

**Probable Date of Presentation to the Committee on
Operations and Development Effectiveness
(CODE)**
28 January 2020

FOR CONSIDERATION

MEMORANDUM

TO : THE BOARDS OF DIRECTORS

FROM : Vincent O. NMEHELLE
Secretary General

SUBJECT : ESWATINI – COUNTRY STRATEGY PAPER (CSP) 2020-2024*

Please find attached the above-mentioned document.

Attach:

Cc: The President

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

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**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



KINGDOM OF ESWATINI

COUNTRY STRATEGY PAPER 2020-2024

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**AFRICAN DEVELOPMENT BANK
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KINGDOM OF ESWATINI

COUNTRY STRATEGY PAPER 2020-2024

Supporting Sustainable, Diversified and More Inclusive Growth

RDGS/ECCE

January 2020

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Acronyms and Abbreviations

ACC	Anti-Corruption Commission
ACMS	Aid Coordination and Monitoring Section
AEO	African Economic Outlook
AfCFTA	Africa Continental Free Trade Area
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AIDI	Africa Infrastructure Development Index
ARII	Africa Regional Integration Index
AU	African Union
AWF	African Water Facility
BADEA	Araba Bank for Economic Development in Africa
BDEV	Independent Development Evaluation
CAADP	Comprehensive Africa Agriculture Development Programme
CEDAW	Convention for the Elimination of All Forms of Discrimination against Women
CFRA	Country Fiduciary Risk Assessment
CMA	Common Monetary Area
CODE	Committee on Development Effectiveness
COMESA	Common Market for Eastern and Southern Africa
CPIP	Country Portfolio Improvement Plan
CPPR	Country Portfolio Performance Review
CSOs	Civil Society Organizations
CSP	Country Strategy Paper
CSPE	Country Strategy and Program Evaluation
DBDM	Development and Business Delivery Model
DPs	Development Partners
EFTA	European Free Trade Association
EHIES	Eswatini Household Income and Expenditure Survey
EPA	Economic Partnership Agreement
ERA	Eswatini Revenue Authority
ESPPRA	Eswatini Public Procurement Regulatory Authority
EU	European Union
GII	Gender Inequality Index
GOE	Government of Eswatini
IFMIS	Integrated Financial Management Information System
INDC	Intended Nationally Determined Contribution
IPU	Inter-Parliamentary Union
ITF	Individual Tenure Farms
LUSIP	Lower Usuthu Smallholder Irrigation Project
MDGs	Millennium Development Goals
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MEPD	Ministry of Economic Planning and Development
MIC	Middle-Income Country
MTR	Mid-Term Review
NDP	National Development Plan
NDS	National Development Strategy
PEFA	Public Expenditure Fiduciary Assessment
PEFA	Public Expenditure Financial Accountability

POCA	Prevention of Organized Crime Act
PPP	Public–Private Partnerships
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
SNAIP	National Agriculture Investment Plan
SNL	Swazi Nation Land
TAF	Technical Assistance Fund
TVET	Technical and Vocational Education and Training
TYS	Ten-Year Strategy
UA	Unit of Account
UNDP	United Nations Development Programme
VNR	Voluntary National Report
WGI	Worldwide Governance Indicators

Currency Equivalents and Fiscal Year

Currency Equivalents

(January 2020)

Currency Unit	=	Lilangeni (SZL)
UA 1.0		SZL 19.45
UA 1.0	=	ZAR 19.45
UA 1.0	=	USD 1.38
UA 1.0	=	EUR 1.24
USD 1.0	=	ZAR 14.06

Government Fiscal Year

1 April – 31 March

General Map of the Kingdom of Eswatini



Executive Summary

1. This document proposes the African Development Bank’s Country Strategy Paper (CSP) for the Kingdom of Eswatini for the period 2020-2024. It presents how the Bank intends to support Eswatini’s development efforts over the period of the CSP. The choice of intervention areas was informed by Eswatini’s development priorities as articulated in the National Development Plan (NDP, 2019-22) and the Strategic Roadmap for Economic Recovery (2019-22) which both support the National Development Strategy (NDS, 1997-2022). In addition to these economic blueprints, the new strategy was informed by extensive consultations with the Government of the Kingdom of Eswatini, private sector, civil society, a think tank and Development Partners (DPs). The CSP immensely benefitted from the Executive Directors’ Consultation mission in January 2019 and the Bank President’s official visit to the Kingdom in September 2019. It was also informed by recommendations from the Independent Development Evaluation (BDEV) evaluation of Eswatini’s CSPs from 2009-18 and lessons from the CSP 2014-18 Completion Report and 2018 Country Portfolio Performance Review (CPPR). The new CSP is aligned with the Bank’s Ten Year Strategy (TYS, 2013-22) and reflects the High-5 priorities of the Bank.

2. On 12th July 2019, the Committee on Operations and Development Effectiveness (CODE) endorsed the combined CSP 2014-18 Completion Report, the 2018 CPPR and the Power Point Presentation on the proposed priority areas of the new CSP 2020-24. The approved CSP Priority Areas are: **Priority Area I: *Scaling-Up Infrastructure Investments to Foster Economic Diversification*** and **Priority Area II: *Strengthening Economic Governance to Improve the Investment Climate***. The new CSP will mainstream crosscutting issues of green growth, climate change, gender and youth employment. The two priority areas are complementary and predicated on promoting macroeconomic stability and improving the investment climate so as to accelerate Eswatini’s diversified, inclusive, and sustainable growth. The new CSP builds on the successes of CSP 2014-18, which contributed to infrastructure development and dialogue on strengthening PFM and laid a vital foundation for the Bank’s engagement during the new strategy.

3. Eswatini has been stuck in low growth trap over the past two decades and continues to face significant development challenges. Real GDP growth fell from an annual average of 4.9 % over the period 1990 - 1999 to 3.4% during the period 2000 – 2009, before further sliding to 2.4% over 2010-2019. Since 2014, growth averaged less than 2 % and the economy has been beset by macroeconomic imbalances emanating from the volatile Southern Africa Customs Union (SACU) receipts, prolonged drought effects, a weak external environment and a challenging business and investment climate. Capital formation has been small, private investment has been low and declining, while competitiveness has remained stagnant, constrained by among others, old and inadequate infrastructure stock. Government faces mounting challenges characterized by persistent fiscal deficits, growing domestic arrears, depleted reserves and rapidly rising public debt. Although a low-Middle Income Country (MIC), Eswatini faces high levels of unemployment, inequality and deep poverty. To address these challenges, in May 2019, the Government unveiled two complementary policy blue prints the Strategic Roadmap and the NDP aimed at, among others, restoring macroeconomic and fiscal stability, easing the business regulatory environment, clearing domestic arrears, reinforcing infrastructure investment and removing impediments to private sector growth so as to generate positive investor sentiment and spur growth.

4. The overall theme/objective of the CSP 2020-24 is to support Eswatini’s economic recovery and develop a more resilient and diversified economy that can consistently deliver rapid, inclusive, and sustainable growth. To achieve this objective, the Bank’s interventions under Priority Area I will target the provision of growth-oriented and catalytic infrastructure to remove

impediments to growth, improve the provision of basic services, reduce the cost of doing business and increase the country's competitiveness. The Bank will support Government's efforts to diversify the economy's productive base and thereby accelerate economic recovery and inclusive growth. Infrastructure support will focus on agriculture, transport, energy and water and sanitation. Priority Area II will focus on galvanizing reforms aimed at bolstering economic governance which is critical in improving the macroeconomic environment, restoring fiscal sustainability, creating a conducive investment climate for private sector development. To promote private sector development, the Bank will prioritize private sector financing through provision of lines of credit, facilitating guarantees, equity funds, trade finance and Public-Private Partnerships (PPPs). The Bank will continue to provide informative and well-focused knowledge products and enhance policy dialogue.

5. As at end November 2019, the performance of the Bank's portfolio in Eswatini was assessed satisfactory, with a rating of 3.0 (for rated projects) on a scale of 1 to 4. The rating at the last CPRR (2016) was 2.5 on the same scale. The portfolio is relatively young with an average age of 3.0 years, and has no problematic projects nor outstanding Project Completion Reports of projects that are closed. As at December 31st, 2019, the Bank's active portfolio in Eswatini comprised nine (9) operations with a total commitment of UA 170.5 million, a notable increase from UA97.6 million at the 2016 CSP Mid Term Review (MTR). The ongoing portfolio's sector distribution is spread over four sectors and mostly invested in infrastructure (92 %). The water supply and sanitation sector accounts for the largest share of the resources (34 %), closely followed by agriculture (30 %), then transport (28 %) and finance (8 %).

6. In the new CSP, the Bank and the Government identified a number of operations and has developed a pipeline for the period 2020-2024 that include 2 transport sector interventions in roads and railways, 2 agriculture projects, a renewable energy sector program and 1 water project under Priority Area 1. Priority Area 2 envisages implementation of 1 policy based operation (PBO) and 1 public finance management (PFM) project. The total cost of the indicative lending program is UA 610 million disaggregated as follows - UA 570 million (sovereign), UA 30 million from the non-sovereign operations (NSO) window and UA10 million from the Affirmative Finance Action for Women in Africa. The cost of the indicative non-lending operations is UA3.7 million. The Bank will rigorously pursue additional financing through PPPs and possible e co-financing from other partners.

7. Bank lending and non-lending operations during the CSP period will be supported by ADB resources, MIC Technical Assistance Fund (TAF) and other trust funds. As a MIC, Eswatini has access to the ADB window and is eligible for funding from the MIC TAF and trust funds particularly in undertaking feasibility studies, knowledge work, capacity building and technical assistance. As regards to private sector lending, the Bank will continue to promote use of non-sovereign lending instruments to the private sector.

8. The Boards of Directors are invited to consider and approve the Eswatini Country Strategy Paper 2020-2024.

I. INTRODUCTION

1. **This Country Strategy Paper (CSP) proposes the African Development Bank's new intervention framework in the Kingdom of Eswatiniⁱ for the period 2020-2024.** It succeeds the CSP 2014-2018 (*ADB/BD/WP/2013/188*) approved by the Board of Directors in February 2014. The strategy is based on extensive consultations between the Bank, on one hand, and the Government of the Kingdom of Eswatini (GoE), civil society, private sector and Development Partners (DPs), on the other. The CSP was developed pursuant to the adoption, by Government, of the National Development Plan (NDP, 2019-22) and the Strategic Roadmap for Economic Recovery (2019-22) in May 2019. The choice of the Bank's strategic areas of focus was informed by the development priorities outlined in these policy blueprints, whose overarching objective is to achieve economic recovery, macroeconomic stability and inclusive growth. The CSP takes into account the findings and recommendations of the Country Strategy and Program Evaluation (CSPE) for two CSP cycles, 2009-13 and 2014-18, commissioned by the Bank's Independent Development Evaluation (IDEV) in 2018, the report of the Bank Group's Executive Directors mission to Eswatini in January 2019, as well as lessons from the CSP 2014-18 Completion Report and the 2018 Country Portfolio Performance Review (CPPR). The strategy is aligned with the Bank's Ten Year Strategy (TYS, 2013-22) and reflects the High-5 priorities of the Bank.

2. **The Bank's Committee on Operations and Development Effectiveness (CODE) endorsed the strategic thrust of the CSP 2020-24 for Eswatini at its meeting held on 12th July 2019.** The overall theme/objective of the new Bank strategy is to support the country's economic recovery and develop a more resilient and diversified economy that can consistently deliver rapid, inclusive, and sustainable growth. To achieve this objective, Bank's support will aim at reinforcing infrastructure development, promoting macroeconomic stability and improving the investment climate, as well as at strengthening the country's resilience to climate change and external shocks. Against this background, the new Bank strategy for Eswatini is articulated around two priority areas, namely: ***Priority Area I: Scaling-Up Infrastructure Investments to Foster Economic Diversification and Priority Area II: Strengthening Economic Governance to Improve the Investment Climate.***

3. This report is structured as follows: Chapter 2 presents an update on the country context and prospects; Chapter 3 provides key findings of the CPPR; Chapter 4 presents the lessons learnt in the implementation of the last CSP; Chapter 5 presents the Bank strategy for 2020-2024; and Chapter 6 is the conclusion and recommendation.

II. COUNTRY CONTEXT AND PROSPECTS

2.1. Political Context and Prospects

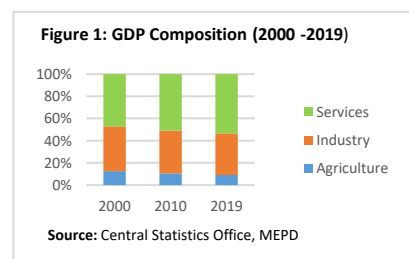
4. **Eswatini is a monarchy with a dual political and legal system in which modern and traditional institutions of governance coexist.** In line with the 2005 Constitution, the King is the Head of State mandated to appoint key members of the Government including the Prime Minister, Cabinet Ministers and a proportion of members of the bicameral Parliament, who serve for a five-year termⁱⁱ. The country's political system has facilitated political stability and peace since independence in 1968. The country performs well in the Global Peace Index, which ranked 72/163 in 2019, an improvement from the rank of 87 attained in 2014. The last general elections, held in September 2018, were described by the Southern Africa Development Community (SADC) and African Union (AU) as orderly, peaceful and calm. The AU observer mission, however, encouraged the country to consider reviewing the ban on political parties and allow them to participate in elections

in accordance with the country’s international commitments. This call resonated with the September 2016 High Court ruling that the ban on political parties undermines the constitutional right to freedom of expression and association. These developments have been hailed as useful towards opening up the political space. In November 2018, His Majesty King Mswati III appointed a new Government, largely drawn from the private sector, including the Prime Minister. The new Government prioritized economic turnaround, fiscal stability, private sector development and improving the investment climate. The next elections are due in 2023 and, during the new CSP period, no significant changes are expected in the political and governance landscape.

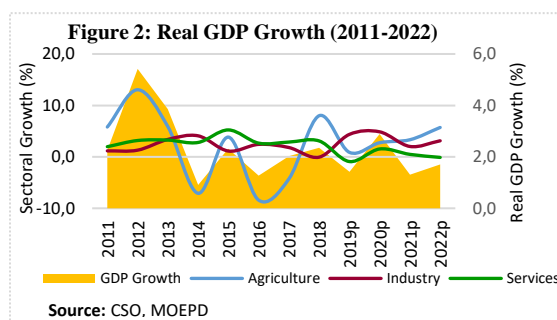
5. Eswatini marginally declined in its governance rankings on the African continent. The 2018 Ibrahim Index of African Governance (IIAG) ranks Eswatini 32nd out of 54 countries in 2017, marginally lower than its 2014 ranking of 30th. However, the overall governance score slightly improved by 0.6 basis points to 48.7 (out of 100) compared to 2014, below Southern Africa’s average score of 57.1. Of the four subcomponents of the Index, the country has high scores in safety and rule of law (61.0) and human development (57.3) in 2018 and has lowest scores in participation and human rights (26.8/100). Sustainable economic opportunity index showed a remarkable improvement from the rank of 24th out of 54 in 2014 to 17th in 2018. The Freedom House 2019 accorded Eswatini an aggregate low freedom score of 16/100 from a score of 18 in 2016 on political rights, civil liberties and freedom. The perceptions on corruption, as gauged by Transparency International Corruption Perception Index, deteriorated with the country ranked 89/180 countries (score 0.38) in 2018 from the rank of 69/174 countries (score 0.43) in 2014. There are, however, some efforts by the authorities to tackle corruption through the Anti-Corruption Commission operationalized in 2017. In 2019, Eswatini enacted the Prevention of Organized Crime Act, signed the Dar es Salaam Declaration on Strengthening Asset Forfeiture for Development and established an Assets Recovery Fund to trace and forfeit all proceeds of corruption.

2.2. Economic Context and Prospects

6. Eswatini’s economy exhibits slow structural transformation and limited diversification with the industrial and services sectors contributing the largest share of GDP. The country is classified as a low-middle income country (MIC) country, with a gross domestic product (GDP) per capita of USD 3,908 (2019), but faces significant development challenges common to low income countries. Agriculture’s contribution to GDP dropped from 12.3% in 2000 to 8.8% in 2019, partly due to recurring climate change induced droughts. Mining contribution is small (0.2% of GDP) and currently limited to coal and quarrying. Industrial sector contribution declined from 39 % of GDP in 2000 to 36 % in 2019, while manufacturing, dropped from 35% of GDP to 32% over the same period. The services sector contribution to GDP significantly increased, from 46% of GDP in 2000 to 52 % in 2019. Main services sub-sectors include wholesale and retail trade (14 % of GDP) and public sector (17 % of GDP) with the former constituting about 17% of employment share of the services sector. The economic structural changes resulted in employment and economic activity somewhat shifting from manufacturing and agriculture, traditionally the engine of Eswatini’s long-term productivity and growth, towards the public and services sectors, where potential productivity growth is generally less. Eswatini’s growth has, therefore, not been sufficiently inclusive. Potential for value added formal employment exists in beverages, textiles, horticulture and timber processing subject to provision of adequate financial and technical skills. Eswatini prioritizes sustainable development, green growth and strengthening resilience to climate change.



