2 | 20.7 | 275.95 |
| Construct interchange using Alternative 3 | 231.3 | 19.8 | 238.06 |

3.1.3 The volume to capacity ratio flow (v/c) ratios after improvement on Link 1-Manzini Circle to Golf Course, Link 2-Golf Course to Carson Motors and Link 3-Carson Motors to D29 are projected to be 0.34 from 1.03, 0.28 from 0.5 and 0.19 from 1.03 respectively; at opening of the interchange, with the average weighted Vehicle Operating Cost (VOC) for all vehicle types expected to decrease from USD 1.32 to USD 0.95 per veh-km.

3.1.4 Sensitivity to adverse changes in cost and benefits, and "switch value" analyses were undertaken to check the robustness of the three alternative interchange configurations. The sensitivity results in Table 3.3 indicate that Alternative 2 remained most economically viable. In addition, the "switch values" analysis indicated that Alternative 2 was the most resilient and would only reach the economic break-even point if construction costs went up by 70.7%, and benefits declined by 9.2% of the base case.

**Table 3.3: Sensitivity Analysis**

| Scenarios | Alternative 1 | | Alternative 2 | | Alternative 3 | |
|---|---|---|---|---|---|---|
| | EIRR (%) | NPV (million Emalangeni) | EIRR (%) | NPV (million Emalangeni) | EIRR (%) | NPV (million Emalangeni) |
| Cost Increased by 20% | 16.1 | 161.4 | 17.5 | 197.8 | 16.6 | 160.0 |
| Benefits Reduced by 20% | 15.5 | 111.9 | 16.8 | 142.6 | 15.9 | 112.4 |
| Combined 20% increased cost & 20% decreased traffic | 12.7 | 26.2 | 13.9 | 64.6 | 13.0 | 34.4 |

3.1.5 From the HDM-4 economic analyses, it was concluded that the existing signalised intersection should be upgraded to an interchange configuration presented as Alternative 2, as it is the most robust of all the three alternatives investigated. In addition, Alternative 2 was rated the best using the Multi-Criteria analysis that considered: flexibility for future expansion; safety; traffic capacity; service to the neighbouring land developments; environmental and social impacts; and aesthetics.

## 3.2. Environmental and Social impacts

3.2.1 **Safeguards Compliance**: Considering the level of the proposed infrastructure (3km road) and other interventions, which will be implemented under the project, the project will only induce detrimental but site-specific environmental and/or social impacts. Accordingly, the Bank classified the project as a Category 2. In compliance with the African Development Bank (AfDB) Integrated Safeguards System (ISS) and the legal framework of the KoE, the project required Environmental and Social Management Plan (ESMP) with clearly costed and verifiable mitigation measures. The ESMP was prepared by the borrower and duly cleared by the Bank in June 2018.

3.2.2 **Major environmental and social impact:** The environmental and social impacts likely to occur during the construction and operation phases of the project may include but are not limited to the following; (i) Physical construction work, location of temporary construction camps, storage areas and site offices will result in soil erosion; pollution; loss of vegetation and bio-diversity; social disruption; health and safety risks and waste generation; (ii) Borrow pits and location of spoil sites will in addition to the mentioned impacts add to loss of certain habitats for some animal species; sanitation risks; dust and noise and visual impacts; (iii) Service disruption with regard to use of the road and water services; (iv) Water quality deterioration and drainage; (v) Air quality in terms of dust generation and change in aesthetics during construction is likely due to dust, storage of machinery and materials; (vi) Noise and traffic issues; (vii) An influx of people into project locality will cause competition for services. The influx of labor force is likely to impact negatively on health issues such as increased risk of HIV/AIDS/STIs and other communicable diseases; (viii) safety issues will also arise including the chance of criminal elements; sanitation related health issues and labour and social conflicts. However, these issues will be mitigated with appropriate measures articulated in the ESMP. Despite the negative impacts highlighted, it must be noted that the project also has a multitude of positive impacts identified include; (i) facilitation of easy flow of transport within the Manzini area and environs; (ii) creation of employment opportunities for the host communities especially during construction; (iii) Increasing Road Safety (iv) reduction of travel time (v) improving drainage systems among others.

3.2.3 **Mitigation Measure**: The Supervising Project Consultant shall ensure that all aspects of the ESMP are implemented during construction to ensure health and safety of workers and the public at all times during the short length of construction period. In sections where the construction is likely to affect traffic flow, the Contractor shall submit a strategy to ensure that there is minimum disruption to traffic and potential safety hazards during construction. The strategy will include a schedule of work indicating when and how road crossings (construction at existing intersections) will be made. The schedule will be updated and distributed to all stakeholders. The Contractor shall also liaise with the Traffic Authorities in this regard. To mitigate the bio-physical impacts, detailed instructions and final arrangements for protection of sensitive areas will be issued including among others; keeping of topsoil and rehabilitation of disturbed areas. The Environmental Compliance Officer (ECO) shall be consulted before any new areas are disturbed which have not yet been visited. No off-road driving shall be allowed, except on the agreed haul and access roads. Vegetation shall be cleared within the road reserve as necessary for the construction of the road. The area on either side of this corridor may not be cleared of vegetation, unless permission is given to do so for detours or access roads. This measure is subject to the Roads Department (RD) standards with regard to the road reserve. To ensure the health and safety of workers, the Contractor will adhere to the regulations pertaining to Health and Safety, including the provision of protective clothing, failing which the contract may be temporarily suspended until corrective actions are taken. HIV/AIDS and Road safety awareness campaigns will be undertaken amongst all construction staff and local communities. Monitoring and evaluation of implementation measures will form an integral part of the project implementation quarterly reporting.

3.2.4 **Involuntary Resettlement**: The position of the interchange does not involve any land take. Therefore, the project will not have any involuntary resettlement impacts.

3.2.5 **Institutional capacity for environmental management:** The RD in the MoPWT has overall responsibility of ensuring that the ESMP is implemented. Although there are no full time Environmental and Social Experts in the MoPWT, similar projects have been successfully implemented through hiring of Consultants with the necessary capabilities, which is the same approach to be used on this project. From discussions and review of the various reports, KoE has appropriate institutional arrangements and substantive capacity to implement the ESMP on this project. To manage the ESMP implementation, copies of the approved ESMP shall be given to all relevant departments, kept at the site office and will be distributed to all senior contract personnel. All senior personnel shall be required to familiarize themselves with the contents of this document.

3.2.6 **ESMP Monitoring Program:** It is planned that the environmental and social impacts and their designed mitigation measures shall be monitored during the implementation and operation phases of the project. The monitoring of the impacts will focus on the following points: Grievance redress mechanisms, rehabilitation of quarry sites and borrow pits; number of men and women who are employed; number of workers and community members (segregated by gender), who have undergone sensitization on the HIV/AIDS, environmental protection and personal hygiene and sanitation; the number of accidents that occurred during the construction; etc. The implementation of the ESMP will be one of loan covenants in the agreement signed between the borrower and the Bank. All the mitigation measures specified in this plan shall be included in the bid documents for the successful enterprise to implement. Campaigns on HIV/AIDS, environmental protection and personal hygiene and sanitation shall also be undertaken. For this purpose, services of experienced NGOs in the fields will be sought. The HIV/AIDS campaigns would be undertaken in the framework of the Ministry of Health relevant programs.

3.2.7 **Climate Change**: The project was screened for climate change related impacts by the Bank and is categorised as a Category 3. Adequate policy framework and legislation at the national level exists (refer to Technical Annexes in B8) that guide the country in addressing climate related challenges in an integrated and coordinated manner. The ESMP provides all the suggested safeguards to ensure promotion of green growth and avoid adversity of impacts on the climate.

3.2.8 **Public disclosure requirements:** Eswatini Environmental Management Act (EMA) of 2007 makes public review of Environmental Assessment Reports mandatory. The proponents are required to advertise the project documents stating the exact locations where documents are disclosed for public review. This requirement was applied to this project. This provision in the Eswatini environmental law complements the AfDB's requirements for both consultation and disclosure as stipulated in its Disclosure and Access to Information (DAI) policy and ISS. This ESMP summary has also been disclosed by the Bank on its website on the 15/06/2018 to allow public review and comments.