7. **The country's economic growth in recent years has been subdued, expanding at an average growth rate of 1.7 % during 2014-19.** The slow growth has been a result of mounting fiscal challenges, a difficult external environment and the impact of the 2015/16 El Niño drought. From a low base of 0.9% in 2014, growth rebounded to 2.3% in 2015 before decelerating to 1.3% in 2016 (Figure 2). However, GDP growth picked 2.4% in 2018, driven by recoveries in



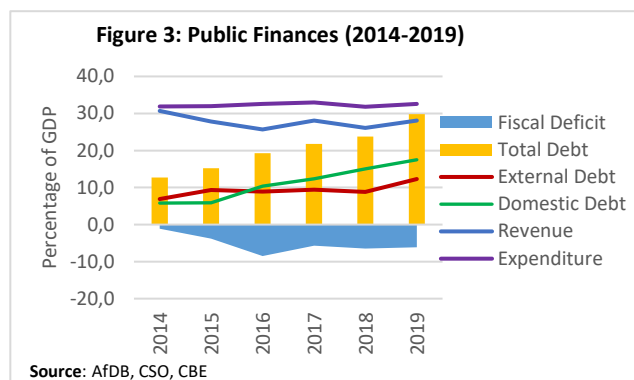
agriculture and services sectors before receding to 1.4 % in 2019 as agriculture growth levelled off. Industrial sector's low key performance, which averaged around 2 % since 2014, reflects the negative effects of fiscal challenges and the weak external demand from key export markets, in particular South Africa. Further, the country's suspension from the African Growth and Opportunity Act (AGOA) eligibility during 2015 to 2017 due to concerns over the protection of workers' rights and from the European Free Trade Association (EFTA) over foot and mouth disease concerns in livestock, heavily weighed down the textiles and meat processing industries. The persistent fiscal challenges and the resultant consolidation measures consequently led to the slowing down of public capital projects in that way hampering construction activity, and also inhibiting robust growth of services subsectors dependent on government spending. On the demand side, consumption constituted the highest share of GDP, averaging 89 % (66.5 % private), while gross investments averaged 12.7 % (6.9 % government). Net exports contribution averaged -0.2 %, depicting escalating imports.

8. **In the medium term, growth is anticipated to remain positive but unstable.** In 2020, growth is expected to recover to 2.5 % spurred by continued recovery in manufacturing and agro-processing industries as agricultural production further stabilizes. In 2021, growth is projected to recede to 1.2 %, weighed down by continued fiscal challenges. The implementation of bold reforms measures articulated in the NDP and Strategic Roadmap have potential to induce business confidence and promote private sector development. In particular, reforms targeted at easing the business regulatory environment, reducing business costs, fiscal consolidation, clearing of domestic arrears, and elimination of structural rigidities can foster macroeconomic stability and generate positive investor sentiment. South Africa's economic recovery, if sustained, and operationalization of new trade agreements bode well for Eswatini's exports oriented industries. The weak fiscal situation, exacerbated by uncertain SACU transfers against the backdrop of elevated expenditures and unmitigated domestic arrears, remain key risks to growth.

9. **In line with inflation developments, the authorities maintained an accommodative monetary policy to support growth.** Annual inflation peaked at 7.8% in 2016, driven by drought induced food inflation, high electricity and transport costs. Following a strong rebound in agricultural production and a slowdown in housing and utilities costs, inflation eased to about 2.7% in 2019 and is expected to remain within Central Bank of Eswatini's target range of 3-7% in the medium term. As such, monetary policy has progressively loosened, with periodic reductions in the policy bank rate (6.5% in July 2019, from 7.25% in 2016). Membership in the Common Monetary Area (CMA), however, precludes conduct of an independent monetary policy.

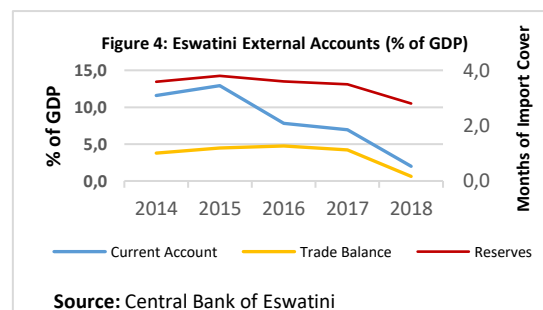
10. **Public finances significantly deteriorated following a fiscal crisis in 2016 and the budget has been in persistent imbalances.** Domestic resources mobilization remains a key challenge due to the

country's heavy reliance on volatile SACU receipts, which have however plummeted from 56% of total revenue in 2014 to 34% in 2019. Recurrent expenditures, which have averaged 78% of total expenditures over 2014-19, remain high, elevated by wage bill (13% of GDP in 2019) and transfers. Capital expenditures averaged 21% of total expenditures during the same period. Fiscal imbalances worsened in 2016 following a sharp decline in SACU receipts (24%), against the backdrop of an increase in total expenditure, in particular the wage bill which increased by 17%. Revenues have continued to be outpaced by the elevated expenditures. Failure to effectively contain government expenditure has resulted in large budget deficits, rising debt levels, financing shortfalls, and accumulation of arrears. The fiscal deficit worsened to 8.5% of GDP in 2016/17, before improving slightly to 6.5% in 2018/19, financed by central bank advances, drawdowns on international reserves, increasing external and domestic borrowing, and accumulation of domestic arrears (estimated at 5% of GDP). The authorities are, however, making concerted efforts to restore fiscal sustainability through fiscal consolidation. In anticipation of the realization of the adopted measures, the deficit is expected to decline to 6.1% of GDP in 2019/20 but is anticipated to remain around 5% in the medium term. Diversifying fiscal revenues is key to the achievement of macroeconomic and fiscal stability.



11. Public debt has risen rapidly in recent years, prompting sustainability concerns. Total public debt increased from 12.7% of GDP in 2014 to 29.8% in September 2019. Domestic debt increased at a faster pace from 5.8% of GDP to 17.5%, while external debt increased less sharply from 6.9% of GDP to 12.3% during the same period. Since 2015, government increasingly relied on domestic debt to plug expanding financing needs and in that way minimizing exchange rate risk. The government's 2019 debt sustainability analysis (DSA), supported by the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), concluded that although the country's debt level is still relatively low, the recent increase in public debt and the high gross financing needs raise both sustainability and liquidity concern, due to the increased interest payments and debt servicing costs. External debt service averaged 1.6% of exports of goods and services while ratio of external debt to exports of goods and services doubled to about 30% in 2019, compared to 2014. Government, however, remains committed to keep public debt levels below its desired debt sustainability limit of 35% of GDP, although this threshold is likely to be breached in the medium term. Government's is finalizing its Debt Policy and Medium Term Debt Strategy (MTDS) and its current thrust is to seek debt finance on concessional terms and for capital projects thoroughly appraised for economic benefits.

12. Eswatini's current account posted surpluses since 2012, but the surplus has been dwindling since 2016. Exports slowed down from 41.9% of GDP in 2014 to 39.0% in 2018, while imports increased from 38.1% of GDP to 38.4% of GDP, which triggered a contraction of the trade balance as percentage of GDP from 3.8% in 2014 to 0.6% in 2018. Net services exports averaged -4% of GDP since 2014, a reflection of the country's huge demand for foreign services partly due to skills shortage.



The Lilangeni/Rand exchange rate generally weakened against major external currencies,

depreciating by 35% between 2014 and 2019 against the US dollar, owing to low investor sentiments, global trade tensions and South Africa's weak growth performance. Official reserves progressively declined since 2016, due to deteriorating fiscal and external positions, reaching 2.3 months of imports cover by September 2019 which is below the minimum threshold of three months import cover. Eswatini's external balances are vulnerable to exogenous factors, particularly those emanating from South Africa, which underlines the need for further economic diversification. Tourism contribution to the current account remains fairly small and international tourism relies on regional tourism.

13. Economic and Financial Governance: Authorities adopted a battery of economic, structural and financial governance reforms but the pace of implementation is deemed slow. The Government's top priority is to achieve fiscal consolidation, curb growing domestic arrears and create the much-needed fiscal space to cater for growth enhancing capital investments and social spending. In order to reduce the country's dependence on the volatile SACU receipts, Government seeks to enhance domestic resource mobilization and aims to cap SACU's share in total revenues at 30%. Revenue measures are targeted at raising selected consumption taxes, widening the tax base, as well as improving tax administration and compliance. On the expenditure side, Government is pursuing measures aimed at curbing foreign travel costs, containing the wage bill and curtailing investment spending, among others. The last PEFA was undertaken in 2011. Identified PFM challenges persist including budget planning, forecasting and commitment control, cash management, and weaknesses in the procurement system including the absence of regulations for the Public Procurement Act that was passed in 2013. There also remains a need to improve the debt management system, through the development of a medium term debt strategy and institutional strengthening of the Debt Management Unit (DMU) that was established in 2015. In an effort to enhance fiscal discipline and accountability, Eswatini promulgated a new Public Finance Management Act in 2017. The Bank's 2018 Country Policy and Institutional Assessment (CPIA) maintained the same score as in 2014 on public financial management noting only marginal improvements on transparency and accountability. The 2019 Country Fiduciary Risk Assessment (CFRA) rated the overall fiduciary risk as substantial. Government embarked on implementing the Integrated Financial Management Information System (IFMIS) with the support of the EU and the World Bank as part of the effort to improve the management of and accountability for public finances. Although Eswatini last entered into a Staff Monitored Program (SMP) with the IMF in 2011, the country undergoes regular IMF Article IV Consultations, the last of which was fielded in October 2019.

14. Private Sector: The private sector is relatively small and suffers from low levels of investment and an unfavorable business environment. Eswatini's gross fixed capital formation by the private sector slightly increased from 6.1% in 2014 to 7.8% of GDP in 2018, but still below the 20-25% of GDP needed for sustained, rapid growth. On the 2020 World Bank's Ease of Doing Business, Eswatini regressed from the rank of 110th out of 189 countries in 2015 (score 59.8) to the rank of 121st out of 190 countries (score 59.5) in 2019. The country poorly performs on starting a business, protecting minority investors, enforcing contracts, dealing with construction permits, and getting electricity. For instance, starting a business requires 12 procedures compared to 7.4 for Sub-Saharan Africa. The 956 days required to resolve a commercial dispute is considerably long. The build-up in Government's domestic arrears constrained the performance of companies that supply services to the government, in particular SMEs and the construction sector which affected the indicator of enforcing contracts. Progress was, however, registered in some of these areas. For example starting a business was made easier by introducing free online services for name reservation and business registration. The country increased the transparency of dealing with construction permits by publishing online and free of charge regulations related to construction. The country is ranked first in Africa in trading across borders. The 2019 World Economic Forum Global Competitiveness Report

(GCR) ranked the country 12th out of 141 countries, a slight decline from 2014/15 when the country was ranked 123rd out of 144 countries. Inefficiencies in government processes, high perception of corruption, lack of access to finance and inadequate supply of infrastructure are identified by the GCR as the main obstacles to business development. The Strategic Roadmap, unveiled by the Government in May 2019 is aimed at easing the business regulatory environment and removing impediments to private sector growth so as to generate positive investor sentiment, improve competitiveness and spur growth.

15. Financial Sector: The banking sector (assets about 30% of GDP) is sound and stable with the sector well capitalized, profitable and resilient. However, banks' asset quality weakened due to increase in non-performing loans (NPL's). NPL's ratio peaked at 10% in January 2019 before declining to 8.5% in July 2019. The increase is partly linked growing government domestic arrears which constrained economic activities of companies that supply services to Government and thus their ability to service bank loans. Banks have accelerated use of financial technologies (fintechs) to make existing financial products mobile and readily accessible. According to the 2019 FinScope Survey, the adult population with access to formal financial services improved to 85% in 2018 from 64% in 2014 and, concomitantly, the proportion of those totally excluded diminished from 27% to 13% during same period. To further deepen financial inclusion, a fifth commercial bank, the Eswatini Farmers Bank, was registered in 2018, for the first time in 30 years. In 2019, Government introduced legislation amending the Building Societies Act to allow the conversion of Eswatini Building Society to operate as a commercial bank. The performance of the large Non-Bank Financial Institutions (NBFI) sector, comprising a large pension fund and insurance companies, (gross assets about 110 % of GDP) remained positive. Private sector credit growth slowed from 11.4% in 2014 to around 6 % in 2019, in response to the difficult macroeconomic conditions.

16. Regional Integration: Eswatini is well integrated in the region and closely linked with neighbouring South Africa, its biggest trading partner. The country is a member of SADC, the Common Monetary Area (CMA), SACU and the Common Market for Southern and East Africa (COMESA). Other key trading partners are the United States under the African Growth and Opportunity Act (AGOA) and the European Union (EU) under the Economic Partnership Agreement (EPA), both of whom accord Eswatini preferential trade terms. The country is a signatory to the 27-member state SADC-COMESA-East African Community (EAC) Tripartite Free Trade Area agreement and also signed and ratified the Africa Continental Free Trade Area (AfCFTA) Treaty. On the Africa Regional Integration Index, Eswatini performs fairly in all dimensions. Overall, Eswatini is ranked 13th out of 20 members in COMESA (score 0.36) and ranked fifth in SADC (score of 0.52). In 2016, the country signed the World Trade Organization's (WTO) Agreement on Trade Facilitation although not yet implementing commitments in full. On the World Bank's 2020 Doing Business Report, Eswatini greatly improved on trading across borders dimension, from the rank of 127/189 in 2015 to the rank of 35/190, a good measure of progress on trade facilitation.

17. Trade: The SACU region, at about 66% market share (South Africa 60%), is the dominant export market for Eswatini's products. The US, EU and the Asian markets are also important export trading partners. In 2018, miscellaneous edibles (soft drink concentrates, caramel color and sweets) constituted 48% of exports, followed by sugar (20%), textiles (13%) and wood (6%). The SACU region is also the major source of imports for Eswatini, accounting for about 72% of the total (with South Africa dominating), followed by the Asian region (16%) and the Eurozone, Sub-Saharan Africa and North America (12% collectively). Inputs for domestic industries accounted for 33% of total imports, followed by final consumption goods (23%), food (15%) and fuel and capital goods (12%). High concentration in a few large markets and key products expose the country to external

shocks, which buttresses the need for greater economic diversification. This is compounded by the country's limited influence in tariff policy setting under SACU due to slow operationalization of the National Body as provided for under the SACU Agreement. The ineffectiveness of the National Body, responsible for carrying out preliminary investigations at country level and recommending any tariff changes necessary to the SACU Tariff Board, curtails Eswatini's ability to invoke SACU tariffs as a policy instrument for furthering national trade, industrial and economic development policy needs.

2.3. Sector Context

18. **Water and Sanitation:** Eswatini has performed relatively well in improving water and sanitation delivery. Access to improved water supply services is estimated at 69% (2018) and access to improved sanitation at 46%. Water supply and demand is estimated at 1,247 and 1,370 million cubic meters, respectively, resulting in a deficit of 123 million cubic meters. Key challenges facing the water supply and sanitation sector include effects of climate change, water scarcity, high growth in urbanization, and aging infrastructure. These challenges point to a need for new investments to rehabilitate and expand water supply and sanitation infrastructure. The Africa Infrastructure Development Index (AIDI) averaged 61.14.

19. **Energy: The country imports about 80% of its power requirements from South Africa (64.5%) and 16.1% from the Southern Africa Power Pool (SAPP).** Total installed generation capacity is 69.6 megawatts, of which 60.1 megawatts is from hydropower, which contributes to 16.4% to the total country's energy consumption while local Independent Power Producers (IPPs) contribute 4.75%. Average electricity demand increased to 236 megawatts in 2018 from 221 megawatts in 2014. The proportion of households with access to electricity nationally, increased from 69% in 2014 to 78% in 2018. The main challenges facing the energy sector include the reliance on power imports from South Africa; which is also facing its own power generation problems; lack of clarity in roles for procurement between the Eswatini Energy Regulatory Authority and Eswatini Electricity Company; lack of incentives to improve electricity service performance and system to track performance standards and limited ability to provide credit enhancement. The country is implementing an updated energy policy that incorporates the use of renewable energies supplied by IPPs and full exploitation of renewable energy has huge potential to decrease Eswatini's exposure to energy supply risks. The AIDI score on electricity remain low at 5.8.