3.2.9 **Gender**: The Government of Eswatini has made progress in putting in place policies, laws and strategies to protect and promote the rights of women. Implementation of these laws is still lagging behind, and gender inequality is further exacerbated by strong patriarchal traditions, values and norms. The 2016 SADC Gender Protocol Barometer shows that Eswatini has low female labour force participation at 40% against 64.2% for men. Unemployment rates are high at 47.1% with youth and women more adversely affected by lack of jobs. In the education sector, Eswatini has made significant strides in gender parity in education with the enrolment ratio of girls to boys in primary and secondary school at 0.97. However, trends show that when girls get to secondary education, their performance in the hard sciences tend to drop compared to that of boys. They tend to go for the softer sciences if they do select the sciences. Fewer girls than boys join tertiary and vocational training, and even much lower in science, mathematics, engineering and technology related subjects. This ultimately affects girl's employment potential.

3.2.10 Urban transport in Eswatini like other countries has gendered differences. There are variations between men and women, in choice of modes of transport, benefits from transportation systems and the role they play in the transport sector. Whilst these gender differences are evident in Manzini area, there are limited opportunities for interventions due to the narrow scope of the project (construction of a junction/interchange). The project is therefore marked as a Category IV according the Bank's Gender Marker System. The project will however implement activities to promote the participation of women as follows; (i) at least 30% of the temporary jobs created during construction will target women. (ii) Implementation of an internship and training programme for graduate engineers and technicians (attached to the supervision consultant and contractor) with a target of at least 50% female participants, and (iii) sensitization on gender and HIV AIDS in communities around the project site

3.2.11 **Social Analysis:** The Project area is located in the Manzini Urban area. There are residential areas that surround it which include Mangwaneni and Coates Valley. Business properties are also located near the site. At the start of the interchange near the Manzini Traffic Circle, the surrounding land uses are mainly recreational (the Manzini Club on the Right Hand Side)**.** Many residents were found to be migrant labourers at the sugar belt (Simunye, Mhlume), or textile factories (Matsapha), and government offices in Manzini, and these make up a majority of those in formal employment. Locally, economic activities vary from formal to informal sectors. Formal activities include hospitality (the Manzini Club, Eve Guest House, Global Village Guest House, True Reality Guest House, Moneni Shopping Complex, etc.) and residential areas that provide employment to domestic workers. Informal activities include market stalls (Gogo Shongwe), as well as small-scale three-legged pot (derefudi) manufacturing. On the informal employment aspects, the Mangwaneni Community is mostly unemployed. Crime is reported to be rife in this settlement. The major hospital in the area is the Raleigh Fitkin Memorial (RFM) Hospital, which is ±4km away from the site due west. The nearest clinic is the Emphilo Clinic, which is ± 2km due west. The TB Hospital and Manzini Clinic are ± 3km towards Siteki. The nearest municipal facilities are the Manzini Municipal Council Park, the King Sobhuza Park opposite Swazi Bank in Manzini, the Coates Valley Park, and the Manzini Traffic Circle and associated park. Although this project will have some negative social impacts some of which are elaborated in the sections above, it is envisaged to help improve the socio-economic wellbeing of people living and working in the area through creation of employment opportunity easy of movement of goods and services to mention but a few.

3.2.12 **Road Safety:** A road safety audit was undertaken during the design process to ensure that geometric design of the intersection incorporated features that enable steady flow and safe thoroughfare traffic to minimize conflict points. Subsequent Audits will be undertaken as construction progress to monitor implementation of all adopted features. Pedestrian and other non-motorized traffic is accommodated through provision of at least two (2) pedestrian bridges across the most heavily trafficked links. To promote safe use the project has incorporated road safety awareness and educational campaigns for communities, road users and schools.

3.2.13 **Baseline data:** It is expected that basic socio-economic data will be collected at the beginning of project implementation under the Monitoring and Evaluation (M&E) sub-component. RD will maintain a member of staff who, with input of the M&E consultant will be responsible for the development of a baseline to measure Objectively Verifiable Indicators (OVI) and monitor the project's social and development impacts, such as: (i) access to public transportation (ii) annual traffic accidents and mortality along the project zone of influence; and (iii) monthly household expenditures devoted to transport and other indicators.

# 4. IMPLEMENTATION

## 4.1. Implementation arrangements

4.1.1 The Executing Agency for the Project will be the Ministry of Public Works and Transport (MoPWT) through the Roads Department (RD), which has statutory responsibility for the public roads network. The MoPWT is responsible for policy formulation and coordination and the overall leadership in the transport sector. RD has implemented projects financed by the Bank and other development partners and therefore has some capacity and experience to implement the project. To strengthen implementation capacity the project will draw on lessons from on-going operations including the need to provide logistical support to project management activities and continued Technical Assistance Support in Fiduciary Management. More details on the operations of RD are provided in Annex B.3.

4.1.2 The Chief Roads Engineer (CRE) of RD has already designated an experienced Project Manager (PM) for the day-to-day management of the project. RD will coordinate project implementation with other agencies including Swaziland Environmental Authority (SEA) to oversee environmental compliance and Road Safety Unit of MoPWT for road safety audit and awareness campaigns. In carrying out project activities, the PM will rely on existing management systems in areas such as finance, procurement, monitoring and evaluation and environment. As the Swazi Rail Project study constitutes a major activity of the project, the Director of Swazi Rail Limited (SRL) will appoint a competent member of staff from within the institution as focal point to coordinate implementation of the single activity with RD.

**Procurement**

4.1.3 **Assessment of Country's Procurement System:** The Country's procurement regime is governed by the Public Procurement Act (PPA), 2011. The PPA is broadly consistent with international standards and best practices in procurement. However, the Regulations and National Standard Bidding Documents (SBDs) to accompany the Act are not yet approved. Consequently, procurement of Works and Consulting Services, under the Project, will be carried out in accordance with the Bank's Procurement Framework for Bank Group-Funded Operations, dated October 2015, using Bank's Procurement Methods and Procedures (PMP).

4.1.4 **Procurement Risks and Capacity Assessment:** A Procurement Risk and Capacity Assessment (PRCA) was undertaken to: (i) evaluate the risks associated with the borrower procurement system, the sector capacity which includes the capacity of the local industry, the project complexity and design, and the procurement capacity of the Executing Agency; (ii) set up risk mitigation to be exercised by the Bank and the Borrower; and (iii) form a judgment on the adequacy of procurement methods and procedures, as well as controls being used by the Borrower in the use of funds and contract management. The detailed PRCA is outlined in the Technical Annexes.

**Financial Management, Disbursement and Project Audit Arrangements**

4.1.5 **Financial Management**: The overall conclusion of the Financial Management (FM) assessment is that MoPWT RD's department capacity to handle the FM aspects of the project partially satisfies the Bank's minimum requirements as per the Bank' FM guidelines. Specific areas of weakness identified include: inadequately staffed accounting function, limited experience in Bank procedures, lack of financial and administrative procedures manual and lack of computerized accounting system. The proposed mitigation measures include: competitively recruitment of an experienced and qualified accountant to manage the financial management aspects of the project; provision of training on Bank procedures to the project team during project launching and close monitoring throughout implementation period; formulation of a financial and administrative procedures manual to guide day to day implementation of the project and the acquisition of a stand-alone accounting software to process and maintain the project financial transactions The RD has handled donor funded projects including the ongoing Bank funded project (Manzini-Mbadlane Highway Project). Therefore RD is familiar with donor project implementation requirements. The lessons learned including delays in submission of audit reports have been incorporated in the design of the proposed project to avoid recurrence of the FM challenges. The ongoing Bank-funded project has outsourced the Accountant to handle day-to-day aspects of financial management. Spreadsheets are utilised for recording and maintaining project transactions for the Bank contribution while the Government counterpart contribution follows the KoE Treasury Accounting systems.

4.1.6 The current Government-wide accounting system (Treasury Accounting) was found neither suitable nor adequate to process and maintain project transactions. The Government is currently implementing IFMIS whose rollout is expected in the year 2020. Project financial reporting has been done using spread sheets. The control environment from budget preparation and execution were found to be adequate. The ongoing project with the RD has a Special Account (SA) that has been managed generally well. In that regard, the Bank will make use of the existing internal control environment and the budgeting process. However, there is need to acquire a standalone suitable accounting software for processing and maintaining project transactions and reporting.

4.1.7 The MoPWT will take overall lead in the project's financial management and will coordinate with the Swazi Rail Limited (SRL). SRL will handle the technical part of the component under its jurisdiction and submit invoices and reports to the MoPWT for payment and consolidation purposes respectively. The overall financial management of the project will be under the financial controller who is the head of the finance and administration RD MoPWT. In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit to the Bank Interim Quarterly Unaudited Financial Reports (IFRs) no later than 45 days after the end of each quarter. The overall FM risk for the project is assessed as Substantial (Detailed FM assessment is attached as Annex B4)

4.1.8 **Disbursement Arrangement**: The flow of funds (Annex B4) to finance the activities of the MoPWT follows the National Treasury and appropriation procedures. The special account for the ongoing Bank funded project within the Ministry has been generally managed well. Therefore, the Ministry is experienced and familiar with donor funds disbursement procedures and requirements. However there has been some delays experienced in accessing counterpart contribution including payment of VAT. The top management within the Ministry gave their commitment that they will put in place mechanism that will ensure the counterpart contribution will be made available in a timely manner. This includes a requirement for government to deposit in a suitable bank account counterpart funds to fully cover portions of annual expenditure on a yearly basis.

4.1.9 Specific to this project, payments will be primarily by direct payment. Other Bank disbursements methods will also be available including special account and reimbursement. Therefore, the RD will be required to open a USD special account with the Central Bank of

Eswatini to receive the funds from ADB as well as a local currency denominated operating account (Emalangeni) for payments of operating expenses that are recurring in nature. For the direct payments the Bank will pay contractors/consultants and suppliers directly based on satisfactory performance in accordance with the Bank's Disbursement Handbook. Disbursements would be made upon preparation and submission of all relevant documentations by MoPWT to the Bank's Disbursement Division. The special account will be managed in accordance with the Bank Disbursement Hand Book (2012).

4.1.10 **Counterpart contribution**: KoE cash contribution is estimated at UA 5.29 million (USD 7.51 million) i.e. 20% of the total project costs will be financed under the existing KoE MoPWT financing arrangement.

4.1.11 **Auditing Arrangement:** MoPWT is audited annually by the Office of Auditor General. The ongoing Bank funded project is also audited by the Office of the Auditor General. There has been delays experienced in the submission of the audit report. Some of the main issues raised in the previous audit include delays in updating the counterpart funding in the system and over/under expenditure. Due to capacity challenges in the Office of the Auditor General, some of the Bank-funded projects in KoE are audited by an independent private auditor competitively recruited. Specific for the proposed project, as discussed and agreed with the Ag. Auditor General, there is need to recruit a private audit firm in accordance with the Bank's requirements, a separate audit report will be prepared for the project. The annual audited financial statements including the auditor's opinion and management letter will be submitted to the Bank not later than six months after the end of each financial year. The cost of the audits will be financed from the project resources.

**Table 4.3: Audit submission Plan**

| Audit Report | Due submission date |
|---|---|
| Separate Annual Audited Financial Statements and Management Letter | No later than 30th September following each financial year, throughout project implementation duration |

## 4.2. Monitoring

4.2.1 Project execution will be monitored using a three (3) dimensional approach. At the first level, competent professional consultants will be procured to supervise on a day-to-day basis the quality and progress of the works. At the second level, the Executing Agency (EA) will supervise the consultants through the Project Engineer, appointed by RD. The EA is expected to provide the Bank with quarterly progress reports including status of implementation of ESMP measures. The Bank will provide a third level of support through periodic field missions that will aim to assess the performance of the project through the respective EAs. Table 4.4 provides a summary of the Bank's key monitoring milestones.

**Table 4.4: Implementation and Monitoring Timeframe**

| Timeframe | Milestone | Monitoring process | Feedback loop |
|---|---|---|---|
| Q4 -2018 | Project Start-Up: Launching, Procurement Arrangements | Launch Mission | Progress Report |
| Q3 -2019 | Construction commences | Supervision mission | Progress Report |
| Q1 -2019 | Construction | Supervision mission | Progress Report |
| Q3- 2020 | Construction | Supervision, Midterm Review | Progress Report |
| Q1- 2021 | Construction , Substantial Completion | Supervision mission | PCR |
| Q1-2022 | Defects Liability Period | Supervision mission | |

4.2.2 RD is expected to provide the Bank with quarterly progress reports including status of implementation of ESMP measures. *Financial Management and Auditing* aspects will be monitored through existing accounting and reporting procedures. The EA will programme mid-term review of the project and schedule preparation of the Project Completion Report (PCR) towards the end of the project. A Monitoring and Evaluation mechanism which will be operational from commencement of the project to its completion will monitor project impacts through the Log Frame indicators. This mechanism will serve to: (i) refine project indicators and define a baseline situation for project impact monitoring requirements; (ii) compile and manage information on the level of implementation of the different project components, and; (iii) carry out mid-term and post-completion project impact assessments using the same methodology as was used in establishing the baseline situation.

## 4.3. Governance

4.3.1 Eswatini continues to enjoy political stability headed by a monarch and applying both constitutional provisions and traditional custom. The 2017 Mo Ibrahim Index of African Governance however ranks Swaziland poorly at 34/54 countries with an overall score of 48.9 well below the average of 64 in the SADC region. The trend over the past five (5) years has been upward though only marginally. Performance in the four (4) dimensions has seen a drop in Participation and Human Rights by 3.4 points to a score of 50 while, increases in Safety and Rule of Law by 0.9 (score of 59.4) and Human Development by 3.7 (score of 62.9) and Sustainable Economic Opportunity by 0.3 points (48.8) though sub-category on public management have dropped by 4.5, have been achieved. There are major weakness in fiscal expenditure due to declining revenues and inefficient resource allocations somewhat impacting on the level of investment in capital projects.

4.3.2 The economic slowdown and government domestic arrears is raising risks of adverse effects on businesses, as they face difficulties to finance their operations, and rising non-preforming loans, due to poor banking sector asset quality. Significant fiscal adjustment is therefore warranted in order to ensure macroeconomic stability and reduce the risk of debt distress. To this end, the authorities have committed to pursuing adjustment measures that should encompass fiscal consolidation, addressing revenue challenges and strengthening the budgetary process to enhance resource allocation. Reforms to strengthen the public financial management system, including capacitating oversight bodies to ensure effective delivery of their core mandate and to foster transparency in procurement and accountability, will be important. In addressing these challenges government is undertaking a number of interventions including: (i) a new Public Finance Management Act (2017) has been formulated and should improve transparency and accountability in the public finance management; and (ii) the Public Procurement Regulatory Authority (Eswatini PPPA) has been established to improve governance in public procurement, but needs capacity development to effectively discharge its mandate.

4.3.3 Administration of roads at the sector level is still faces challenges. There is a general lack of clear separation of functions of policy, management, operations, regulations and implementation of works that has resulted in fragile institutional arrangements. As such the sub-sector is managed under Government structures (Ministry of Public Works and Transport) and procedures often over shadowed by public service norms that present obstacles to institutional independence, efficiency and accountability. Major weaknesses thus manifest in capacity to plan, budget, implement and monitor sector programmes. For instance, there is lack of clarity on the network needs and financing gaps with respect to either asset preservation or investment. The Bank through the on-going Manzini-Mbadlane Road Project is providing technical assistance to guide Government draft reform bills, passage through the legislative process and institutionalization like elsewhere in the region, that will promote efficient administration and funding of the sector. More support is programmed through the transformation process to a state of operationalization of the entities.

## 4.4. Sustainability

4.4.1 The sustainability of the project depends on the availability of resources to cover recurrent maintenance costs, quality of works and conditions under which the structure is to be used. The sections below discuss the salient points with more details provided in Annex B9.