20. **Transport: Transport and storage activities contribute about 2.5% to GDP (2018) and high transport costs affect the country's competitiveness.** The 2018 AIDI for transport is very low at 8.4. Roads provide the dominant form of transportation and account for at least 86% of the trade logistics. The main road network is about 1,500 km, of which 75% are paved and 65% are in good or fair condition. However, the majority of district roads (about 2,055 km) are unpaved and in poor condition. The networks in the urban centers, particularly those servicing commercial and industrial hubs, are increasingly becoming congested and restricting mobility and, thus, require expansion. The railway network makes up a substantial share of the country's freight transport, linking the country to key ports of Durban and Richards Bay in South Africa and Maputo in Mozambique. Of this network, about 131 km is in need of rehabilitation. The planned Eswatini Rail Link project is expected to create additional commodities traffic equivalent to 10.3 million tons through Eswatini. According to the Global Competitiveness report (WEF, 2019), the quality of Eswatini's roads ranked 70/141, roads connectivity 99/141, and airport connectivity 139/141. The aviation sub-sector is deemed commensurate with the country's demand for aviation services as it has one public airport.

21. Information and Communication Technology (ICT): Eswatini has continued to strengthen liberalization of the telecommunications industry. The country has three telecommunications service providers with over 80% mobile market penetration. Mobile cellular subscriptions increased from 82.2 per 100 people in 2014 to 93.5 in 2017 while the number of fixed telephone subscriptions declined from 4.1 per 100 people in 2014 to 3.6 in 2017. The proportion of the population using the internet increased from 26.2% in 2014 to 47% in 2017. Government plans to further roll out broadband networks to schools and hospitals, as well as to liberalize broadband access. However, AIDI index on ICT stands at a low 18.32.

22. Industry: Manufacturing accounts for 88% of industry's output, followed by construction (9%) and utilities (3%). Key manufactured commodities include sugar, soft drink concentrate, textiles, canned fruit and wood products which are largely destined for the export market. In terms of employment, the industrial sector employs 16.1% of the country's labor force, a slight reduction from 18.6% in 2014. In contrast, the services sector's share of employment increased from 67% in 2014 to 68.6%. Agro-processing and manufacturing activity is strongly linked to agriculture, particularly sugar production, which plays a vital role in the national economy through its backward and forward linkages with other sectors. Eswatini's industry faces challenges related to increased global competition, domestic fiscal challenges weighing down on domestic demand and weak external demand amidst global trade tensions. The textiles and meat processing industries are, particularly sensitive to external developments. Eswatini's 2015 Industrial Development Policy, which is aligned with the SADC industrialization agenda is aimed at promoting industrial development.

23. Agriculture: The sector is key to Eswatini's overall economic performance due to strong linkages with the rest of the economy. Agriculture sustains livelihoods of close to 70% of the country's population. The sector provides the key raw material base to agro-processing and manufacturing industries. Animal husbandry and crop production are the major drivers of agricultural output at 52% (4.4% of GDP) and 31% (2.6% of GDP), respectively (2018), while forestry accounts for 13% (1.1% of GDP). Key agricultural exports include sugar, wood products, citrus fruits, canned fruits and meat products. The following value chains: fruit and vegetables, meat, dairy, and honey have potential for boosting exports, promoting import substitution; increasing local employment generation and enhancing product diversification. The binding factor for agro-processing and job creation is low production due to lack of capacity. Challenges facing agriculture include high vulnerability to climate change, especially drought. In addition, the sugar industry faces falling world market sugar prices, influx of cheap foreign sugar within the SACU market and the over-supply of sugar within the EU following the abolition of beet sugar production quotas in September 2017. Government's National Agriculture Investment Plan (2016-2025) is, thus, aimed at increasing the contribution of agriculture to sustainable economic development and guiding investment in the sector.

2.4. Social Context and Cross-Cutting Themes

24. Poverty, inequality and human development: High levels of poverty persist despite a reduction in the proportion of people living below the national poverty line to 58.9% in 2017 from 63% in 2010. Although it is still high, income inequality, measured by the Gini coefficient, marginally declined to 0.49 in 2017 from 0.51 in 2010, attributable to government's social welfare grants and marginal fall in unemployment. The country has a population of 1,093,238 (2017) of which 77% is below the age of 35 years. Eswatini's Human Development Index (HDI) stands at 0.588 (2017), a slight change from 0.586 in 2016, thereby positioning the country at 144 out of 189 from 148 out of 188 countries in 2016. This HDI score puts the country in the medium human development category. While the country's adult HIV prevalence rate dropped from 31% in 2011 to 27% in 2018, it remains one of the

highest in the world and a top challenge. In 2016, the country adopted the 2030 Sustainable Development Goals (SDGs) and committed to their achievement and mainstreaming in national development planning. Eswatini's target is to achieve all the SDGs, but has prioritized nine which focuses on inclusive growth, poverty eradication, social goals, energy and climate.iii (Annex 13).

25. Civil Society: Eswatini has a small but vibrant civil society championed by the Coordinating Assembly of Non-Governmental Organizations (CANGO), which aims to coordinate, advocate and capacitate civil society to fulfil its mandate and influence public policy. According to CIVICUS, a global alliance of civil society organizations (CSOs) and activists, although CSOs and trade unions can be formed in Eswatini, concerns remain regarding the openness of the civic space. However, the awaited updating and adoption of the draft NGO policy developed in 2005 is expected to further strengthen CSO engagement with Government and other partners.

26. Gender equality and inclusion: The Constitution provides for equality before the law in all spheres of life. The country is a signatory to the UN Convention for the Elimination of All Forms of Discrimination against Women (CEDAW) and is committed to the SADC declaration on Gender and Development. The 2010 National Gender Policy, provides the framework and strategies for gender mainstreaming into public policies. Progress has been made toward the promotion and protection of women and girls' rights through the enactment and amendment of various laws^{iv} including in 2018, Sexual Offences and Domestic Violence Act. The number of women holding Cabinet positions slightly increased to 30% in 2018 from 25% in 2013. However, the representation of women in Parliament remains low at 12%, below the 50% stipulated in the SADC Protocol on Gender and Development. The country has a low rate of female labour force participation at 46.5% vis-à-vis men at 55.5%, while the 2017 Gender Inequality Index^v (GII) ranked the country at 141/160 (value of 0.569). Gender inequality has been exacerbated by strong patriarchal traditions, values and norms, weak implementation of legislation and poor access to means of production, education and health. Gender-based violence, intergenerational sex, early sexual debut, as well as limited employment and economic opportunities for women all contribute to gender inequalities in Eswatini. The implementation of the laws and statutes that advance women's rights will contribute to the elimination of all gender-based disparities.

27. Education, Skills and Employment: The labour force participation rate is low at 50.6% (2017) and the unemployment rate, at 23.1% in 2017 (21.2% male versus 24.8% female) from 28.1% in 2013, remains high. Youth unemployment (15-24 years) is high at 47.4%, from 51.6% in 2014, and is compounded by limited job opportunities and yawning skills mismatches. While access to primary education is significantly high, with a net enrolment of 95% (2016), access to Technical and Vocational Education and Training (TVET) and Higher Education institutions remains limited because of unaffordability and shortage of institutions. The NDP estimates that only less than 10% of the high school leavers make it to tertiary education, which impacts employability of the youth. In recognition of the need to improve the quality and relevance of education to the labour market needs, Government developed a National Human Resource Development Policy and Implementation Strategy to guide targeted investment in skills development.

28. Climate Change and Green Growth: Eswatini is highly vulnerable to climate change with the agriculture sector being mostly affected. Government is committed to climate change adaptation and strengthening resilience. Government developed the National Drought Mitigation and Adaptation Plan 2016-22 and unveiled the National Climate Change Policy in 2016 aimed at providing an enabling environment to address the climate change challenge. The country also developed the National Resilience Strategy and Disaster Risk Reduction Policy and Action Plan (2017-2021), with activities

of the plan such as the monitoring and warning early warning system already operational and rolled out throughout the country. The Climate Change Bill, which is expected to be enacted into law, seeks to promote climate resilience and inclusive low-carbon green growth. The legislation will also facilitate the implementation of the country's Intended Nationally Determined Contribution (INDCs) to strengthen adaptation measures, economic development and enhancing institutional capacity. Although no clear Green House Gases (GHG) emission targets have been set until climate finance is secured, there are plans to establish a National Fund to help mobilize climate finance, with support of development partners.

2.5. Country Strategic Framework

29. The National Development Strategy (NDS), implemented through short- to medium-term development plans, is Eswatini's overarching long-term planning framework for the period 1997-2022. The NDP and the Strategic Roadmap for Economic Recovery articulate the country's medium-term development plans for the period 2019-22. The NDP prioritizes six core areas: (i) macroeconomic framework and fiscal sustainability, (ii) enhanced and dynamic private sector that supports inclusive and sustainable economic growth, (iii) enhanced social and human capital development, (iv) efficient public service delivery, (v) well-managed natural resources and environmental sustainability, and (vi) infrastructure development. The NDP places a strong emphasis on sustainable and inclusive growth to reduce poverty and inequality. Its estimated total budget amounts to USD 4.8 billion, of which USD 1.3 billion (27% of total budget) is earmarked for capital projects. The capital budget is expected to be financed through domestic and external borrowing and grants. To complement the NDP, the Strategic Roadmap was designed to target various reform priorities that include ease of doing business, fiscal consolidation and arrears clearance, as well as infrastructure, investment and innovation. Key growth sectors identified under the Roadmap include agriculture, energy, manufacturing and agriculture processing.

2.6. Aid Coordination Mechanisms, Bank Positioning and Comparative Advantage

30. Eswatini is a signatory to the Paris Declaration and successive global development cooperation effectiveness covenants^{vi}. Government emphasizes the alignment of all donors' interventions to national priorities. To further strengthen the country's development cooperation framework and provide for better management of donor resources, Government updated the Aid Policy of 2000, transforming it into the National Development Cooperation Policy. Plans are underway to establish Sector Working Groups (SWGs), initially in four high priority sectors (health, education, agriculture and water and sanitation). Over the period 2011-17, official development assistance averaged 5.7% of GDP per annum, targeting health (one third), infrastructure development (one-quarter), agriculture, water and sanitation, and governance. Currently, 13 DPs, including the African Development Bank (AfDB), provide assistance to the country, of which five have in-country representation (the UN, EU, World Bank, USA and Taiwan). The Bank actively participates in the Government's annual Development Partners Forums/Retreats, which have provided a platform for championing key issues, such as, the establishment of aid coordination structures and reinvigorating SWGs.

31. The Bank is a key development player in Eswatini, particularly in infrastructure, its area of comparative advantage. The Bank's comparative advantages in supporting Eswatini's development efforts are (i) the Bank's solid reputation as a partner of choice and honest broker, (ii) the Bank's successful track record in financing infrastructure development and capacity building; (iii) its distinctive position as a knowledge institution and trusted advisor; and (iv) the progressive role as

a knowledge provider to clients and partners. In addition, the Bank’s accumulated experience and business with Eswatini reflects its increasing knowledge and engagement with the country. The Bank is actively engaged with other DPs and conducts regular dialogue in road and water sectors to promote and support ongoing reforms. The Bank also played a key role in policy dialogue aimed at improving governance in the public sector through PFM reforms, in collaboration with the EU and World Bank. In 2018, the Bank joined the PFM Working Group and has consistently participated in PFM Steering Committee meetings, which mainly reviewed the rollout of the IFMIS. The Bank will further promote deeper dialogue, including through enhanced participation in SWGs in sectors in which it has a strong presence, such as agriculture, transport and water and sanitation sectors. Since the launch of the new Development and Business Delivery Model (DBDM), the Bank, through the Southern Africa Regional Development and Business Delivery Office (RDGS), has increased regular engagement and dialogue with the country and DPs. In 2019, the Bank undertook high level engagements with the Government through the Executive Directors and the Bank President’s visits.

2.7. Strengths and Opportunities, Weaknesses and Challenges

32. Eswatini’s overarching development challenge is to sustainably grow an inclusive economy that is resilient to shocks and positioned to drive the country from perpetual poverty, unemployment and inequalities. To effectively tackle this challenge, it is imperative to accelerate the country’s structural transformation through infrastructure development, strengthen economic governance, support business and entrepreneurial activity, and improve the investment climate requisite for private sector growth. Eswatini’s strengths and opportunities as well as its challenges and weaknesses are summarized in Box 1 below.

Box 1: Country Contextual Analysis: Strengths, Weaknesses, Opportunities and Challenges

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> ✓ Peace and Political Stability: Eswatini enjoys long years of peace and political stability ✓ Proximity to and integration with South Africa: This close integration through SACU and the CMA provides a huge market, currency stability, easy access to human and financial capital, financial sector stability, access to well-developed supply chains, and confidence in the local currency. ✓ Availability of good agricultural land: The good agronomic and agro-ecological conditions can allow for greater diversification of agricultural production ✓ Country strategic location and transport network: The country is strategically located along transport corridors and has a road network which connects the major internal economic hubs links to the ports of Durban and Maputo. 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> ✓ Weaknesses in economic and financial governance: The country continues to rank low on governance rankings and challenges persist in PFM. ✓ High dependency on volatile SACU revenues: The reliance on SACU revenues complicates the management of the budget and attainment of fiscal sustainability. ✓ Corruption: This is a problem prevalent in both the public and private sectors. ✓ Capacity constraints and skills shortages: Mainly arising from the small population size and skills mismatch have been persistent and adversely impact the quality of public services. ✓ Old infrastructure in deteriorating conditions: These are noted to be prevalent in transport, energy, water and telecommunications.
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> ✓ Unexploited mining potential: Eswatini has potential to fully exploit its mining sector such as coal, while other minerals with some potential include green chert, diamonds, and gold. ✓ Unexploited tourism potential: Eswatini’s outstanding natural beauty, magnificent scenery, excellent game parks and a strong cultural heritage and biodiversity are strong attractions for tourists 	<p style="text-align: center;">Challenges</p> <ul style="list-style-type: none"> ✓ Social: Persistent poverty, high levels of inequality and unemployment, particularly among the youth. ✓ Pervasive gender inequalities: A result of strong patriarchal traditions, values and norms that limit women’s full potential. ✓ Limited international trade policy space: under SACU, South Africa dominates the trade policy making process, thereby constraining the country’s ability to influence policies that support economic transformation at national level.

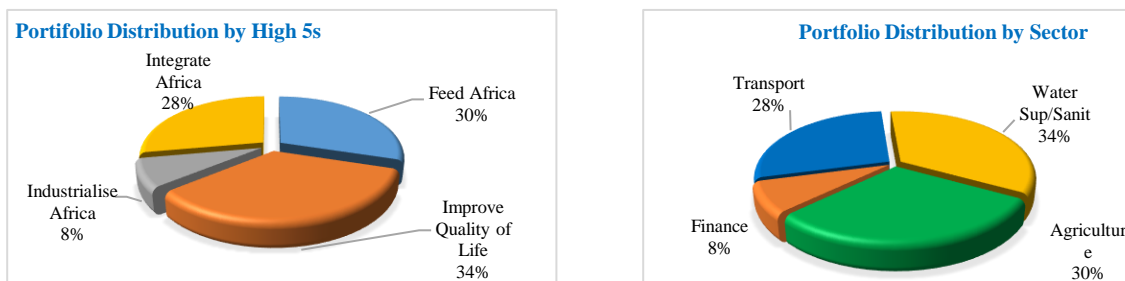
<ul style="list-style-type: none"> ✓ Preferential access to markets: European Markets EPAs, COMESA, AGOA, and the Southern African market through SACU and SADC and new trade deals recently signed. ✓ Relatively low labor costs: Wages are about 20 % lower than in South Africa. 	<ul style="list-style-type: none"> ✓ Small and stagnant private sector hamstrung by a constraining business environment: The country slipped in its doing business rankings which deters investment. ✓ Limited economic diversification and market concentrations: The economy's diversification is limited and highly dependent on a few export commodities and market concentrations. ✓ Vulnerability to climate change in particular agriculture
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III. KEY FINDINGS OF COUNTRY PORTIFOLIO PERFORMANCE REVIEW (CPPR)

3.1. Ongoing Portfolio

33. As of 31st December 2019, the Bank's active portfolio in Eswatini comprised nine operations with a total commitment of UA 170.48 million, a notable increase from UA 97.6 million at the 2016 mid-term review (MTR) of the CSP. The portfolio is predominantly funded through the ADB window (99%) and the remaining 1% through the Africa Water Facility (AWF) and Africa Climate Change Fund. The portfolio had a disbursement ratio of 41.4%, a significant improvement from 3.3% at the last 2016 CPPR. The ongoing portfolio's sector distribution is spread over four sectors and mostly invested in infrastructure (92%). The water supply and sanitation sector accounts for the largest share of the resources (34%), followed by agriculture (30%), transport (28%) and finance (8%). The portfolio is well aligned with four of the five Bank's High 5s, as shown in Fig 5.

Figure 5: Portfolio Distribution by Sector and High 5s



3.2. Portfolio Performance

34. The 2018 Country Portfolio Performance Review (CPPR), which was combined with the CSP 2014-18 Completion Report, was endorsed by CODE in July 2019. The overall performance of the portfolio, updated to end October 2019 was satisfactory, with a rating of 3.0 (for rated projects) on a scale of 1 to 4. The rating at the last CPRR (2016) was 2.5 on the same scale. The portfolio is relatively young with an average age of 3.0 years, and has no problematic projects nor outstanding Project Completion Reports of closed projects.

3.3. Strategic and Operations Challenges

35. Generally, Eswatini's portfolio implementation challenges can be clustered into three broad areas, all largely rooted in institutional weaknesses in the public sector: (i) project start-up and implementation delays; (ii) weak implementation capacity and inadequate capacities in procurement and contract management, and (iii) delays in disbursements administration, including in the justification of funds disbursed to the Special Accounts of the projects. The first and third challenges point to the portfolio's deficiency in complying fully with the provisions of the Bank's PD02/2015, and these continue to top the agenda of the Bank's dialogue with the government on portfolio management. In addition, a number of projects fail to make timely submission of annual financial audit reports to the Bank. On the Bank side, some projects have experienced delays in getting responses on their disbursement requests. All these challenges are currently being addressed in the 2019 Country Portfolio Improvement Plan (CPIP) developed with the implementing agencies in 2018. The Bank is continuously working with the Government in resolving these challenges.

IV. LESSONS LEARNT

36. The preparation of this strategy benefited from the findings of the CSP 2014-18 Completion Report, BDEV's Evaluation of the Bank's Country Program in Eswatini from 2009-18, and guidance from CODE. The formulation of Bank interventions and projects under the CSP will, thus, take into consideration the lessons learnt. BDEV confirmed that the Bank's interventions have been relevant to the country's needs and development challenges and well aligned to Government's priorities. However, despite observable declines in levels of poverty,

Box 2: Evaluation of the Eswatini CSPs (2009-18)

Key BDEV Recommendations

1. Enhance selectivity and portfolio design
2. Improve quality at entry
3. Strengthen the focus on managing for development results
4. Safeguard development benefits
5. Enhance policy dialogue and knowledge management

unemployment and inequality, these were not sufficient to offset the overall development challenges as growth remained subdued and macroeconomic balances persisted. Greater effort is, therefore, needed to accelerate the country's economic growth trajectory, diversification and transformation. The Bank needs to pay increase focus on the investment climate and private sector development. The following operational and strategic lessons are therefore drawn.

4.1. Lessons for the Bank

- In order to enhance the effectiveness of the lending portfolio and improve quality at entry, it is imperative to assess and strengthen the partner's institutional and capacity weaknesses before investments are undertaken. In particular, institutional capacity on the Bank's procurement and reporting procedures.
- It is important to critically analyze the outcomes and impacts of the Bank's interventions beyond the quantitative output and outcomes realizations so as obtain a detailed understanding of qualitative impacts of the Bank's interventions on beneficiaries.
- The Bank should increase focus to generation of knowledge products that supports evidence based policymaking and innovative planning to complement feasibility studies focused on technical issues related to infrastructure development. Bank interventions will yield the highest gains for the country if they are supported by evidence based policy decisions. Further, the Bank needs to play a more pro-active role in terms of providing high-quality policy advice on pressing development reforms.

4.2. Lessons for the Government

- **Institutionalize portfolio meetings:** A lack of coordination amongst institutions overseeing various Bank financed projects affects information flow and sharing of experiences and best practices. Holding regular consultative meetings between Ministry of Finance and project implementing teams (PITs) will facilitate the flow of information, sharing of experiences and best practices.
- **Improve project reporting:** The Government should impress upon the executing agencies the need to submit audit and quarterly reports on time and to adhere to the prescribed formats. Non-compliance with such requirements affects project implementation and delay disbursements.
- **Addressing capacity constraints:** Capacity constraints that continue to pervade government structures, including executing agencies, need to be addressed to enhance operational and institutional effectiveness. Delays could be avoided by conducting capacity building on Bank rules and procedures before projects are launched. This would ensure greater government participation in project preparation and ultimately enhance ownership.

4.3. Outcomes of Stakeholder Consultation

37. **Extensive consultations were undertaken in Eswatini with key stakeholders that included Government, private sector, civil society and development partners.** These consultations were done through the CSP 2014-18 Completion Report mission in December 2018, the RDGS Dialogue mission, Business Seminar and civil society event in May 2019. In addition, Executive Directors visited the country in January 2019 and recommended the Bank to continue building on its successes in Eswatini through scaling up infrastructure investments, supporting the development of an enabling private sector environment and strengthening governance and institutions. The Bank's President, Dr Akinwumi Adesina, undertook a high level mission to Eswatini in September 2019 and held discussions with King Mswati III and Cabinet Ministers. During this visit, the Government reiterated its priorities on agriculture development, transport, energy, water and sanitation as well as private sector development. In October 2019, the Bank undertook a CSP dialogue mission to validate the draft CSP and to finalize the specific areas of intervention. Government and all stakeholders consulted confirmed the appropriateness of the priority areas identified under this CSP and noted that: (i) infrastructure development is a key imperator economic productivity, (ii) economic reforms are essential to improve the investment climate and the country's competitiveness, (iii) budget support, accompanied by requisite reforms, has potential assist the country restore fiscal stability; and (iv) support to the private sector, including PPPs, is key to unlock growth potential.

4.4. CODE Comments on CSP 2014-2018 Completion Report

38. CODE noted the progress made in the implementation of the CSP 2014-18 despite the severe challenges which hampered growth. CODE observed that implementation of the portfolio significantly contributed resources towards the country's recovery and development efforts. CODE also noted that growth prospects for Eswatini anchor on improved agricultural productivity and revival of industry's growth. CODE expressed satisfaction with the strategic orientations of this CSP and welcomed the economic diversification dimension. Going forward, CODE emphasized the need to focus on climate change-related issues, gender, and governance and enhancing domestic resource mobilization. CODE noted the large indicative operations pipeline and highlighted the need to ensure Eswatini has the absorptive capacity of such a relatively large program. CODE further recommended robust policy

dialogue with the authorities and for the Bank to explore the identification of more Non-Sovereign Operations. CODE endorsed the Priority Areas of this CSP.

V. BANK GROUP STRATEGY 2020-2024

5.1. Strategy Rationale, Objective and Priority Area for Bank Support

39. **The contextual analysis in the preceding chapters reveal that Eswatini has several strengths and opportunities, but also faces a wide range of challenges and weaknesses despite its MIC status.** The country's overarching development challenge is to sustainably grow an inclusive economy that is resilient to shocks and positioned to propel the country from perpetual poverty, unemployment and inequalities. More specifically, the country suffers from slow economic growth, prolonged macroeconomic and fiscal imbalances, deteriorating infrastructure stock, a weak investment climate, weak economic governance capacities and a small and stagnant private sector. Confronting these challenges requires a well-designed and innovative strategic response to support the country's quest for sustainable, diversified and inclusive growth. Thus, in direct response to Eswatini's overarching development challenge, the overall theme/objective of the CSP 2020-24 is to support Eswatini's economic recovery and the development of a more resilient and diversified economy that can consistently deliver rapid, inclusive, and sustainable growth. To achieve this objective, the CSP will scale up support for growth enhancing and catalytic infrastructure that enables economic diversification, stimulates growth and creates decent jobs. The CSP will also support Government's efforts to strengthen economic governance, private sector development and address the impediments to a conducive investment climate. Accordingly, the CSP is articulated around the following two Priority Areas for Bank support:

Priority Area 1 - Scaling Up Infrastructure Investments to Foster Economic Diversification

Priority Area 2 - Strengthening Economic Governance to Improve the Investment Climate.

40. The CSP's two Priority Areas have been selected on the basis of the following criteria: (i) addressing the country's most urgent development challenges; (ii) alignment with Eswatini's strategic development framework; (iii) consolidating and building on the Bank's past achievements and comparative advantages; and (iv) input from stakeholder consultations. The Priority Areas will ensure continuity and build on the achievements of the previous CSP given that infrastructure gaps still remain while there is still significant work on the reform agenda. The Bank will pay greater attention to the integration of crosscutting themes – gender equality, youth employment, and climate change into new operations. CSP Priority Area 1 will be directly aligned to the TYS operational priority on infrastructure and regional integration and is consistent with the following High 5s: Feed Africa, Light Up and Power Africa, Integrate Africa and Improve the Quality of Life of the People of Africa. Priority Area 2 is strongly aligned to the TYS operational priority on governance and accountability as well as skills and technology and is consistent with the High 5s priorities of Industrialize Africa and Improve the Quality of Life of the People of Africa. The CSP is aligned to the following proposed priority areas of the Regional Integration Strategy Paper for Southern Africa (SA-RISP 2020-2024) under development: (i) priority area 1 - infrastructure connectivity and (ii) priority area 2 - market integration and industrialization. CSP Priority Area 1 is aligned with SA-RISP Priority Area 1 in particular transport, energy and water sectors. On the other hand, CSP Priority Area 2 is aligned to the SA-RISP focus on industrialization and value chains and governance and capacity. The Bank will, therefore, prioritize operations that have a strong regional dimension as well as those with strong potential to catalyze private sector participation and collaboration with other donors.

5.2. Bank Strategy and Expected Results

41. The Bank's strategy under each of the two Priority Areas is presented in the following sections.

Priority Area I - Scaling-Up Infrastructure Investments to Foster Economic Diversification

42. The main objective of Priority Area 1 is to support the expansion of growth-enhancing and catalytic infrastructure to remove structural bottlenecks, enable economic diversification, reduce the cost of doing business and provide the critical stimulus for economic development as well as improving the availability of socio-economic opportunities for boosting productive capacities. Further, the Bank's support under Priority Area I will aid rapid diversification of the country's economic base combined with associated policy reform and capacity development support. Targeted infrastructure interventions in Priority Area I will also serve as a foundation for promoting the country's investment climate under Priority Area II.

Key Result 1: Expanded and strengthened infrastructure that promote diversification, inclusive and sustainable growth

43. The Bank will predominantly invest in critical infrastructure in transport and agriculture, as the primary priority sectors. Secondly the energy and water and sanitation sectors, will be supported as secondary tier sectors.

44. **Transport:** Interventions in transport will be through investment projects and PPP arrangements. Bank's investments in roads will focus on upgrading the existing national road network to improve transport connectivity, decongest key corridors, as well as reducing transport and time costs. The railroad intervention will integrate over-border logistics between South Africa and Eswatini by building a strategic rail link that will: stimulate economic development and job creation; improve the integration of the logistics chain in the SADC region; improve freight capacity between the hinterland and the eastern seaboard ports; and contribute to a modal shift from road to rail. Overall, the transport interventions will benefit all sectors of the population including those living in peri-urban areas, commuting workers, private companies and traders. Households and vulnerable groups will benefit from improved road infrastructure which will further strengthen inclusiveness.

45. **Agriculture:** The Bank will support the sector through a mixture of sovereign, NSO investment operations and technical assistance. Investments in agriculture will prioritize the provision of irrigation and water security infrastructure as well as support for the development of agribusiness, agro-processing hubs and agricultural value-chains. The interventions will enable Eswatini to develop world class food and agribusiness processing capacity, increase productivity and competitiveness, and provide employment and entrepreneurship opportunities for youth and women. The development of agriculture infrastructure, establishment of commercial agribusinesses and commodity value chains will ultimately improve productivity, improve product diversification and supply of value-added agro-based products on both the domestic and external market.

46. **Energy:** In energy, the Bank's interventions will support Government's quest to reduce the cost of power and reliance on imports. This will be achieved through boosting domestic renewable energy generation and supporting investments in transmission infrastructure. The Bank will provide project financing through sovereign and non-sovereign operations to Independent Power Producers (IPPs) in the renewable energy space, including provision of Partial Risk Guarantees, if required. The investments in transmission infrastructure will support and enable improvement in electricity,

particularly in rural areas where access rates are still low. Support for increased renewable energy generation capacity in Eswatini will further advance the country's diversification efforts and green growth agenda, in addition to added benefits of more reliable and affordable power supply to households, business and industry.

47. **Water and sanitation:** Support to this sector will be channelled through sovereign investment operations and interventions will include development of a multipurpose storage dam to supply irrigation water, produce hydropower as well as provide water for domestic and industrial use. Given the recurring climate change induced droughts in recent years, the need for increased capacities for water security is imperative. The multi-purpose dam investment will, thus help mitigate the effects of climate change, particularly drought and thus contribute to improvement in people's livelihoods and social well-being through increased availability and access to clean water supply and sanitation.

48. **Main Outcomes/Key results under Priority Area 1.** In agriculture, the interventions under CSP aim to contribute to increased percentage of export with value added of local primary products from 32% to 50% by end 2024. Transport interventions are expected to reduce traffic accidents from 109 to 100 per 1000 vehicles while the capacity of Eswatini railways network will improve from 4 metric tons to 6 metric tons. Energy outcomes include increase in access to electricity from 78% of the population to 79% as well as increase in domestic renewable energy generation from 102 megawatts to 145 megawatts by the end of the CSP. In water and sanitation, the CSP interventions are expected to contribute to improvement in access to clean water from 69% of the population to at least 71%. Access to improved sanitation facilities is expected to increase from 46% to 49% of the population by end 2024.

Priority Area II - Strengthening Economic Governance to Improve the Investment Climate.

49. The main objective under Priority Area II is to galvanize reforms aimed at strengthening economic governance, promoting private sector development and improving the investment climate. The Bank's interventions will be aimed at improving the macroeconomic framework, public sector performance efficient use of resources, and human capital and skills development for job creation. The priority investment areas will focus on (i) strengthening PFM, the budget process, and fiscal consolidation; (ii) expanding access to finance for the private sector, particularly the SMEs; (iii) support development PPP framework, and (iii) contribute to address skills-gaps in the growth sectors targeted under Priority Area 1. The Bank will continue dialogue on the application of policy based operations (PBO) and use private sector financing instruments, engagement on policy reforms, technical assistance and ESWs to enhance the participation of private sector in the economy. Support provided will be aimed at improving the business environment and strengthen the private sector participation in economic development and contribute to diversification efforts.

Key Result 2: Improved public financial management and fiscal sustainability

50. Support to economic governance is envisaged through a mixture of technical assistance, institutional support project, a PBO and analytical work. The institutional support operation is aimed at strengthening PFM and procurement systems to ensure macroeconomic stability. The envisaged policy-based operation (PBO), with accompanying reforms and fiduciary measures aimed at improving accountability and transparency in PFM, fiscal consolidation, will contribute to overall macroeconomic stability and growth. The PBO operation will be implemented in close coordination with other Development Partners and subject to fulfillment of the Bank's PBO eligibility criteria. Envisaged interventions will promote fiscal stability, improve the allocation of public resources as

well as quality and efficiency of spending over the medium term. Reforms will improve the overall business environment, enhance competitiveness, and thus promote private sector development.

Key Result 3: Enhanced investment climate conducive for private sector growth

51. The Bank's intervention will promote the creation of a conducive investment climate for business development through support for policy, regulatory and institutional reforms. The Bank will also pursue provision of financing for private sector operations through guarantees, trade finance and lines of credit to boost trade. Support to public-private sector dialogue through non-sovereign operations will help identify critical barriers to private investment, which will guide the design of policy and regulatory reforms. The Bank will support updating of the legal, institutional and regulatory framework for PPPs and implementation of Public Private Partnerships (PPP). The improved regulatory and institutional arrangements will attract private investments in infrastructure development and thus help create the much needed fiscal space for investment in other critical areas of development.

52. **Main Outcomes/Key Results under Priority Area II.** As a result of the Bank's support to economic governance, the government fiscal deficit is anticipated to decline from 6.5% of GDP to less than 3% by end 2024, whereas the national budgets should be aligned to the national development plans. Other key outcomes include improved corruption perception index from rank of 89/180 countries to below the rank of 80 while support targeted at improving the investment climate is expected to yield an outcome of improved doing business ranking to below 110/190 countries by the end of the CSP from 117 in 2018.

5.3. Indicative Bank Lending and Non-Lending Program

53. **The Bank, together with the Government, has identified a number of operations and has developed a pipeline for the period 2020-2024 that is aligned to the CSP Priority Areas, NDP, Strategic Roadmap, TYS and High 5 Priorities.** These operations include 2 transport sector interventions in roads and railways, 2 agriculture projects, a renewable energy sector program and 1 water project under Priority Area 1. Under Priority Area II, 1 policy based operation (PBO) and 1 PFM project has been identified. The total cost of the indicative lending program is UA600 million disaggregated as follows - UA 570 million (sovereign), UA 30 million (NSO). The Bank will deepen engagement with all DPs to foster strong collaboration in projects implementation as the collective DPs effort is expected to contribute to Eswatini's improved growth and development in the medium-term. In non-lending activities, the Bank will support the country with informative and well-focused knowledge products and analytical policy briefs to inform policy dialogue. The identification of growth drivers for economic diversification and country's comparative advantages will be prioritized. Feasibility studies to boost agricultural production, investment and private sector and PPPs development, renewable energy will be undertaken. The envisaged investor roadmap seeks to identify opportunities for increased value added industries and beneficiation. The Bank plans to undertake a gender profile for Eswatini, as part of a regional gender profile study.