4.4.2 **Maintenance**: Roads Department is responsible for the administration, control and maintenance of all roads in the country. Planning for maintenance is undertaken by the Planning Unit of the Ministry with input of RD. At least 90% of the maintenance works are executed through force account. Maintenance is financed through government subventions and although over the years allocations have generally been provided in the budget, usage has often been directed towards capital expenditure. Weaknesses in institutional arrangements that manifest in the department's inability to prepare prioritised maintenance plans and lack of a reinforced maintenance fund aggravate the status quo.

4.4.3 The road reform process currently supported with Bank financing are key to addressing these issues though much urgent tactical interventions are required. Although a National Transport Master Plan has been developed since 2013, there has not been any efforts to drive a process towards development of an investment programme that would set strategies for developing and maintaining the network. Maintenance is undertaken mainly through force account though characterised by unpredictable funding and absence of a clear strategy resulting in ineffective results. As part of this project, a Road Investment and Maintenance Management Programme (RIMMP) will be developed to provide a framework to address strategic lapses in investment and maintenance notwithstanding outcomes of the reform process that are expected to address other systemic challenges in the sector. The RIMMP will specifically articulate economically and financially determined prioritised capital and maintenance investments as well as a maintenance strategy aimed at avoiding wastage of the asset in the short, medium and long term.

4.4.4 RD cites the mobilization of additional revenue for maintenance as one of the major challenges and is increasingly looking at means of expanding its revenue base. Measures include identifying economic roads that could be suitable for PPP procurement. Government has piloted this approach with the concession of the Lukhula-Big-Bend road - a portion of a regional route that links South Africa, Swaziland and Mozambique - at a total cost of USD 44 million. As RD looks to undertaking more projects under concession arrangements, Government will need the Bank technical support to set-up institutional frameworks needed for successful implementation.

4.4.5 With regard to quality of work, the impact of the recurrent maintenance cost on the Government is minimal, due to the selected technical solution. The choice of reinforced concrete for the bridge structures, conventional earthworks topped with asphalt concrete is most appropriate and improves the overall efficiency of the project with regard to maintenance. The life cycle costs are significantly lower when compared to other construction and paving interventions.

4.4.6 **Axle Load Management:** An axle load policy does not exist, institutional arrangements and strategies are not well defined and responsibilities for monitoring and enforcement are unclear. The only axle load station in Matsapha is poorly located and has largely remained redundant. At the moment there is no axle load control on the network being undertaken. The proposed interchange node is on a regional and continental corridor and characteristically carries cross-border Heavy Goods Vehicle (HGV) traffic, which if uncontrolled, loading would cause rapid deterioration of the pavement and therefore pre-mature failure. The ongoing Bank financed project incorporated the provision of a weighbridge strategically along the corridor, which if diligently operated would contribute to mitigating this risk. The long-term approach is expected to be extensively covered under the road reform process that will articulate a firm axle load institutional framework and strategy.

## 4.5. Risk management

4.5.1 The potential risks at outcome and output levels have been identified and mitigation measures proposed as highlighted in table 4.5.

**Table 4.5: Summary of Risks and Mitigations**

| Risk Type | Rating | Mitigation measures |
|---|---|---|
| **Impact Risk** | | |
| *Development strategy:* Failure to fully implement the National Development Strategy | Medium | Government with support of Development Partners are committed to assist in mobilising financial resources to implement the strategy |
| **Outcome Risks** | | |
| Poor Asset Management Practices: Lack of Axle Load Control and programmed maintenance will lead to premature failure of the road | Low | The on-going operation for the Manzini-Mbadlane road includes the construction of an axle load scale to regulate loads on the MR3. With respect to maintenance, the on-going road TA to support reforms in the sector is expected to address broader institutional challenges. In addition this project includes TA support to prepare a prioritised investment and maintenance management programme and strategy; and other forms of financing like PPPs are actively being pursued with some successes |
| **Output Risks** | | |
| *Counterpart funds*: Erratic payment of counterpart funds to cover share of Interim Payment Certificates & tax refunds may frustrate construction progress | High | Government has drawn lessons from on-going operations and will provide clear budget lines/commitments and timely release of funds. A project condition has also been included for government to deposit in a suitable bank account counterpart funds to fully cover portions of annual expenditure on a yearly basis |
| *Implementation Delays*: lengthy procurement process like in the on-going operation may delay project start-off | Medium | Advance procurement will be used to mitigate slippages. A request has already been approved. The Bank will also provide procurement guidance to strengthen experience gained by project staff on the current operation. An expert will also be recruited to provide training and support in Fiduciary Management. |
| *Cost overruns*: Physical and excessive price variations may occur and affect the project. | Low | Physical variations are expected to be minimal as detailed technical designs have been prepared. As for price variations, adequate contingencies will be provided to cushion price volatility |
| *Project Control*: Lack of adequate funds to carry out effective project and contract management. | Medium | Financial resources will be included in the project to support project logistics of the Executing Agency |
| *Poor Tender Response*: constrained cadre of contractors in the country may restrict competition. | Medium | OCB international through post-qualification will likely attract more participation of contractors from the region. |

## 4.6. Knowledge building

4.6.1 Through this project the Bank continues to increase and consolidate its knowledge on working in the Transport Sector. Additional knowledge has been accumulated during the project design phase and will continue during the implementation and post construction phase. During updating of studies for the project, the Bank extensively advised the client and its consultants on study outputs that supported its bankability. The proposed RIMMP is expected to not only generate knowledge in asset preservation and management but also contribute to Government efforts to reform the sector. The study on railways will generate valuable knowledge in the sub-sector and assist the Bank's efforts to diversify the range of investments in other transport modes. During implementation the monitoring and evaluation components as well as awareness campaigns will provide opportunities for further knowledge accumulation. All these efforts will facilitate the Bank and KoE to improve project design and implementation activities that are not only unique to such states but other operations across the Bank's portfolio.

# 5. LEGAL INSTRUMENTS AND AUTHORITY

## 5.1. Legal instrument

5.1.1 The legal instrument to finance this operation is an ADB Loan Agreement for USD 30.2 million that will be signed between the Bank and the KoE.

## 5.2. Conditions associated with Bank's intervention

5.2.1 **Conditions Precedent to Entry into Force:** The entry into force of the Loan Agreements shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to the African Development Bank Loan Agreements and Guarantee Agreements (Sovereign Entities).

5.2.2 **Conditions Precedent to First Disbursement:** The obligation of the Bank to make the first disbursement of the Loans shall be conditional upon the entry into force of the Loan Agreement and submission by the Borrower, of evidence, in form and substance acceptable to the Bank, confirming fulfilment of the following:

(i) the submission of evidence of the recruitment, designation, and appointment of staff for the project implementation unit with qualifications and terms of reference acceptable to the Bank; and

(ii) the submission of evidence of the deposit of the Borrower's counterpart contribution to the Project, covering the first year in accordance with the Disbursement Letter, in a bank account acceptable to the Bank.

5.2.3 **Other Conditions**

The Borrower shall provide evidence, in form and substance satisfactory to the Bank, of the fulfilment of the following conditions:

(i) the recruitment of a fiduciary management officer and a Project accountant, with terms of reference, qualifications and experience acceptable to the Bank, within one (1) month;

(ii) the deposit of the Borrower's counterpart contribution to the Project of an amount acceptable to the Bank in a bank account acceptable to the Bank on an annual basis; and

(iii) the acquisition and maintenance of a standalone accounting software for processing and maintaining all Project transactions and reporting requirements, within six (6) months of the Date of the Loan Agreement;

### 5.2.4 **Undertaking**

The Borrower undertakes the following under the Loan Agreement:

(i) to carry out the Project in accordance with the ESMP, the Bank's Safeguards Policies and the applicable national legislation in a manner and in substance satisfactory to the Bank;

(ii) to deliver to the Bank, Project quarterly reports in form and substance acceptable to the Bank, setting out the Borrower's implementation of the ESMP including but not limited to any implementation failures and related remedies, if any;

(iii) to cause the Swaziland Railway Limited to appoint a competent member of staff from within the institution as focal point to coordinate implementation of the Swazi Rail Link study;

(iv) to cause the Executing Agency to liaise with road traffic authorities and to submit a strategy for minimizing disruption to traffic and potential safety hazards during construction; and

(v) to develop Axle Load facilities along the Mbabane-Manzini corridor, together with an Axle Load policy setting out inter alia institutional arrangements and defined strategies and responsibilities for monitoring and enforcement.