5.4. Country Dialogue

54. **The Bank's policy dialogue will focus on addressing the binding constraints to development and diversification.** High-quality policy advice on pressing development reforms will be proffered on (i) public finance management reforms; (ii) enhancing domestic resource mobilization (iii) SACU-alternative fiscal framework ; and (iv) and diversification, building on the Bank's ESW on the subject.

The Bank will seek to improve donor coordination through enhanced participation in Sector Working Groups (SWGs), particularly in areas in which the Bank has a strong presence. The Bank will promote dialogue among key development stakeholders with intent to generate deep analytical and evidence based knowledge to inform policy setting and implementation.

5.5. Financing the Strategy

55. Bank lending and non-lending operations during the CSP period will be supported by ADB resources, MIC and other trust funds. Under its Operational Country Limit (OCL), Eswatini has significant headroom for sovereign and non-sovereign lending, including South African rand denominated loans. The Bank will proactively seek to leverage additional resources from the private sector to complement public sector financing through PPPs, including Partial Risk Guarantees and Partial Credit Guarantees. The Bank will also pursue additional funding from the Affirmative Finance Action for Women in Africa (AFAWA) and Fund for African Private Sector Assistance (FAPA). In line with the Results-Based Financing (RBF) policy, the Bank will explore the use of the RBF instrument for eligible operations in Eswatini during the implementation of the CSP. Eswatini stands to benefit from regional projects to be identified and prioritized under the Bank's new RISP for Southern Africa under development. Trust Funds will be mobilized to support non-lending operations. Interventions under Priority Area 1 (transport, agriculture energy and water infrastructure) will mostly be financed as investment programs/projects, while various instruments ranging from PBO, analytical works, technical support to results based framework, will be used to deliver on priority Area 2 activities. The Bank will continue encouraging Eswatini to seek financing for high value infrastructure projects through initiatives such as the Africa 50 Infrastructure Fund and the Africa Investment Forum platform that can catalyze complementary resources for the country. Priority will be placed on developing co-financing opportunities with other development finance institutions.

5.6. Implementation Arrangements, Monitoring and Evaluation

56. The primary monitoring and evaluation tool for the CSP will be the new results tools comprising a Strategic Alignment Matrix and a Performance Matrix (Annex I). These new results tools are designed to demonstrate the strong alignment of the CSP areas of intervention with both the country development priorities and the Bank's corporate priorities. At CSP MTR in 2022, the Government and the Bank will assess the progress in implementation of the CSP and, if need be, realign the strategic goals with emerging national or Bank priorities. At CSP completion, a Completion Report will be prepared with a detailed analysis of the performance and of the results achieved. Cross-cutting issues will be regularly monitored at implementation and results reporting. Finally, through continuous country dialogue, the Government and the Bank will monitor and track project implementation progress including the Country Portfolio Improvement Plan (CPIP) targets to enable the initiation of timely remedial measures.

5.7. Risks and Mitigation Measures

57. The potential risks that could affect the CSP are four-fold namely, macroeconomic, climate, implementation capacity and fiduciary. Firstly, Eswatini's macroeconomic and fiscal challenges are likely to persist, exacerbated by the volatile SACU receipts against elevated expenditures. Secondly, Eswatini is highly susceptible to climate change shocks, particularly recurring droughts which have far reaching consequences on growth. The third risk is associated with limited government implementation capacity, which can significantly slow down project development and

implementation. In addition, results from the Bank’s Country Fiduciary Risk Assessment (CRFA) indicate substantial fiduciary risks for Eswatini that include management of expenditure arrears, cash management, outdated accounting system, weaknesses in procurement, and lack of costed multi-year fiscal plans, among others. Box 3 summarizes the key risks and proposed mitigation measures.

Box 3: Risks and Mitigation Measures

Risk	Rating	Mitigation Measures
Deterioration of the macroeconomic and fiscal imbalances	High	The authorities’ commitment to implement fiscal consolidation reforms and restoring fiscal sustainability. Government has intensified domestic resource mobilization through strengthening tax compliance and administration.
Climate change	Medium	The National Drought Mitigation and Adaptation Plan contains requisite actions to ensure food and water security. The Bank’s ongoing support through the project on Enhancing Readiness for Investment in Low Carbon and Climate Resilience Development Project and LUSIP irrigation project will assist in formulating mitigation measures.
Low project capacity	Low	Specific capacity development programs for key Government entities that implementing Bank programs to ensure efficiency and effectiveness in the implementation of planned projects will be provided.
Fiduciary risk	Substantial	The Bank will support strategies and measures that will mitigate fiduciary risks through capacity building, training and TA support as well as strengthening PFM systems through institutional support.

VI. CONCLUSIONS AND RECOMMENDATIONS

58. Eswatini continues to face significant development challenges but real opportunities exist for the country to transform its economy through support for infrastructure development and implementation of economic and structural reforms. The Bank’s CSP 2020-24, thus, provides a complementary programme to support the efforts of the Government and other development partners towards the achievement of Eswatini’s medium term development objectives. The envisaged support will scale up infrastructure investments, strengthen economic governance, improve the investment climate and business operations as well as lay a solid groundwork for sustained, diversified, inclusive growth in Eswatini.

59. The Boards of Directors are invited to consider for approval the Kingdom of Eswatini’s CSP 2020-2024.

Annex 1: Results Measurement Framework

A.1.1: CSP Strategic Alignment Matrix

Priority Area 1: Scaling-Up Infrastructure Investments To Foster Economic Diversification					
Eswatini National Development Priorities			AfDB Corporate Policies		
National Development Plan (NDP, 2019-2022): Towards Economic Recovery <ul style="list-style-type: none"> • Goal 5: Sectoral outcome on: Improved Management & Access to Safe Drinking Water & Sanitation • Goal 6: Investment in infrastructure aiming at efficient economic infrastructure network 			Ten Year Strategy (2013-2022) <ul style="list-style-type: none"> • Infrastructure development • Regional economic integration 		
Strategic Roadmap (2019-2022): Priority III: Infrastructure, Investment & Innovation			High 5 Priorities: Light up and Power Africa, Feed Africa, Integrate Africa; and Improve the Quality of Life for the People of Africa		
Country Sector Strategies			Bank Sector Strategies		
<ul style="list-style-type: none"> • Agriculture: The Agriculture Strategic Plan (2018 – 2023) • Transport: NDP National Outcome 6 (Efficient Economic Infrastructure Network) • Energy: Eswatini Energy Master Plan (2018 – 2034) • Water and sanitation: NDP , National Outcome 5 (Well Managed Natural Resources and Environmental Sustainability): Sectoral Outcome 5.1 (Improved Management and Access to Safe Drinking Water and Sanitation) 			<ul style="list-style-type: none"> • New Deal on Energy for Africa (2016-25) • Feed Africa Strategy for agricultural transformation in Africa 2016–2025; Jobs for Youth in Africa Strategy (2016 – 2025) • Regional Integration Strategy (2014-2023) – Pillar I: support to projects that foster regional integration. • Integrated Water Resource Management Strategy (2000): focus areas: Sections 3.3 (technical Strategies),Section 3.5 (Social Strategies) 		
Country Development Results/Indicators			Bank Interventions/Resources		
Indicator	Baseline (2018)	Target (2024)	Area of intervention and instruments/sector by High 5	Amount (UA m)	Total UA m
Energy			Light Up and Power Africa		
Access to electricity (% of population)	78	85	Renewable Energy Sector Program	50.0	51.2
Increase in proportion of renewable energy (% of locally generated renewable energy)	16.4%	>30%	Ngwepisi hydro power plant study	1.20	
Agriculture			Feed Africa		
Exports with value addition and beneficiation of local primary products (% of total exports)	32%	50%	Eswatini Agric. Sector Youth & Women Employment Prog.	20.0	171.5
			Mkhondvo-Ngwavuma Water Augmentation Scheme 1	150.0	
			Feasibility Study Mkhondvo-Ngwavuma Water Scheme	1.50	
Transport			Integrate Africa		
Reduction in traffic accidents per 1000 vehicles	109	100	Eswatini (Swazi) Rail Link	115.0	205.0
			Eswatini Road Sector Improvement Program Phase 1	90.0	
Water and Sanitation			Improve the Quality of Life for the People of Africa		
Access to improved water supply (% of pop)	69%	80%	Nondvo Multi-Purpose Dam Project	75.0	75.0
Access to improved sanit. facilities (% of pop)	46%	60%			
			Grand Total		502.7

RESULTS CHAIN

RESULTS CHAIN

RESULTS CHAIN

Priority Area II: Strengthening Economic Governance To Improve the Investment Climate					
Eswatini Development Priorities			AfDB Corporate Policies		
National Development Plan (2019-2022): Towards Economic Recovery <ul style="list-style-type: none"> • Goal 1: Macroeconomic framework and fiscal sustainability, • Goal 2: Enhanced and dynamic private sector that supports inclusive & sustainable economic growth 			Ten Year Strategy (2013-2022) <ul style="list-style-type: none"> • Operational Priorities: Private sector development, governance and accountability, skills and technology 		
Strategic Roadmap (2019-2022) <ul style="list-style-type: none"> • Priority I: Ease of doing business, • Priority II: Fiscal consolidation & arrears management 			High 5 Priorities: <ul style="list-style-type: none"> • Industrialize Africa • Improve the Quality Life of the People of Africa 		
Country Sector Strategies			Bank Sector Strategies		
<ul style="list-style-type: none"> • Eswatini Industrial Development Policy 2015-2022: Investment promotion, Small Medium and Micro Enterprise development and inclusive growth and Value addition and beneficiation of primary products. • National Micro Small and Medium Enterprises Policy 2018: <ul style="list-style-type: none"> - Increase access to financial products and services - Strengthen domestic and international competitiveness - Strengthen the legislative and regulatory framework 			<ul style="list-style-type: none"> • Strategy for Jobs for Youth in Africa 2016-2025 • Bank Group Industrialization Strategy for Africa (2016 – 2025): <i>Focus areas: Flagship One: Foster successful industrial policies, Flagship Two: Attract and channel funding into infrastructure and industry projects</i> • Bank Group Governance Strategic Framework and Action Plan (2014 – 2018). Supporting Pillar 3: Investment and business climate. 		
Country Development Results/Indicators			Bank Interventions/Resources		
Indicator	Baseline (2018)	Target (2024)	Areas of intervention investment instrument/sectors	Amount (UA m)	Total UA m
Economic Governance			Improve the Quality of Life		
Fiscal deficit as % of GDP	6.5%	< 3%	Policy Based Operation	100.0	110.0
Accumulation of domestic arrears (Yes/No)	Yes	No	PFM and institutional support	10.0	
National Budget alignment to NDP	No	Yes	Industrialize Africa		
Private Sector Development			PPPs Identification and Devt of Invest. Roadmap	1.0	1.0
SMEs with access to finance (%)	9%	30%	Lines of Credit to Private Sector	TBA	TBA
Improved World Bank Doing Business (Ranking)	117	<110	Total		111.0

RESULTS CHAIN

A 1.2.: Performance Matrix

Performance Area	Monitoring Indicators	Baseline (2018)	Target (2024)	Data Source
Operational Results from Projects (including carried over projects from CSP 2014-2018)	Agriculture Export with value addition of local primary products (%)	32	50	MoA Annual Report, Labour Force Survey MCIT & Industry
	Transport Traffic accidents (per 1000 vehicles) Capacity of Eswatini railways network (Metric Tons)	109 4	100 6	Performance Reports/Annual Reports, ESR Reports/MPWT
	Energy (Electricity) Access to electricity (% of population) Renewable electricity generation (MW)	78 102	79 145	MNRE, ESERA, EEC
	Water and Sanitation Access to improved water supply (% of pop) Access to improved sanitation facilities (% of pop)	69 46	71 49	EWSC Statistics & Annual Report, Water Point Mapping Report
	Economic Governance Fiscal deficits (% of GDP) National budgets alignment to NDPs Transparency International Corruption Perception Index (Ranking)	6.5% No 89	< 3% Yes <80	Budget Estimates, CBE, IMF Reports, TI
	Private Sector Development Doing Business Ranking	117	<110	World Bank Reports
	Outcomes	Agriculture Irrigation systems constructed (km) No. of value chains developed	0 0	39 2
Transport Roads constructed, upgraded and rehabilitated (km) Railroad upgraded (km)		26 0	304 40	Project implementation reports
Energy Renewable energy sources installed (MW)		0	113	ESERA, EEC
Water and Sanitation Volume of water produced (M ³ /d) Sewerage reticulation built		7,680 15,000	32,000 61,000	EWSC Reports, Progress Reports, Supervision Mission Reports
Economic Governance Fiscal adjustment strategy and action plan adopted Domestic arrears clearance strategy implemented PFM Roadmap implemented		No No No	Yes Yes Yes	Project Implementation Reports, CRFA IMF Article IV Reports
Private Sector Development PPP policy and legislative framework further developed		No	Yes	Project implementation reports
Outputs (Outputs from projects proposed in CSP)				

Performance Area	Monitoring Indicators	Baseline (2018)	Target (2024)	Data Source
Cross-cutting (Climate change, gender, youth)	Outcome: Country Nationally Determined Contributions (NDC) (climate resilience and vulnerability) index improved (ranking)	Medium	Medium	Climate Change Risk Profile- Southern Africa; Annual Vulnerability Assessment & Analysis Report UNDP HDR FinScope Surveys
	Outcome: Improvement in Gender Inequality Index (UNDP)	0.57	0.50	
	Output: Improved sustainable livelihoods and climate resilience (% of population)	11	30	
	Output: Female owned MSMEs with access to financing from formal institutions (%)	6	15	
Policy advice and Knowledge	• Identifying Opportunities for Unlocking Growth study	No	Yes	Publication of the studies PFM reform policies adopted
	• Fiscal Consolidation Plan adopted	No	Yes	
Financial Leveraging	• Co-financing and parallel financing (UA million) • PPP transactions (#)	0	1	Project Appraisal Reports
Portfolio performance	• Average Gender Marker rating for projects (1 to 4)	3	2	QaE Readiness Review IPR Reports/CPPR PCR Dashboard Portfolio Flashlight Report
	• Average QaE rating (1 to 4)	3	3	
	• Average IPR rating (I to 4)	3	3.5	
	• Timely completed PCRs (days)	100	100	
	• Disbursement ratio (%)	40	75	
Sustainability and capacity building	• Fiduciary clinics undertaken (#)	1	3	BTOR's
Development coordination and harmonization	• Sector Working Groups Chaired by the Bank (#)	0	1	BTORs
	• Sector Working Groups participated by the Bank (#)	1	2	

Annex 2: Indicative Lending/Non-Lending Program and contribution to the High-5s

A.2.1. Indicative Lending Program

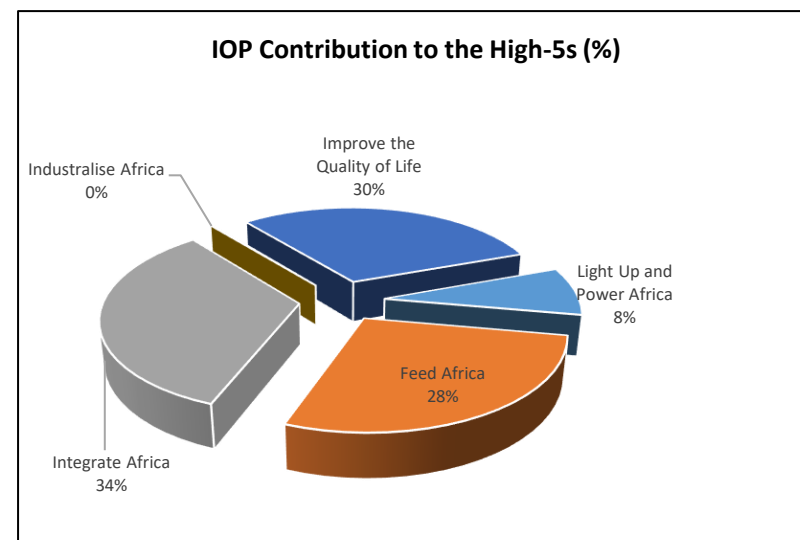
Year	Operation	Sector	Financing Sources (UA Million)					Total AfDB (UA million)	Co-Financing /PPP	Total Cost (UA million)
			ADB Public	ADB Private	FAPA	AFAWA	MIC TAF			
Priority Area 1: Scaling Up Infrastructure Investments to Foster Economic Diversification										
2020	Eswatini Road Sector Improvement Program – Phase 1	Transport	90					90		90
2020	Eswatini Agricultural Sector Youth and Woman Employment Program	Agriculture	10			10		20		20
2020	Swazi Rail Link Project	Transport	115					115	485	600
2021	Renewable Energy Sector Programme	Energy	20	30				50		50
2022	Mkhondvo-Ngwavuma Water Augmentation Scheme Phase I	Agriculture	150					150		150
2023	Nondvo Multipurpose Water Security Dam	Water Sector	75					75		75
Sub-Total Priority Area 1			460	30		10		500	485	985
Priority Area 2: Strengthening Economic Governance to Improve the Investment Climate										
2023	Institutional Support Programme	Multisector	10					10		10
2024	Policy Based Operation	Multisector	100					100		100
Sub-Total Priority Area 2			110					110		110
Total Lending Program			570	30		10		610	485	1,095