## 5.3. Compliance with Bank Policies

This project complies with all applicable Bank policies.

# 6. RECOMMENDATION

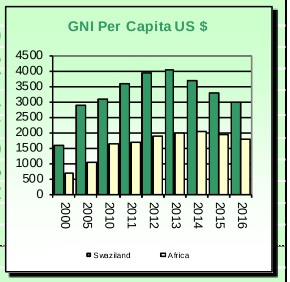
Management recommends that the Board of Directors approves the proposed ADB Loan of **USD 30.02 million**, to the Kingdom of Eswatini for financing of the Manzini Golf Course Interchange, subject to the terms and conditions stipulated in this report.

# Appendix I: Country's comparative socio-economic indicators

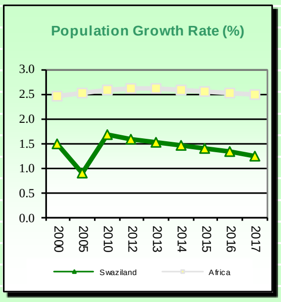
## Swaziland

### COMPARATIVE SOCIO-ECONOMIC INDICATORS

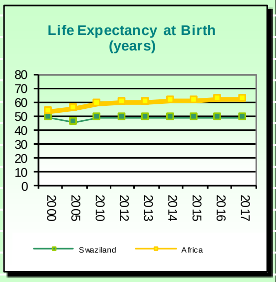
| | Year | Swaziland | Africa | Develo-ping Countries | Develo-ped Countries |
|---|---|---|---|---|---|
| **Basic Indicators** | | | | | |
| Area ( '000 Km²) | 2017 | 17 | 30,067 | 80,386 | 53,939 |
| Total Population (millions) | 2017 | 1.3 | 1,184.5 | 5,945.0 | 1,401.5 |
| Urban Population (% of Total) | 2017 | 21.3 | 39.7 | 47.0 | 80.7 |
| Population Density (per Km²) | 2017 | 76.8 | 40.3 | 78.5 | 25.4 |
| GNI per Capita (US $) | 2016 | 2 960 | 2 045 | 4 226 | 38 317 |
| Labor Force Participation *- Total (%) | 2017 | 53.6 | 66.3 | 67.7 | 72.0 |
| Labor Force Participation **- Female (%) | 2017 | 41.7 | 56.5 | 53.0 | 64.5 |
| Sex Ratio (per 100 female) | 2017 | 98.2 | 0.801 | 0.506 | 0.792 |
| Human Develop. Index (Rank among 187 countries) | 2015 | 148 | ... | ... | ... |
| Popul. Living Below $ 1.90 a Day (% of Population) | 2009 | 42.0 | 39.6 | 17.0 | ... |



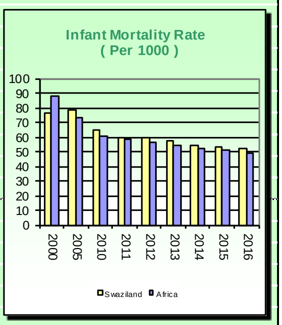

| | Year | Swaziland | Africa | Develo-ping Countries | Develo-ped Countries |
|---|---|---|---|---|---|
| **Demographic Indicators** | | | | | |
| Population Growth Rate - Total (%) | 2017 | 1.2 | 2.6 | 1.3 | 0.6 |
| Population Growth Rate - Urban (%) | 2017 | 1.4 | 3.6 | 2.6 | 0.8 |
| Population < 15 years (%) | 2017 | 37.2 | 41.0 | 28.3 | 17.3 |
| Population 15-24 years (%) | 2017 | 22.2 | 3.5 | 6.2 | 16.0 |
| Population >= 65 years (%) | 2017 | 3.7 | 80.1 | 54.6 | 50.5 |
| Dependency Ratio (%) | 2017 | 69.2 | 100.1 | 102.8 | 97.4 |
| Female Population 15-49 years (% of total population) | 2017 | 26.0 | 24.0 | 25.8 | 23.0 |
| Life Expectancy at Birth - Total (years) | 2017 | 48.8 | 61.2 | 68.9 | 79.1 |
| Life Expectancy at Birth - Female (years) | 2017 | 47.9 | 62.6 | 70.8 | 82.1 |
| Crude Birth Rate (per 1,000) | 2017 | 28.5 | 34.8 | 21.0 | 11.6 |
| Crude Death Rate (per 1,000) | 2017 | 14.7 | 9.3 | 7.7 | 8.8 |
| Infant Mortality Rate (per 1,000) | 2016 | 52.4 | 52.2 | 35.2 | 5.8 |
| Child Mortality Rate (per 1,000) | 2016 | 70.4 | 75.5 | 47.3 | 6.8 |
| Total Fertility Rate (per woman) | 2017 | 3.1 | 4.6 | 2.6 | 1.7 |
| Maternal Mortality Rate (per 100,000) | 2015 | 389.0 | 411.3 | 230.0 | 22.0 |
| Women Using Contraception (%) | 2017 | 64.5 | 35.3 | 62.1 | ... |




| | Year | Swaziland | Africa | Develo-ping Countries | Develo-ped Countries |
|---|---|---|---|---|---|
| **Health & Nutrition Indicators** | | | | | |
| Physicians (per 100,000 people) | 2009 | 14.7 | 46.9 | 118.1 | 308.0 |
| Nurses and midwives (per 100,000 people) | 2009 | 138.6 | 133.4 | 202.9 | 857.4 |
| Births attended by Trained Health Personnel (%) | 2014 | 88.3 | 50.6 | 67.7 | ... |
| Access to Safe Water (% of Population) | 2015 | 74.1 | 71.6 | 89.1 | 99.0 |
| Access to Sanitation (% of Population) | 2015 | 57.5 | 51.3 | 57 | 69 |
| Percent. of Adults (aged 15-49) Living with HIV/AIDS | 2016 | 27.2 | 39.4 | 60.8 | 96.3 |
| Incidence of Tuberculosis (per 100,000) | 2016 | 398.0 | 3.8 | 1.2 | ... |
| Child Immunization Against Tuberculosis (%) | 2016 | 97.0 | 245.9 | 149.0 | 22.0 |
| Child Immunization Against Measles (%) | 2016 | 89.0 | 84.1 | 90.0 | ... |
| Underweight Children (% of children under 5 years) | 2014 | 5.8 | 76.0 | 82.7 | 93.9 |
| Prevalence of stunding | 2014 | 25.5 | 20.8 | 17.0 | 0.9 |
| Prevalence of undernourishment (% of pop.) | 2015 | 19.6 | 2 621 | 2 335 | 3 416 |
| Public Expenditure on Health (as % of GDP) | 2014 | 7.0 | 2.7 | 3.1 | 7.3 |




| | Year | Swaziland | Africa | Develo-ping Countries | Develo-ped Countries |
|---|---|---|---|---|---|
| **Education Indicators** | | | | | |
| Gross Enrolment Ratio (%) | | | | | |
| Primary School - Total | 2015 | 107.9 | 106.4 | 109.4 | 101.3 |
| Primary School - Female | 2015 | 102.9 | 102.6 | 107.6 | 101.1 |
| Secondary School - Total | 2015 | 67.0 | 54.6 | 69.0 | 100.2 |
| Secondary School - Female | 2015 | 66.8 | 51.4 | 67.7 | 99.9 |
| Primary School Female Teaching Staff (% of Total) | 2015 | 69.6 | 45.1 | 58.1 | 81.6 |
| Adult literacy Rate - Total (%) | 2010 | 83.1 | 61.8 | 80.4 | 99.2 |
| Adult literacy Rate - Male (%) | 2010 | 83.9 | 70.7 | 85.9 | 99.3 |
| Adult literacy Rate - Female (%) | 2010 | 82.4 | 53.4 | 75.2 | 99.0 |
| Percentage of GDP Spent on Education | 2014 | 7.1 | 5.3 | 4.3 | 5.5 |
| **Environmental Indicators** | | | | | |
| Land Use (Arable Land as % of Total Land Area) | 2015 | 10.2 | 8.6 | 11.9 | 9.4 |
| Agricultural Land (as % of land area) | 2015 | 71.0 | 43.2 | 43.4 | 30.0 |
| Forest (As % of Land Area) | 2015 | 34.1 | 23.3 | 28.0 | 34.5 |
| Per Capita CO2 Emissions (metric tons) | 2014 | 0.9 | 1.1 | 3.0 | 11.6 |




*Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.* *last update : May 2018*

*Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)*
*** Labor force participation rate, female (% of female population ages 15+)*

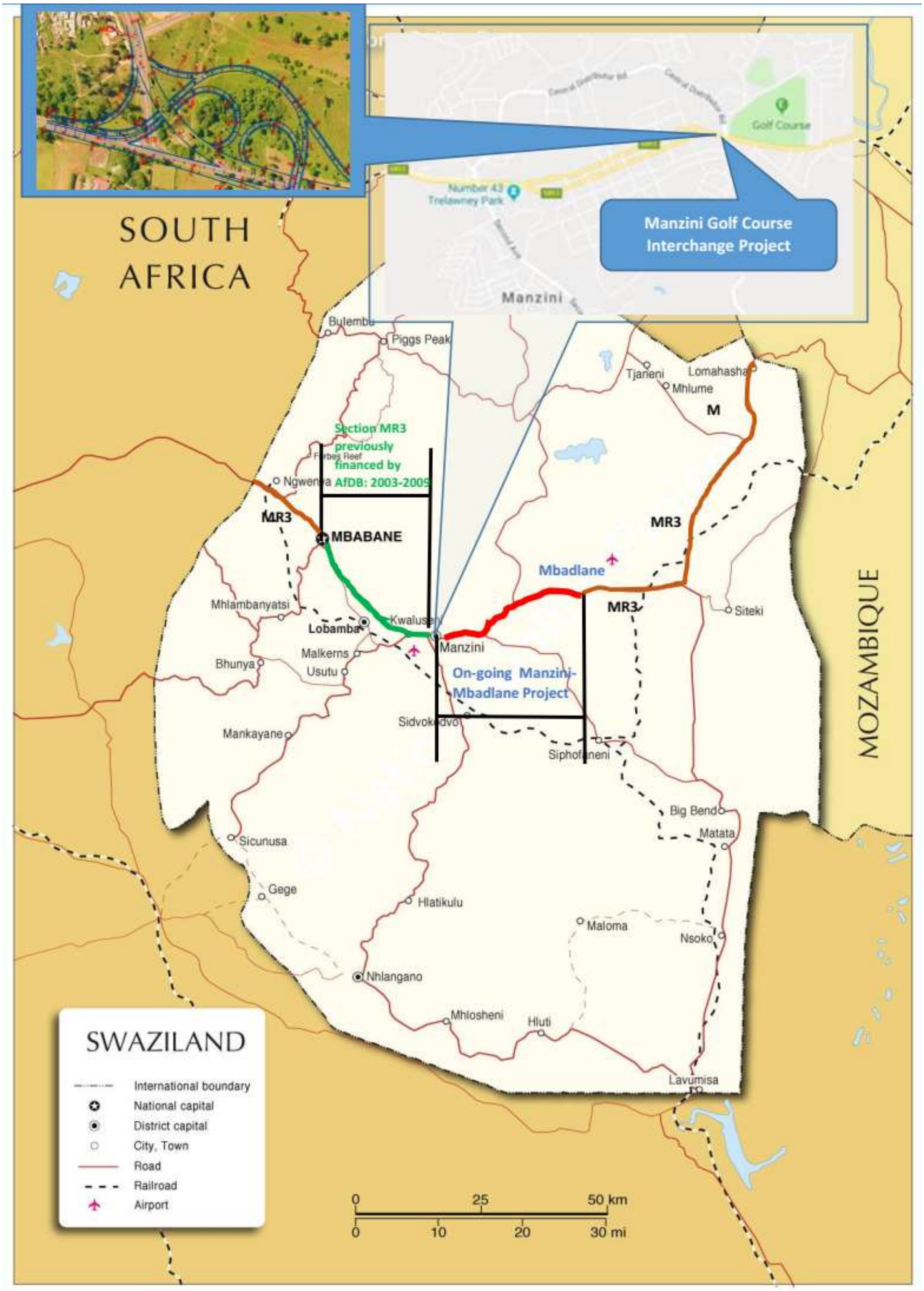
# Appendix II: Table of Bank's portfolio in the country as at October 2018

| Sector Name | Long name | Status of Project | Finance project | Window | Approval date | Commitment date | Entry into force | Effective 1st disb | Planned project completion date | Window Amount | Amount Disb. | Disb. Ratio | Age |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Agriculture** | **LOWER USUTHU SMALLHOLDER IRRIGATION PROJECT II** | OnGo | **P-SZ-AAC-005** | [ ADB ] | **04/05/2016** | 10/26/2016 | **2/23/2017** | 4/6/2017 | 31/12/2021 | 44,147,186.4 | 10,777,269.1 | 24.4 | 2.2 |
| **Agriculture Total** | | | | | | | | | | **44,147,186.4** | **10,777,269.1** | **24.4** | **2.2** |
| **Finance** | **LINE OF CREDIT TO SWAZILAND DEVELOPMENT FINANCE CORPORATION** | APVD | **P-SZ-HAA-001** | [ ADB ] | **1205/2017** | (blank) | **(blank)** | (blank) | 19/01/2028 | 18,327,310.3 | - | 0.0 | 1.2 |
| **Finance Total** | | | | | | | | | | **18,327,310.3** | **-** | **0.0** | **1.2** |
| **Multi-Sector** | **STATISTICAL CAPACITY BUILDING PROGRAMME - PHASE II (SCB II)** | OnGo | **P-SZ-K00-003** | [ ADB ] | **01/02/2012** | 4/24/2012 | **4/24/2012** | 9/9/2013 | 31/12/2018 | 490,600.0 | 301,887.6 | 61.5 | 6.5 |
| **Multi-Sector Total** | | | | | | | | | | **490,600.0** | **301,887.6** | **61.5** | **6.5** |
| **Power** | **ENERGY SECTOR TECHNICAL ASSISTANCE PROGRAM** | OnGo | **P-SZ-FF0-001** | [ ADB ] | **08/12/2014** | 6/8/2015 | **6/8/2015** | 12/14/2015 | 01/10/2018 | 717,652.0 | 240,361.2 | 33.5 | 3.6 |
| **Power Total** | | | | | | | | | | **717,652.0** | **240,361.2** | **33.5** | **3.6** |
| **Transport** | **MANZINI-MBADLANE HIGHWAY PROJECT** | OnGo | **P-SZ-DB0-012** | [ ADB ] | **28/05/2014** | 11/25/2014 | **6/2/2015** | 7/7/2015 | 31/12/2019 | 32,632,574.3 | 12,411,268.7 | 38.0 | 4.1 |
| **Transport** | **MANZINI-MBADLANE HIGHWAY PROJECT** | OnGo | **P-SZ-DB0-012** | | | 11/28/2014 | **6/2/2015** | 6/2/2015 | 31/12/2019 | 1,200,000.0 | 246,554.6 | 20.6 | 4.1 |
| **Transport Total** | | | | | | | | | | **33,832,574.3** | **12,657,823.3** | **29.3** | **4.1** |
| **Water Sup/Sanit** | **EZULWINI SUSTAINABLE WATER AND SANITATION SERVICE DELIVERY** | OnGo | **P-SZ-E00-005** | [ ADB ] | **18/06/2014** | 11/25/2014 | **4/22/2015** | 5/22/2015 | 31/12/2020 | 16,361,077.0 | 5,921,494.3 | 36.2 | 4.1 |
| **Water Sup/Sanit** | **MBABANE MANZINI CORRIDOR (NONDVO) MULTIPURPOSE DAM STUDY** | OnGo | **P-SZ-EAZ-002** | [ ADB ] | **21/12/2015** | 3/22/2016 | **3/22/2016** | 3/22/2016 | 31/05/2020 | 797,416.0 | 144,745.1 | 18.2 | 2.6 |
| **Water Sup/Sanit** | **MBABANE MANZINI CORRIDOR MULTIPURPOSE DAM FEASIBLITY STUDY** | OnGo | **P-SZ-EAZ-001** | [OTHERS ] | **21/12/2015** | 2/11/2016 | **2/11/2016** | 4/5/2016 | 31/05/2020 | 1,060,893.6 | 191,872.2 | 18.1 | 2.6 |
| **Water Sup/Sanit Total** | | | | | | | | | | **18,219,386.6** | **6,258,111.6** | **24.1** | **3.1** |
| **Grand Total** | | | | | | | | | | **115,734,709.5** | **30,235,452.8** | **25.0** | **3.2** |