A.2.2 Indicative Non-Lending Program

Year	Operation	Sector	Financing Sources			Total AfDB (UA million)
			FAPA	Others	MIC TAF	
2020	Feasibility and Design Studies for the Mkhondvo- Ngwavuma Water Augmentation Scheme	Agriculture			1.5	1.5
2021	Private - Public Sector Projects Identification & Dev. Road Investor Map	Private sector	1.0			1
2020	Ngwempisi hydro power plant (study)	Power			1.2	1.2
TBD	Gender profile for Eswatini (As part of a regional gender profile study)					
	Total		1		2.7	3.7

A 2.3 Contribution of the Indicative Lending/Non-Lending Program to the High-5s

Area of intervention and instruments/sector by High 5	Amount (UA m)	Total UA m
Light Up and Power Africa (Energy)		
Renewable Energy Sector Program	50.0	51.2
Ngwepisi hydro power plant study	1.20	
Feed Africa (Agriculture)		
Eswatini Agric. Sector Youth & Women Employment Prog.	20.0	171.5
Mkhondvo-Ngwavuma Water Augmentation Scheme 1	150.0	
Feasibility Study Mkhondvo-Ngwavuma Water Scheme	1.50	
Integrate Africa (Transport)		
Eswatini (Swazi) Rail Link	115.0	205.0
Eswatini Road Sector Improvement Program Phase 1	90.0	
Industrialize Africa		
PPPs Identification & Development of Investment Roadmap	1	1.0
Improve the Quality of Life		
Nondvo Multi-Purpose Dam Project	75.0	185.0
Policy Based Operation (PBO)	100.0	
PFM and Institutional Support	10.0	
Grand Total		613.7



Annex 3: Lessons Learned

A.3.1 Key findings of the CSP 2014 – 2018 Completion Report and 2018 CPPR

1. **The Country Strategy Paper (CSP, 2014-2018) was approved by** the Board of Directors in February 2014 and ended in December 2018. The CSP 2014-2018 Completion Report (CR), combined with the 2018 Country Portfolio Performance Review (CPPR) and Proposed Priority areas for the new CSP 2020-2024 was considered by CODE on 12th July 2019. The CSP 2014-18 was articulated around two strategic priority areas; (i) Supporting Infrastructure Development for Sustainable and Inclusive Growth, and (ii) Strengthening Governance and Institutional Capacity. The choice of the CSP priority areas was informed by the need to spur growth and to enhance public finance management by improving the quality and efficiency of fiscal spending. In March 2017, the Board of Directors considered the mid-term review (MTR) of the CSP 2014-18, which concluded that the CSP's two priority areas were relevant and tailor-made to addressing the country's development challenges. In 2018, the Independent Development Evaluation (IDEV) commissioned the Country Strategy and Program Evaluation (CSPE) for two CSP cycles, 2009-13 and 2014-18, which also confirmed the relevance of the Bank's country strategy. The CSP 2014-2018 priority areas were closely aligned with the National Development Strategy (NDS, 1997-22), the Eswatini Development Index and Program of Action (POA, 2013-18), as well as the Bank's High 5's anchored on the Ten Year Strategy (TYS, 2013-22).

2. **Implementation of the Lending and Non-Lending Program:** Implementation of the CSP lending program was more successful while implementation performance of the non-lending program was mixed. The CSP implementation, thus, led to achievement of partial results since most of the projects were still under implementation. Under the lending program, the Bank approved seven operations totaling UA 169.51 million. This is in contrast with three operations proposed in the original indicative lending program as follows: Ezulwini Water Supply and Sanitation Project (UA 16.4 million), Lower Usuthu Smallholder Irrigation Project Phase II (LUSIP II) (UA 42.46 million), and the Manzini-Mbadlane Main Road 3 (MR3) Highway Project (UA 34.3 million). An MIC Technical Assistance Fund (TAF) grant (UA 1.2 million) was provided to finance part of the foreign and local currency costs of the Manzini-Mbadlane MR3 Highway Project. Three other projects were approved: (i) Development of the Manzini Golf Course Interchange Project (UA 21.52 million), (ii) Manzini Regional Water Supply and Sanitation Project (UA 36 million), and (iii) Line of Credit (LoC) to Eswatini Development Finance Corporation (FinCorp) (UA 17.4 million). The FinCorp LoC was included after the 2016 CSP MTR to address some of the weaknesses identified in the private sector, such as the underdeveloped domestic entrepreneurship and the need to grow the private sector. Implementation of the work program since the CSP MTR has continued to be largely satisfactory.

3. Under the non-lending program, the Bank aimed at supporting interventions meant to improve the macroeconomic framework, public sector performance and the efficient use of resources. Three non-lending activities under Priority area II were approved during the CSP amounting to UA 2.73 million, compared to the six initially planned at the onset of the CSP. Implementation of the non-lending program involved reprogramming some of the activities planned in the original CSP, which resulted in one out of the six originally planned activities being implemented. Implementation was to some extent impacted by a depletion of the MIC TAF grant resources during that time for example, the operation to strengthen the Public-Private Partnerships (PPP) regulatory and institutional framework.

Implementation of the institutional support to the Ministry of Agriculture was not ready. Implementation of non-lending activities was, however, partly corrected during the CSP as in the end five operations were executed. This was a result of two projects being added following dialogue with Government while the other two were carry overs from the previous 2009-13 CSP. During the CSP, the following non-lending operations were finally implemented: (i) Energy Sector Technical Assistance (TA) Program (UA 0.72 million) which was identified in the CSP, (ii) Enhancing Readiness for Investment in Low Carbon and Climate Resilience Development Project (UA 0.2 million) - additional, (iii) Feasibility Studies for the Nondvo Multipurpose Dam (UA 1.03 million – additional; and two carryovers from the previous CSP which are (iv) Technical Assistance for Public Financial Management Reforms (UA 0.36 million) and (v) Statistical Capacity Building Programme Phase II (USD 0.7 million). These non-lending operations were designed to provide technical assistance to address challenges in critical areas, complement the investment operations, and assist in building a pipeline of future projects.

4. In terms of results, significant progress was made in achieving the targeted outputs and outcomes. Implementation progress indicates targets set at the design stage of the program were achieved or are near completion. 40% of the CSP outputs were achieved, while 40% were partially achieved and 20% were not achieved. On the other hand, 22% of the outcomes were partially achieved, 22% not achieved, and the rest will be assessed at the completion of the projects. The CSP 2014-18 significantly contributed resources towards the country's National Development Strategy (NDS, 1997-22) and the Eswatini Development Index and Program of Action (2013-18). Those interventions that are still under implementation are being carried over into the CSP 2020-24 and will generate additional results.

5. Lesson Learnt: The CSP Update will benefit from IDEV's evaluation of the Bank assistance to Eswatini over the 2009-18 period and will also build on the outcomes of implementation as assessed during the CSP MTR (2016) particularly the following: (i) to enhance the effectiveness of the lending portfolio and improve quality at entry, strengthening the partner's institutional and capacity weaknesses before investments are undertaken is key; (ii) a critical analysis of the outcomes and impacts beyond the quantitative technical and administrative output realization aspects will provide a detailed understanding of the qualitative outcomes and impact of the Bank's interventions on beneficiaries; (iii) generation of knowledge products should pay increased attention on supporting evidence based policymaking and innovative planning in addition to feasibility studies which are mainly focused on technical issues related to infrastructure development. The following lessons drawn from the 2016 CSP MTR are still relevant (i) Institutionalization of portfolio meetings is key, (ii); project reporting needs to be improved, and (iii) operational and institutional effectiveness will be enhanced by addressing capacity constraints in Government and executing agencies.

A.3.2 Key findings of BDEV Country Program Evaluation (2009-2018)

For the Bank

- i. The Bank's interventions are relevant and aligned to the country's priorities and needs. However, coherence and synergies between sectors of the Bank's interventions could be further strengthened by being concretely reflected in cross-project design and implementation.
- ii. Entrusting state and parastatals organizations with project implementation responsibilities contributes to building local institutional capacity and enhances operational performance of local development actors. Sustainability of infrastructure projects could, however, be enhanced by emphasizing both hardware and software aspects such as policy, institutional reform and social organizational issues
- iii. Generation of knowledge products should pay increased attention on supporting evidence based policymaking and innovative planning in addition to feasibility studies focused on technical issues related to infrastructure development;
- iv. Generation of sex-disaggregated data and gender statistics in the Bank's portfolio will improve evidence based policy or decision making in gender related areas.
- v. A critical analyses of the outcomes and impacts beyond the quantitative technical and administrative output realization aspects will provide a detailed understanding of the qualitative outcomes and impact of the Bank's interventions on beneficiaries.

For the Government

- i. While coordination and harmonization exist and project specific level, much more guidance by the Government is required to support greater level of aid coordination
- ii. Co-funded projects elicit greater participation of Government, which becomes the natural leader of the identification process

Annex 4: Engagement with CODE/Board

A.4.1 CODE comments on CSP 2014-2018 Completion Report

This annex contains the deliberations and recommendations contained in the minutes of the meeting of the Committee on Operations and Development Effectiveness (CODE) held on 12th July 2019, where Eswatini was considered. Each deliberation and recommendation has been duly addressed, as registered in the matrix.

#	Comments	Document	Response/Action
	CODE DELIBERATIONS		
1	New CSP: Members showed satisfaction that the orientations put forth of the new CSP have built on the recommendations of the recently completed evaluation of Eswatini country programme and the Executive Directors’ mission to the country. They welcomed the diversification priority area as focus on sugar-cane cultivation had a noticeable strain on the limited water resources and asked whether the mining sector would be supported. In addition, they called for focus more specifically on climate change-related issues as well as on gender mainstreaming. They encouraged Management to support the country in exploring ways for domestic resource mobilization.	CSP Document Section 5.3	Management took note and indicated that a gender profile would be developed, a water augmentation scheme was being studied. Management advised the country to benefit from the advice of the IMF in the area of domestic resource mobilization and the increase of South African Customs Union (SACU) revenues.
2	Indicative Operations Pipeline (IOP): Members noted that the new IOP seemed somewhat ambitious with potential project financing amounting to UA 250 million compared to UA 125 million (previous IOP). They advised management to ensure the country’s absorptive capacity of such a relatively large programme. In addition, members noticed that the IOP included only one non-Sovereign Operation. They asked whether the absence of non-lending operations was due to lack of resources in the Middle Income Country Technical Assistance Fund or rather due to no selection of Eswatini’s projects under MIC TAF’s prioritization processes.	CSP Document Section 5.3 & Annex 2	Management clarified that previous governments of Eswatini had not utilized the resources that were available from the Bank and other donors. However, this would change with a new government that already expressed interest in crowding in public and private sector funds. Management envisages more private sector projects in the final pipeline.

#	Comments	Document	Response/Action
CODE DELIBERATIONS			
3	Result-Based Financing: Members questioned whether it was premature to deploy RBF in Eswatini given the small size of financed projects.	CSP Document Section 5.5	Management explained that Eswatini new leadership is promoting a business and results-oriented approach to running its public administration and funds and given this political will, Management was motivated to explore the use of the RBF to the Bank's programme in the country. Further, in line with the policy on RBF, the Bank's pursuit of RBF financing in Eswatini will be demand driven, accompanied by an overall assessment of eligibility of the program to be supported, the institutional capacity to achieve the expected results, the government's commitment to improving the systems and institutions, and the risks associated with the program. As a result, at preparation stage, the CSP has not been in a position to determine the financing requirements of the RBF program for Eswatini and make definitive recommendations. The RBF will be revisited at CSP Mid-Term Review in 2022.
4	MIC TAF: Members took this opportunity to follow up with Management on the progress in updating the MIC TAF guidelines.	Update provided	Management took note of CODE's follow up and request for an update. As the MIC TAF is being overhauled, guidelines and monitoring tools are being developed for this transitional phase. The process of updating the MIC-TAF Guidelines is at advanced stage (OpsCom level). The updated MIC-TAF Guidelines are scheduled to be presented to CODE during Q1 2020
RECOMMENDATIONS			
	CODE took note of Eswatini's country programme 2014-2018 and supported the new priority areas that are proposed for the		Observation noted

#	Comments	Document	Response/Action
	CODE DELIBERATIONS		
	new CSP. The Committee advised Management to do the following:		
5.	Continue the robust policy dialogue with the authorities.	CSP Document Section 4.3 & Section 5.4	Ongoing. Dialogue with the authorities included during CSP completion report mission (December 2018), ED's visit (January 2019), Business Seminar (May 2019), CSO event (May 2019), RDGS Dialogue Mission (May 2019), PRST Official Visit to Eswatini (September 2019), CSP Dialogue/Validation mission (October 2019)
6.	Ensure the country's absorptive capacity of the Bank's financing through the RBF.	CSP Document Section 5.5	In line with the Results-Based Financing (RBF) policy, the Bank will explore the use of the RBF instrument for eligible operations in Eswatini during the implementation of the CSP. The Bank will continuously engage Government to ensure that the country's absorptive capacity of the Bank's financing through the RBF is enhanced.
7.	Develop the new CSP with due consideration to cross-cutting issues, including gender, climate change, and governance.	CSP Document Section 5.1 & Annex A.1.2 (Portfolio Alignent)	The new CSP and Results Tools gives consideration to the cross cutting issues. Priority area 2 gives special emphasis to strengthening governance
8.	Explore the identification of more non-Sovereign Operations.	Annex 2 IOP	The Bank is engaged in discussions with authorities to identify and develop a pipeline of projects to be implemented in conjunction with the private sector inclusive of PPPs either in project implementation and/or operationalization. The Bank is also pursuing potential projects submitted by the private sector entities during the Business Seminar in May 2019

#	Comments	Document	Response/Action
CODE DELIBERATIONS			
9.	Explore the possibility of financing ESWs from the MIC TAF.	CSP Document Section 5.5 Annex 2 – IOP	The recommendation is being vigorously pursued. Already, the Mkondvo-Ngwavuma Water Transfer Study is under preparation and is expected to be financed from a MIC Grant
10.	Correct the errors in Annex VI; namely the summation formulae in the table.	Annex 2 verified	The IOP has been updated accordingly

A.4.2: Findings of ED’s Visit to the Kingdom of Eswatini

1. The Executive Directors visited the Kingdom of Eswatini over the period 27-31 January 2019. The objectives of the visit was to dialogue with authorities on salient development issues and opportunities in the country, with the aim of strengthening the Bank’s engagement and enhancing the country’s bilateral relationship with the Bank. The following is a summary of the findings following the ED’s Mission.

Summary and Key Recommendations

2. **The Executive Directors visited the Kingdom of Eswatini at a watershed moment of great optimism and hope.** Coming on the heels of a historic name change, was a successful election that ushered in a new Government, drawn mostly from the private sector. Some stakeholders referred to a “cabinet of CEOs”. The expectation and stakes for government have never been higher. It is a period for change, rebranding and doing things differently for different results. This is the message that we heard consistently from our stakeholders.
3. **The Executive Directors met with a diverse set of stakeholders and gained perspectives from not only the government, but also the private sector, the civil society, the development community and individual citizens.** Through these meetings heard first hand perspectives of the socio-economic challenges facing the country and the strategies being employed to address them.
4. **The Executive Directors also undertook two site visits funded by AfDB: LUSIP I and Ezulwini Water and Sanitation Project.** The Executive Directors were greatly impressed by LUSIP I project since the business model adopted by ESWADE in rolling out this project through farmer companies. It is an idea that we will share with colleagues from other countries as a best practice. The mission also visited the Ezulwini Water and Sanitation Project sites where again, the mission saw first-hand the need to invest in water infrastructure to increase access to water and sanitation.
5. **The Executive Directors took note of the countries’ several challenges to be articulated and addressed in the National Development Plan (NDP).** The meetings provided a highlight of the economic trajectory on which the country is embarked, anchored on a new National Development Plan (NDP) that will inform the implementation of the final phase of the National Development Strategy (NDS). The NDP comes at a timely time as the AfDB is also developing its strategy for Eswatini. The Bank’s own Country Strategy Paper (CSP) (2014 – 2018) ended in December 2018.
6. **The socio-economic and political challenges the RMC face:** The mission heard from the government and other stakeholders that the following were the main socioeconomic and political challenges facing Eswatini:
 - Low economic growth levels averaging 1.8% for the period 2015 to 2017. The recent 2015/16 drought also seriously affected agriculture.
 - Fiscal challenges largely emanating from volatile SACU inflows;
 - A high public expenditure dominated by the public sector wage bill;
 - High unemployment levels, particularly among youth (48%)

7. It is important to align the various response mechanisms that are being put in place and to prioritize these in the short to medium term. The NDP once finalized should go a long way in achieving this coherence so that all hands can be on the deck in Eswatini's socio-economic transformation. Things may get worse before they get better and difficult choices maybe made. However, the long term gains are substantial. It is a great onus on government to build trust with stakeholders likely to be impacted by reforms by keeping the communication channels open.
- **The condition and status of the RMC portfolio:** The Banks portfolio is mainly in infrastructure; agriculture, road (transport) and water and sanitation sectors. The Bank is also offering support in the governance sector, particularly in public finance management reforms. A lot of success has been demonstrated by Bank projects particularly in infrastructure. Stakeholders look to the Bank to continue this support. Stakeholders also pointed out the need for private sector led growth, economic diversification and promotion of SMMEs.
 - **Donor co-ordination and implementation of the Paris declaration:** Donor coordination in Eswatini appears not robust enough. There is need for a more coordinated approach for optimum impact. Stakeholders have also called for more to be done on social sectors particularly at the grassroots.
 - **The Executive Directors potential development contributions of AFDB, in following priority areas** under the umbrella of:
 - i. “Building on the Bank’s successes – scale up on the infrastructure” Support development of an Enabling private sector environment
 - ii. Support Investment promotion in Eswatini through exposing the country to event such as the African Investment Forum, Business Opportunity Seminars, PPP trainings etc.
 - iii. Continue to strengthen governance and institutions

Annex 5: Findings of Stakeholder Consultations

CSP Completion Report Mission (December 2018). The mission consulted various line ministries and departments (including Finance, Economic Development), state-owned enterprises (SOEs), Central Bank of Eswatini, a think tank, private sector, civil society and development partners. A half-day CPPR Workshop to assess the country's portfolio performance review (CPPR) was held on 12 December 2018 with stakeholders who included Government, Project Implementation Units (PIUs) and the Bank.

Consultation During Executive Directors (EDs) Visit (January 2019): During the EDs visit, the Bank participated in meetings with key stakeholders that included the Prime Minister, Ministry of Finance, Ministry of Economic Planning, Ministry of Agriculture, private sector, civil society and donors.

RDGS Directorate Country Dialogue Visit (May 2019): The mission consulted the Prime Minister, Minister of Finance, Minister of Economic Planning and Development, Minister of Commerce, Industry and International Trade, and development partners.

Business Seminar and CSO Event (May 2019): Consultations were held with the private sector and civil society organisations under Coordinating Assembly of Non-Governmental Organisations (CANGO)

Key issues raised during Consultations

For the Government, the main issue remains the need for support for (i) infrastructure development ; (ii) implementation of economic reforms under the Strategic Roadmap and NDP priorities, (iii) budget support, and (iv) private sector development including PPPs. The private sector called for deepened engagement with Bank and increased access to its various financing instruments. The civil society highlighted the need for capacity building in contributing into the Bank's projects for better monitoring. They also called for the Bank to prioritize social sectors investments and interventions that increase women's access to affordable financial resources that will improve their participation and ownership of businesses and productive assets. Development partners concurred on the need for increased coordination among donors.

CSP Dialogue/Validation Workshop in October 2019:

The following were takeaways from the CSP Dialogue/Validation Workshop in October 2019:

- (i) Stakeholders endorsed the CSP's two priority areas, noting they are relevant to the needs and challenges facing the Kingdom;
- (ii) Noted the need for institutional capacity support and strengthening in implementation to ensure timely execution of projects and sustainability of the outcomes;
- (iii) Emphasized that the private sector should be leveraged to support key interventions such as in energy through IPPs, and that the Bank should support such initiatives;
- (iv) Ensure that the lending programme to takes into account the country's debt sustainability objectives, in light of the ongoing fiscal challenges and recent spike in public debt over the

last few years. Also that emphasis should be on interventions that address poverty and create jobs;

- (v) Noted the need to enhance tracking of implementation progress of the proposed projects once the Bank Board approves the CSP;
- (vi) Stakeholders in the project processes were encouraged to expedite administrative processes and decision making in order for the projects objectives to be achieved in time; and
- (vii) Thanked the Bank for continued support and the robust discussions held regarding the CSP.

Annex 6: Portfolio Performance Review

A.6.1: Ongoing Portfolio

Project Name	Sector	Status of Project	Approval Date	Planned Completion date	Financing Window	Amount Appr UA Million	Age
1. Lower Usuthu Smallholder Irriga Proj II	Agric	OnGo	5/4/2016	12/31/2021	A.D.B.	42.46	3.30
2. Manzini-Mbadlane Road Project	Transport	OnGo	5/28/2014	6/30/2022	A.D.B.	34.3	5.24
3. Manzini Mbadlane Interchange	Transport	APVD	10/24/2018	12/31/2022	A.D.B.	21.65	0.83
4. Ezulwini Water Supply & Sewerage	Water Sup/San	OnGo	6/18/2014	12/31/2020	A.D.B.	16.60	5.18
5. Manzini Region Water Supply & Sanitation	Water Sup/San	APVD	11/29/2018	12/31/2023	A.D.B.	36.00	0.73
6. Mbabane Manzini Multipurpose Dam	Water Sup/San	OnGo	12/21/2015	12/31/2020	AWTF	0.80	3.67
7. Nondvo Multipurpose Dam Study	Water Sup/San	OnGo	12/21/2015	12/31/2020	M.I.C.F	1.10	3.67
8. Line of Credit to Fincorp	Finance	OnGo	5/12/2017	1/19/2028	A.D.B.	17.37	2.28
9. Enhancing Readiness for Investment in Low Carbon & Climate Resilience Development	Climate Change	OnGo	1/4/2015	12/31/2019	ACCF	0.20	4.4
Total						170.48	

A.6.2. Portfolio Performance

Project Name	Sector	Status of Project	Approval Date	Planned Completion date	Amount Appr UA Million	Loan or Grant	Financing Window	IP	DO	PFI	Age in Yrs	Disb rate
1. Lower Usuthu Smallholder Irriga Proj II	Agric	OnGo	5/4/2016	12/31/2021	42.46	Loan	A.D.B.	4.00	4.00	NPPP	3.30	41.16
2. Manzini-Mbadlane Road Project	Transport	OnGo	5/28/2014	6/30/2022	34.3	Loan	A.D.B.	3.00	3.00	NPPP	5.24	70.22
3. Manzini Mbadlane Interchange	Transport	APVD	10/24/2018	12/31/2022	21.65	Loan	A.D.B.	0.00	0.00	NPPP	0.83	0.00
4. Ezulwini Water Supply & Sewerage	Water Sup/San	OnGo	6/18/2014	12/31/2020	16.60	Loan	A.D.B.	3.00	3.00	NPPP	5.18	64.84
5. Manzini Region Water Supply & Sanitation	Water Sup/San	APVD	11/29/2018	12/31/2023	36.00	Loan	A.D.B.	0.00	0.00	NPPP	0.73	0.00
6. Mbabane Manzini Multipurpose Dam	Water Sup/San	OnGo	12/21/2015	12/31/2020	0.80	Grant	AWTF	3.00	3.00	NPPP	3.67	49.12
7. Nondvo Multipurpose Dam Study	Water Sup/San	OnGo	12/21/2015	12/31/2020	1.10	Grant	M.I.C.F	0.00	0.00	NPPP	3.67	49.95
8. Line of Credit to Fincorp	Finance	OnGo	5/12/2017	1/19/2028	17.37	Loan	A.D.B.	0.00	0.00	NPPP	2.28	62.34
9. Enhancing Readiness for Investment in Low Carbon & Climate Resilience Development	Climate Change	OnGo	1/4/2015	12/31/2019	0.20	Grant	ACCF	-	-	0	4.4	
Total					170.48							

A.6.3: Portfolio Improvement Plan

Major Issues	Action Required	Responsible	Measurable Indicators	Timeline
Quality at entry				
Delays in effectiveness and start up	Ensure skills mix during project design and during negotiations.	Bank/ Government	Number of experts involved during preparation and appraisal.	on-going
	Make sure the Project implementation timeframe is realistic and take into account the country specific issues (such as the length of approval processes and authority delegation within the Government).	Bank/ Government	Number of projects with realistic timeframes.	Immediately for new projects
	(1) Start preparation of key project documents (e.g. Feasibility studies, safeguards documents...) <i>{to be completed with appropriate time frame based on type of document}</i> (2) Start procurement processes related to Advance Contracting after the Project appraisal mission	Bank/ Government	Number of projects experiencing start-up delays because of missing key documents. Number of eligible projects requesting Advance Contracting	Immediately for new projects
Management and monitoring of the Portfolio				
Weak management, coordination and monitoring of operations.	Organize joint quarterly portfolio review meetings between the Bank and the Ministry of Finance.	Bank/ Government	Number of quarterly portfolio meetings held	every quarter
	Task Teams including fiduciary experts to continue organizing teleconference with respective PITs to provide guidance on issues and familiarize them with Bank rules and procedures.	Bank	Number meetings held	on-going
Disbursement				
Documents submitted in support of disbursement requests are inconsistent with contracts' terms and generally incomplete.	Organize training on project management and disbursement procedures.	Bank	<ul style="list-style-type: none"> Number of Project Managers trained; Volume of back and forth communication to correct errors; Time spent in processing requests for disbursement. 	By end 2020
Original disbursement documents still need to be sent by DHL to HQ disbursement staff and the transfer takes long & the risk of loss of documentation is high	<ul style="list-style-type: none"> PITs should scan originals & send documentation electronically to disbursement staff; 	Bank/Govern ment	Disbursement requests processed within 21 days	Ongoing
Procurement				

Major Issues	Action Required	Responsible	Measurable Indicators	Timeline
Disconnect between the project plan and the procurement plan	Procurement Plan should be aligned to the project implementation plan discussed and agreed during the negotiations. It should be reviewed during Project launching and updated during supervisions.	Bank/ Government	<ul style="list-style-type: none"> • Publication of the approved annual Procurement Plan on the Bank's website • Revision of PP on an annual basis and/or on supervision missions 	Ongoing
Delays in startup of procurement activities after Project's approval by the Board & lengthy procurement processes for complex procurements	<ul style="list-style-type: none"> • Reach an agreement with the concerned Ministry / EA to put in place a PIT before Board approval • Government to request the use of Advance Contracting procedures (whenever justified) especially for the case of complex infrastructure projects. 	Government	<ul style="list-style-type: none"> • All tender documents prepared and ready for issuance after Project has been declared effective • Total Procurement Lead-Time: ICB (5 months); NCB (4 months); Consultancy services (6 months). 	Ongoing
Limited knowledge and experience of Bank Procurement Rules & Procedures by the staff tasked with carrying out procurement activities	<ul style="list-style-type: none"> • Develop Project implementation manual for all Bank Funded Projects. 	PITs/ Govt.	<ul style="list-style-type: none"> • Existence of a Procurement implementation manual (PIM) for each Project. 	Ongoing
	<ul style="list-style-type: none"> • Conduct need assessment and design specific trainings and Fiduciary Clinics • Consider use of Borrower's Procurement Systems for low risk procurements and gradually scale up by building capacity. 	Bank	<ul style="list-style-type: none"> • Number of Fiduciary Clinics • Number of Training sessions (PMT/PITs) and participants trained • Number of contracts under Borrower Procurement systems (BPS). • 	By end 2020
Delays in transmission of physical documents internally within Bank	Ensure that electronic copies are transmitted by email while physical copies are couriered to the Bank.	PITs/ Government	<ul style="list-style-type: none"> • Bank's response time in a maximum of 15 days 	Immediately
	<ul style="list-style-type: none"> • Close monitoring of procurement plans • As soon as a Bank procurement workflow system is implemented (eg. the PPW) make it available for projects in e-Swatini 	Bank	<ul style="list-style-type: none"> • Existence of an efficient procurement workflow system within the Bank. 	Ongoing
Delay in the operationalization of Procurement Act and Progress on Public Procurement Reforms	<ul style="list-style-type: none"> • Prepare a road map for procurement Reforms; • Professionalization of procurement cadre; • Prepare time bound plan for implementation of e-GP; • Allocate additional resources for procurement Reforms. 	Government	Revision of the Procurement Act, drafting of accompanying Regulations and all other corresponding procurement reform implementing tool kits	Immediately

Major Issues	Action Required	Responsible	Measurable Indicators	Timeline
	<ul style="list-style-type: none"> • Consider providing Technical procurement Assistance on procurement Reforms; • Continue to provide support from RDGS 	Bank	<ul style="list-style-type: none"> • Adoption of the MAPS (methodology for assessment of country-procurement system) for Eswatini 	Immediately
Financial Management				
Non-compliance with Bank's quarterly and annual financial reporting requirements	Project coordinators to work closely with the project accountants to ensure that the quarterly and annual reports are completed, reviewed and submitted to the Bank within the required time.	Project coordinator/accountant	Timely submission of acceptable quarterly and annual financial reports to the Bank	Within 45 days for quarterly and 6 months for annual
Poor quality of accounting records and unsupported transactions	Engage qualified and experienced accounts team who will be required to adhere to applicable accounting standards and procedures. Bank FM to continuously monitor the projects records for quality assurance.	Government/PITs/Bank	Project accounting records are of acceptable standards as per the bank's requirements. Ledgers kept in prescribed format.	On going

Annex 7: Donor Mapping

	Education & Training	Health	Water & Sanitation	Agriculture	Energy	Infrastructure	Governance	ICT	Environment	Social Protection	Capacity Building	Cross Cutting	Multi Sector
African Development Bank													
BADEA													
European Union													
Global Fund													
India													
Japan													
Kuwait													
OFID													
Republic of China (Taiwan)													
UAE													
United Nations Agencies													
United States													
World Bank													

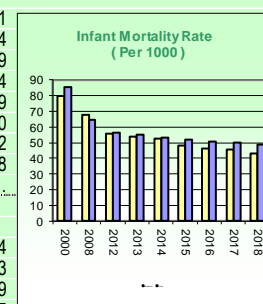
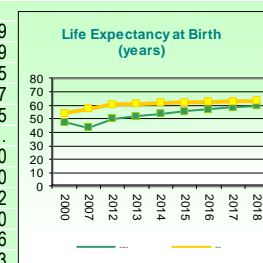
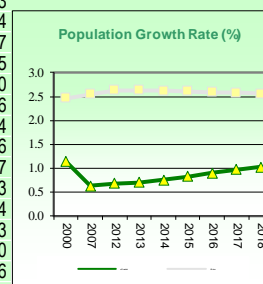
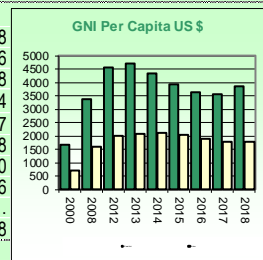
Source: Aid Coordination and Management Section, Ministry of Economic Planning and Development