## Appendix III: Key related projects financed by the Bank and other development partners in the country

| No. | Project Name / Description | Length (Km) | Funding Agency | Initial Project Cost (USD' million) | Type of Funding |
|---|---|---|---|---|---|
| 1 | MANZINI TO MBADLANE MR3 HIGHWAY PROJECT (LOT 2):Construction and upgrading of new and existing road to a dual carriageway bituminous surfaced,2 major bridge grade separated interchanges, drainage works associated concrete works, relocation of services and land acquisition. | 17 | Badea, OFID, Kuwait Fund and Abu Dhabi | 64,814,815.00 | Loan |
| 2 | MR 13 NHLANGANO – SICUNUSA: Construction and upgrading of a gravel road to a bituminous surfaced single carriageway, major river crossing bridges, drainage works associated concrete works, relocation of services and land acquisition. | 43 | Badea ,OPEC Fund | 64,259,259.26 | Loan |
| 3 | LUKHULA-BIG-BEND: Rehabilitation of existing surface road linking South Africa, Swaziland and Mozambique | 54 | PPP | 44,814,814.81 | Loan |
| 4 | MANZINI TO MBADLANE MR3 HIGHWAY PROJECT (LOT 1):upgrading of the existing road to a 13.2 kilometres asphalt surfaced dual carriageway with associated 20km service roads, construction of four (4) graded-separated fully functional interchanges and two (2) normal bridges, construction of two (2) major box culvert structures together with numerous minor culverts and the associated drainage channels and kerbs. and institution of axle weight control measures | 13.2 | ADB | 56,083,919.00 | Loan |

# Appendix IV: Map of the Project Area




Source: Approved Project Concept Note, July 2018

## Appendix V: Justification of Government's Level of Contribution

### Introduction

The Kingdom of Eswatini's contribution to the Development of the Manzini Golf Course Interchange Project of USD 7.51 million represents 20% of the total project cost, which is less than the recommended 50% minimum counterpart funding, in accordance with Bank's 2008 Policy on Eligible Expenditures for Bank Group Financing. The policy stipulates that "ADB may finance more than 50% of the total project costs on a case-by-case basis and up to a limit that does not exceed 100%."

The recommendation is for the Bank to finance up to 80% of the project cost. The basis for this recommendation is that the country is currently facing a challenging macroeconomic environment characterised by low growth and mounting fiscal imbalances. Economic growth has remained subdued since 2011, with real GDP growing by an average 1.3% per year in 2011-2016. The economy's recent growth trajectory has been weak, with growth declining to 1.9 % in 2017 from 3.2 % registered in 2016 and is projected to further soften to 1.3 percent in 2018. The subdued growth is mainly due to adverse effects of drought conditions and a sharp reduction in the Southern Africa Customs Union (SACU) revenues that continue to linger, emanating from an economic slowdown in South Africa. It is also, in part, because of lack of competitiveness, low investment, high cost of doing business, and fiscal challenges. The fiscal deterioration has largely been because of the Government maintaining higher spending against a prolonged decline of the revenue base, particularly SACU that has resulted in liquidity challenges and accumulation of domestic arrears.

Against this background, reducing Eswatini's financing contribution to this project will provide the needed fiscal space for the Government to implement its development programmes to support inclusive growth as the country embarks on consolidating the budget and returns to fiscal stability. The justification for the reduced Government contribution is further strengthened on the considerations highlighted below.

### The Government's commitment to implement a national development programme

The 1997 National Development Strategy (NDS) sets out Eswatini's development objectives until 2022. To operationalize the NDS, the Government has formulated the 2013-2018 Program of Action as its medium-term framework. The POA commits to addressing Eswatini's development challenges that include low economic growth, unemployment, widespread poverty, high incidence of HIV/AIDS and weak institutional capacity. The POA articulates eight focal areas: (i) Economic prosperity; (ii) Agricultural and environmental sustainability; (iii) Education; (iv) Health; (v) Service delivery; (vi) Infrastructure; (vii) Governance; and (viii) Corruption. Since POA will expire at the end of 2018, the Government is developing its consolidated National Development Plan, covering the period 2018-2022, expected to be ready by the end of 2018.

The Government recognizes that infrastructure makes a vital contribution to effective productive and trade processes in the economy. Despite its middle-income country (MIC) status, Eswatini still faces many infrastructure bottlenecks in transport, electricity, water, and telecommunications, all of which increase the cost of doing business. To increase the country's productive capacity and support growth in the long term, the country needs to address its infrastructure shortcomings. In this regard, Eswatini has equipped itself with the strategy and policy instruments it needs to do so; but an enormous investment in infrastructure is still required.

## The budget situation and debt levels

Eswatini's fiscal policy has been under considerable pressure in recent years. Lack of an independent monetary policy tool has led the Government to use fiscal policy as a countercyclical tool in recent years to boost economic activity and employment. The Government pursued an expansionary fiscal policy after the 2010/11 fiscal crisis, mainly supported by the rebound of revenues from SACU. Expenditures expanded even further owing to increased recurrent spending, particularly in public sector wages, and a revival of capital expenditures. In recent years, Eswatini's capital budget spending on road infrastructure has been closely following the nominal capital budget (Table 1) allocations. The share of road infrastructure in the capital budget spiked to 34% and 36 % in fiscal years 2016/17 and 2017/18, respectively before dipping to the average of 21% in the 2018/19 budget, notwithstanding a slightly increased capital budget.

**Table 1: Infrastructure Financing in Eswatini (SZL million)**

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** |
| Total capital budget (SZL million) | 3,610.42 | 3,725.28 | 3,897.34 | 5,579.44 | 5,603.74 |
| Capital budget allocation to road infrastructure (SZL million) | 719.20 | 832.76 | 1,311.66 | 1,981.17 | 1,171.81 |
| Share of road infrastructure in the capital budget (%) | 20% | 22% | 34% | 36% | 21% |

**Source:** Ministry of Finance

A fiscal crunch occurred in 2016/17 due to a marked 22% decline in SACU revenues leading to a significantly wider deficit of 12.3% of GDP. To finance the fiscal deficit, Government has borrowed from the domestic markets and resorted to central bank financing, as well as accumulating domestic arrears that threaten the banking sector's stability and potentially crowd out the private sector. The fiscal outturn in 2017/18 was a slightly lower fiscal deficit of 8.2% of GDP mainly due to a surge in SACU revenues. Revenue collections and grants are projected to slow down by 2.6% to reach SZL 16.4 billion (Table 2), while total expenditures are planned at SZL 21.6 billion, almost equal to the level of 2017/18, deepening the deficit.

**Table 2: Public Finance (SZL million)**

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 (p) |
| Tax revenue and grants | 14,743.57 | 14,462.42 | 14,288.47 | 16,845.78 | 16,403.96 |
| Total expenditure & net lending | 15,304.43 | 17,198.33 | 19,778.78 | 21,779.35 | 21,596.14 |
| Overall balance | -560.86 | -2,735.91 | -5,490.31 | -4,933.58 | -5,192.18 |

**Source:** Ministry of Finance

The Government is committed to improve the country's fiscal position through implementing a raft of reforms aimed at consolidating the fiscus. The budget for 2018/19 fiscal year, announced by the Minister of Finance on 1 March 2018, is aimed at achieving fiscal consolidation and fiscal sustainability in order to create fiscal space to support investment and socioeconomic spending. In this regard, the Government is pursuing a number of strategies to enhance revenue and reduce expenditure, as well as implementing public financial management reforms that should reduce the fiscal deficit. Narrowing the fiscal deficit is, therefore, contingent on fully implementing the measures proposed for boosting revenues. These include collection of licence fees from mobile companies; raising the value-added tax (VAT) rate from 14% to 15% to align with the new rate announced by South Africa; introducing a levy on bank revenue; reviewing user fees and fuel tax; and introducing an import levy on non-SACU used vehicles.

Reflecting the underlying fiscal imbalances, Eswatini's public debt rose rapidly in recent years. Total public debt reached 20.1% of GDP in March 2018 (from 17.8% in March 2017). The rise in debt mainly reflected an increase in domestic debt, which stood at 12.3% of GDP in March 2018 (from 10.4 % in March 2017) while external debt was 7.8% of GDP in March 2018 (compared to 8.3% in March 2017). By end June 2018, public debt had further surged to 20.8 % of GDP (Table 3).

**Table 3: Public Debt (percentage of GDP)**

| | **Year (Ending March)** | | | | |
|---|---|---|---|---|---|
| | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018*** |
| Total public debt | 16.7 | 16.1 | 17.8 | 20.1 | 20.8 |
| Domestic public debt | 7.7 | 6.3 | 10.4 | 12.3 | 12.4 |
| External public debt | 9.0 | 9.9 | 8.3 | 7.8 | 8.4 |

**Source:** Central Bank of Eswatini ; **As of 30 June 2018*

External debt has been primarily incurred to finance large capital projects; domestic debt was raised, largely through central bank advances, treasury bills and Government bonds, to enable the Government to meet its obligations. Because it became increasingly difficult for the Government to raise enough domestic revenue to fund major capital projects through bond issuance, Eswatini was compelled by its fiscal constraints to increase external borrowing. While Eswatini's debt policy does not impose limits on external debt, domestic debt is capped at 35% of GDP, and the current levels are well within the 'statutory' debt limit. The total debt level remains far below the SADC convergence level of 60% of GDP. This notwithstanding, there are concerns regarding the speed with which debt has risen in a relatively short time, and about the accumulation of domestic arrears, which could adversely affect the stability of the banking sector. In addition, the sluggish economic growth could adversely affect future debt service, and debt service could crowd out critically needed public investments. The Government is, therefore, exploring various options to bridge the financing gap. In order to improve debt management, the Government established a Debt Management Unit (DMU) in April 2015 and is in the process of developing a Debt Management Policy and Medium Term Debt Strategy (MTDS) underpinned by analytical work on debt sustainability levels, with the support of the Macroeconomic and Financial Management Institute (MEFMI).

The 2017 IMF Article IV Consultation report, states that in terms of debt sustainability, "Eswatini's public debt ratio is relatively low but has been rising rapidly due to recent large fiscal deficits, which are also exerting upwards pressure on external debt. Under staff baseline, which includes substantial fiscal adjustment, debt sustainability analysis (DSA) indicates that sustainability indicators would remain below stress thresholds and both debt level and gross financing needs would be resilient to shocks. In absence of adjustment, debt level and gross financing needs would rapidly reach unsustainable levels, pointing to the need for fiscal adjustment. With fiscal adjustment, external debt would also remain low although sensitive to current account exchange rate shocks."

Based on the foregoing, the recommendation is for the Bank to finance 80 % of the Development of the Manzini Golf Course Interchange Project cost, while the Government of Eswatini finances the remaining 20 %.

**AFRICAN DEVELOPMENT BANK**

**BOARD OF DIRECTORS**

**Resolution N° B/SZ/2018/79**

Adopted by the Board of Directors on a lapse-of-time basis, on 24 October 2018

**Loan to the Kingdom of Eswatini to finance part of the costs of the Development of Manzini Golf Course Interchange Project**

**THE BOARD OF DIRECTORS,**

**HAVING REGARD** to: (i) Articles 1, 2, 12, 13, 14, 15, 16, 17, 18, 32 and 37 of the Agreement Establishing the African Development Bank (the "Bank"); (ii) the Fully Flexible Loan Product: Embedding Risk Management Features in Sovereign and Sovereign-Guaranteed Loans (the "FFL Policy"); (iii) the Fully Flexible Loan Guidelines for Conversion of Loan Terms (the "Conversion Guidelines"); (iv) the Review of Sovereign and Sovereign-Guaranteed Loan Charges and the Addendum concerning Front-end Fee Payment Modalities; and (v) the appraisal report contained in Document ADB/BD/WP/2018/214/Approval (the "Appraisal Report");

**DECIDES** as follows:

1. To award to the Kingdom of Eswatini (the "Borrower"), from the ordinary capital resources of the Bank, a loan of an amount not exceeding Thirty Million, Twenty Thousand United States Dollars (USD 30,020,000) (the "Loan") to finance part of the costs of the Development of Manzini Golf Course Interchange Project;

2. To authorize the President to conclude a loan agreement between the Bank and the Borrower (the "Loan Agreement") on the terms and conditions outlined in the General Conditions Applicable to the African Development Bank Loan Agreements and Guarantee Agreements (Sovereign Entities), the FFL Policy, the Conversion Guidelines, the Appraisal Report and, in particular, the terms and conditions specified herein below:

   (i) The duration of the Loan shall be twenty five (25) years including a grace period of eight (8) years (the "Grace Period") commencing on the date of signature of the Loan Agreement. During the Grace Period, commitment charge and interest shall be payable;

   (ii) The Loan shall be amortized over a period of seventeen (17) years, in thirty-four (34) equal and consecutive semi-annual installments payable on 15 May and 15 November of each year (each a "Payment Date"), and the first of such installments shall be payable on the Payment Date immediately following the expiration of the Grace Period;

(iii) The Loan shall be a Fully Flexible Loan with a Floating Base Rate and an option to fix the base rate. Until the date of application of the fixed based rate (the "Fixing Date"), interest on the disbursed and outstanding balance of the Loan shall be, for each Interest Period, at a Floating Base Rate equal to the London Inter-Bank Offered Rate (LIBOR) or its successor rate, for six (6)-month deposits in United States Dollars, plus a lending spread of eighty (80) basis points, the Funding Cost Margin and a Maturity Premium of twenty (20) basis points. Such interest shall be payable semi-annually on a Payment Date;

(iv) From the Fixing Date, interest on the disbursed and outstanding balance of the Loan, shall be, for each Interest Period, at a fixed base rate equal to the market swap rate calculated on the principal amortizing schedule of a particular tranche of the Loan, plus a lending spread of eighty (80) basis points, the Funding Cost Margin and a Maturity Premium of twenty (20) basis points. Such interest shall be payable semi-annually on a Payment Date;

(v) A commitment charge at the rate of zero point twenty-five per cent (0.25%) per annum on the undisbursed portion of the Loan shall begin to accrue sixty (60) days after the date of signature of the Loan Agreement and shall be payable semi-annually on a Payment Date;

(vi) A front-end fee of zero point twenty-five per cent (0.25%) of the total amount of the Loan shall be payable on the earlier of: (a) Sixty (60) days after the Date of Entry into Force of the Loan, and (b) the date of first disbursement of the Loan; and

(vii) The principal, interest, commitment charge and front-end fee shall be expressed and payable in United States Dollars or any other applicable Loan currency in accordance with the Conversion Guidelines;

3. The President may cancel the Loan if the Loan Agreement is not signed within ninety (90) days from the date of approval of the Loan by this Board; and

4. This Resolution shall become effective on the date above-mentioned.