Annex 8: Comparative Socio-Economic Indicators

eSwatini

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Swaziland	Southern Africa	Africa	Developing Countries
Basic Indicators					
Area ('000 Km ²)	2018	17	6,571	30,067	94,808
Total Population (millions)	2018	1.1	203.7	1,274.2	6,306.6
Urban Population (% of Total)	2018	29.1	49.0	42.9	49.8
Population Density (per Km ²)	2018	66.1	31.4	43.4	68.4
GNI per Capita (US \$)	2018	3 850	2 804	1 783	4 837
Labor Force Participation *- Total (%)	2018	53.0	71.4	63.5	61.8
Labor Force Participation **- Female (%)	2018	41.4	67.1	54.6	47.0
Sex Ratio (per 100 female)	2018	95.5	96.7	99.8	100.6
Human Develop. Index (Rank among 189 countries)	2017	144
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-17	42.0	41.7	31.2	11.8
Demographic Indicators					
Population Growth Rate - Total (%)	2018	1.0	2.3	2.5	1.3
Population Growth Rate - Urban (%)	2018	2.5	3.3	3.6	2.4
Population < 15 years (%)	2018	38.1	39.3	40.8	27.7
Population 15-24 years (%)	2018	21.2	19.3	19.3	16.5
Population >= 65 years (%)	2018	4.0	3.5	3.4	7.0
Dependency Ratio (%)	2018	72.8	74.9	79.2	54.6
Female Population 15-49 years (% of total population)	2018	26.8	25.1	24.1	25.4
Life Expectancy at Birth - Total (years)	2018	59.4	63.0	63.2	70.6
Life Expectancy at Birth - Female (years)	2018	64.0	65.8	65.0	72.7
Crude Birth Rate (per 1,000)	2018	26.3	31.1	33.5	20.3
Crude Death Rate (per 1,000)	2018	9.4	8.0	8.1	7.4
Infant Mortality Rate (per 1,000)	2018	43.0	41.4	48.7	31.3
Child Mortality Rate (per 1,000)	2018	54.4	56.8	70.2	42.0
Total Fertility Rate (per woman)	2018	3.0	3.8	4.4	2.6
Maternal Mortality Rate (per 100,000)	2017	437.0	245.8	432.3	230.0
Women Using Contraception (%)	2018	65.9	49.4	38.5	61.6
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-16	8.0	36.5	33.6	119.9
Nurses and midwives (per 100,000 people)	2010-16	200.0	160.3	123.3	233.9
Births attended by Trained Health Personnel (%)	2010-17	88.3	68.4	61.7	78.5
Peop. Using at least basic drinking water services (% of Pop.)	2017	69.0	69.5	66.3	87.7
Peop. Using at least basic sanitation services (% of Population)	2017	58.4	44.6	40.3	68.5
Percent of Adults (aged 15-49) Living with HIV/AIDS	2018	27.3	12.2	3.4	...
Incidence of Tuberculosis (per 100,000)	2016	332.0	412.0	221.7	157.0
Child Immunization Against Tuberculosis (%)	2018	98.0	84.4	81.4	85.0
Child Immunization Against Measles (%)	2018	89.0	73.6	76.1	85.2
Underweight Children (% of children under 5 years)	2010-16	5.8	11.7	17.5	15.0
Prevalence of stunting	2010-16	25.5	35.1	34.0	24.6
Prevalence of undernourishment (% of pop.)	2017	20.6	25.3	18.5	12.3
Current health expenditure (% of GDP)	2016	7.7	6.8	5.3	5.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-18	115.2	115.7	100.1	104.1
Primary School - Female	2010-18	110.3	113.5	98.0	104.4
Secondary School - Total	2010-18	82.4	62.7	52.8	71.9
Secondary School - Female	2010-18	82.2	61.8	50.6	71.4
Primary School Female Teaching Staff (% of Total)	2010-18	68.3	59.4	48.6	62.9
Adult literacy Rate - Total (%)	2010-18	88.4	77.5	66.9	84.0
Adult literacy Rate - Male (%)	2010-18	65.4	82.7	70.8	88.2
Adult literacy Rate - Female (%)	2010-18	88.5	73.2	60.0	79.8
Government expenditure on Education (% of GDP)	2010-17	7.1	5.4	4.3	...
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	10.2	8.4	8.7	11.4
Agricultural Land (as % of land area)	2016	71.0	45.0	41.8	38.3
Forest (As % of Land Area)	2016	34.3	22.9	23.1	31.9
Per Capita CO2 Emissions (metric tons)	2014	0.9	3.1	1.2	3.5



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

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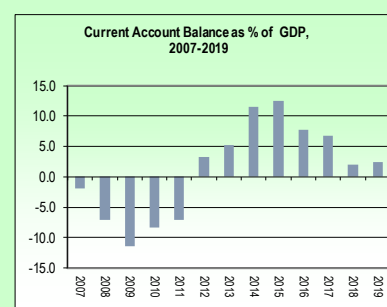
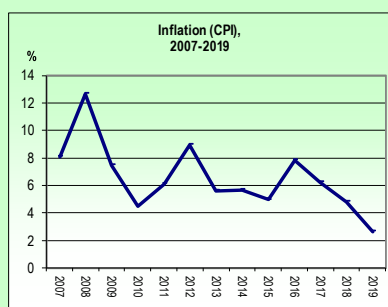
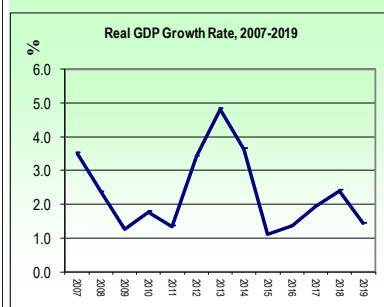
UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

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+)

Annex 9: Selected Macroeconomic Indicators

Indicators	Unit	2010	2014	2015	2016	2017	2018 (e)	2019 (p)
National Accounts								
GNI at Current Prices	Million US \$	3,684	4,752	4,328	4,055	4,027	4,375	...
GNI per Capita	US\$	3,460	4,340	3,920	3,640	3,580	3,850	...
GDP at Current Prices	Million US \$	4,610	4,463	4,210	3,900	4,549	4,343	4,340
GDP at 2000 Constant prices	Million US \$	1,880	3,666	3,706	3,175	2,853	3,225	3,235
Real GDP Growth Rate	%	1.8	3.6	1.1	1.4	1.9	2.4	1.4
Real per Capita GDP Growth Rate	%	1.1	2.9	0.3	0.5	1.0	1.4	0.4
Gross Domestic Investment	% GDP	13.9	12.5	12.1	12.6	12.4	13.2	12.7
Public Investment	% GDP	7.1	6.5	6.7	8.2	7.4	5.4	4.6
Private Investment	% GDP	6.8	6.0	5.4	4.3	5.0	7.8	8.1
Gross National Savings	% GDP	3.2	19.7	17.1	29.4	26.8	26.4	25.4
Prices and Money								
Inflation (CPI)	%	4.5	5.7	5.0	7.8	6.2	4.8	2.7
Exchange Rate (Annual Average)	local currency/US\$	7.3	10.9	12.8	14.7	13.3	14.2	14.6
Monetary Growth (M2)	%	7.8	5.8	14.0	26.3	8.0	10.9	...
Money and Quasi Money as % of GDP	%	41.8	40.8	43.3	48.3	51.2	52.1	...
Government Finance								
Total Revenue and Grants	% GDP	29.7	27.6	28.7	25.8	24.5	26.8	24.7
Total Expenditure and Net Lending	% GDP	33.0	27.1	29.8	34.2	30.3	33.2	32.5
Overall Deficit (-) / Surplus (+)	% GDP	-3.4	0.5	-1.1	-8.5	-5.7	-6.5	-7.8
External Sector								
Exports Volume Growth (Goods)	%	-3.8	-2.4	6.6	1.1	5.5	8.0	4.4
Imports Volume Growth (Goods)	%	-3.3	6.8	12.8	18.0	-11.9	5.4	5.1
Terms of Trade Growth	%	1.1	11.0	8.0	17.3	-17.3	-11.1	4.3
Current Account Balance	Million US \$	-388	512	527	300	310	88	103
Current Account Balance	% GDP	-8.4	11.5	12.5	7.7	6.8	2.0	2.4
External Reserves	months of imports	3.1	4.3	3.9	4.3	3.5	2.6	...
Debt and Financial Flows								
Debt Service	% exports	52.3	12.7	11.3	10.1	17.3	15.2	16.2
External Debt	% GDP	16.0	13.3	13.4	17.7	15.8	17.1	18.6
Net Total Financial Flows	Million US \$	64	70	126	157	194
Net Official Development Assistance	Million US \$	91	86	93	147	147
Net Foreign Direct Investment	Million US \$	136	26	41	21	-56	25	...



Source : AfDB Statistics Department: African; IMF: World Economic Outlook, October 2019 and International Financial Statistics, October 2019;

AfDB Statistics Department: Development Data Portal Database, October 2019. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available (e) Estimations (p) Projections

Last Update: November 2019

Annex 10: Arrangement with the IMF

A.10.1: IMF Press Statement August 23, 2019

An International Monetary Fund (IMF) team, led by Mr. Geremia Palomba, IMF Mission Chief for Eswatini, visited Mbabane during August 16-23, 2019 to discuss recent developments and the economic outlook in the context of its regular review of the economy activities.

At the end of the visit, Mr. Palomba issued the following statement:

“Eswatini faces a challenging economic environment. Since 2016, rising government spending and low revenue from the Southern African Customs Union (SACU) have increased public debt and contributed to large domestic arrears. International reserves have declined, although remain broadly adequate, and real GDP growth has been sluggish.

“The new government that was appointed in late 2018, continues to formulate its policy agenda to address these macroeconomic challenges. In the absence of policy action, the economic outlook remains fragile.

“Discussions focused on recent economic developments, in particular budget execution and planning, economic prospects, and the scope for further policy action.

“The 2019 Article IV consultation—annual review of the economy—with Eswatini is planned for late 2019.

“The mission thanks the authorities and other counterparts for their hospitality and the productive and open discussions.”

A. 10.2. IMF Staff Completes 2019 Article IV Mission to Eswatini, November 4, 2019

An International Monetary Fund (IMF) team, led by Mr. Geremia Palomba, visited Mbabane during October 23-November 4, 2019 to conduct the 2019 Article IV consultations with Eswatini.

At the end of the visit, Mr. Palomba issued the following statement:

“In recent years, GDP growth has averaged 2 %, but fiscal and macroeconomic imbalances have built up. Since 2016, rising government spending and low revenue from the Southern African Customs Union (SACU) have widened the fiscal deficit. Public debt has increased, domestic arrears have accumulated, and international reserves have declined.

“Absent policy action, the economic outlook remains fragile. In 2019, growth is projected to decelerate to around 1 %. In a scenario with no policy action, IMF staff expect the fiscal deficit to remain large and domestic arrears to accumulate, weighing on the economic outlook. Growth would remain subdued over the medium term as fiscal imbalances persist and the private sector remains hamstrung. Downside risks to this outlook include lower SACU revenue and possible fiscal slippages.

“Eswatini’s key challenges are to implement fiscal adjustment measures to reduce the fiscal deficit and stabilize public debt, and roll out structural and governance reforms to boost long-term growth and reduce poverty and unemployment.

“Significant fiscal adjustment is needed to ensure fiscal sustainability and rebuild external buffers. Adjustment policies should combine both expenditure and revenue measures that support long-term growth, while protecting and improving social assistance programs. Moreover, they should focus on rationalizing large spending items, particularly wage costs, capital outlays, and transfers to parastatals and other entities.

“Rationalizing public entities and enterprises, developing medium-term fiscal plans and expenditure controls is critical to deliver adjustment plans. Strengthening public procurement would improve the functioning of the administration, reduce mismanagement, and deliver needed spending savings. The mission welcomes the authorities’ plans to restructure key loss-making public entities and improve the efficiency of public spending.

“Undertaking reforms to facilitate private investment and strengthen competitiveness is a must to lift growth and reduce unemployment. The authorities have developed comprehensive reform plans to reignite growth. In parallel with fiscal adjustment policies, reforms should focus on streamlining business regulations, strengthening governance to reduce vulnerabilities to state-capture and corruption (including through better public procurement), improving efficiency in key network industries such as electricity and telecommunications, and establishing a well-structured wage policy to better align wage dynamics to productivity growth. Over time, it is important to improve education attainments to address the shortage of well-educated and skilled labor.

“Despite the weakening economy, the financial sector remains sound. The authorities are gradually implementing Basel II requirements for banks, and advancing a series of legislative changes to overhaul the oversight framework of the sector. With the economy weakening, it is important to intensify the supervision of the banking sector. Moreover, accelerating the adoption of the new legislation would provide a strong base to strengthen the non-bank regulatory and supervisory frameworks, and developing adequate macro prudential and crisis management structures. These steps will help to better manage macro-financial risks and structural vulnerabilities in the sector.

“The mission thanks the authorities and other counterparts for their hospitality and productive discussions.”

Annex 11: Eswatini's Progress towards SDGs

Based on 10 national priorities goals in the Eswatini 2019 Voluntary National Report (VNR)

Goal	Progress Made
SDG1: End poverty in all its forms everywhere	The proportion of population living below the poverty line improved from 63% in 2010 to 58.9% in 2017. Poverty is most pronounced in rural areas at 70.2% than urban area 19.6% (2017) and in males 67% than females 59.4% and is highest in the Shiselweni and Lubombo regions at 71.5% and 67.3% respectively (2017).
SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	The country undertook a Zero Hunger Strategic Review in 2018 to analyze the current food and nutrition situation, as well as to identify strategies and programmes for ending hunger by 2030. The prevalence of stunting among children under 5 years of age has declined from 25.5% to 19.9% meaning the country is now within the world food security requirement of below 20%, however more effort needs to be done to achieve a single digit percentage.
SDG 3: Ensure healthy lives and promote well-being for all at all ages.	The maternal mortality rate indicate a decline from 593/100,000 in 2012 to 474/100,000 in 2018 which reflects a small and slow decline if the country is to meet the target of 120/100,000 maternal deaths in 2022. Also of concern is the slow decline in the under 5 mortality rate which was 80 per 1000 in 2012 and fell to 67 per 1000 live births in 2018. Prevalence in HIV/AIDS, malaria and tuberculosis have stabilized, however, the country is experiencing an increase in non-communicable diseases which resulted in about 12% of deaths between 2013 and 2017.
SDG4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	The country introduced free primary education programme as a means to ensure that all children have equal access to quality primary education. As a result, the proportion of children that completed primary education increased from 93.5 % in 2014 to 106.1 % in 2016 and secondary education increased from 49.6% to 61.5 % respectively. The national literacy rate was 95.3% for women and 91.8 % for men in 2014.
SDG 6: Ensure availability and sustainable management of water and sanitation for all.	The national coverage of nationally managed water resources for households is was 72% in 2014 which is disaggregated by 96% urban population and 63% rural populace. The increase in access to clean water in rural areas was promoted by the establishment of micro water schemes in communities. The proportion of population using safely managed sanitation services, at national level was 53% which comprises of 78% in the rural areas and 94% in urban populace. However, there are discrepancies between coverage and access to the services.
SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all.	The Rural electricity programme increases access to clean energy for people living in both urban and rural areas. The proportion of household with access to electricity nationally increased from 69% in 2014 to 78% in 2018.

Goal	Progress Made
SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	There was an increase of about 10% in the proportion of informal employment in non-agriculture sector nationally when comparing the 2013 and 2016 Labour Force Survey reports, from 54.3% in 2013 to 65.2% in 2016. The Financial Inclusion Strategy (2016) has improved access to finance for MSME including informal sector.
SDG 13: Take urgent action to combat climate change and its impacts.	The country developed the National Climate Change Policy and Strategy 2016, the National Climate Change Strategy and Action Plan (2014-2019). In addition, the National Disaster Risk Reduction Policy and National Resilience Strategy and Disaster Risk Reduction Plan of Action (2017 – 2021) was developed.
SDG16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.	Eswatini has very insignificant cases of conflict-related deaths of about 0.0017%. The Number of victims of intentional homicide per year in the country increased from 112 in 2016 to 123 in 2018 which is an increased by 8.9%. There is evident increase in domestic related abuse, reported cases of abuse increased from 7729 in 2015 to 10504 in 2016 this is an increase by 26.4%.
SDG17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.	The Aid Policy of 2000 was revised and finalized to inform development of the National Development Cooperation Policy 2019. This will serve as a guide to all relevant agencies of Government, development partners, civil society organizations and other stakeholders on coordination and management of development cooperation resources.

Source: Eswatini Ministry of Economic Planning and Development

Annex 12: Eswatini Country Fiduciary Risk Assessment (CFRA) 2019

1. Introduction

The primary purpose of the Country Fiduciary Risk Assessment (FRA) is to assess the inherent fiduciary risk associated with the use of national Public Financial Management (PFM) Systems. The FRA establishes whether the Bank can place reliance on the core PFM systems for the implementation of the Bank's aid initiatives, as well as indicate scope for capacity development where weaknesses are identified, in line with the Bank's commitment to operationalize the objectives of the Paris Declaration. This FRA covers the PFM systems of Eswatini. In assessing the fiduciary risk, the team used recent diagnostic reviews including but not limited to Public Expenditure Financial Accountability (PEFA) 2011, the 2018 Country Portfolio Performance Assessment (PPA), and the Worldwide Governance Indicators (WGI) as updated. In addition, the team reviewed a number of reports and publications on public procurement in Eswatini. The Team also had discussions with the officials from Government of Eswatini and Development Partners. This is in line with the Bank's guidance on the fiduciary risk assessment.

2. Overall Fiduciary Risk

The overall fiduciary risk for the Government is assessed as substantial. This is on account of:

- (a) Challenges associated with managing, and clearing existing expenditure arrears;
- (b) Challenges effecting reliable commitment controls;
- (c) Lack of costing of multi-year plans to improve the quality of the multi-year budgeting process;
- (d) Poor cash forecasting techniques;
- (e) The absence of a Treasury Single Account to enhance overall cash management;
- (f) The exclusion of accounts of donor financed projects from the treasury consolidation process;
- (g) The outdated Treasury Accounting System (TAS) accounting system currently in use (in the process of being replaced);
- (h) Lack of systematic follow up and implementation of external audit recommendations;
- (i) Unavailability of national standard bidding documents (SBDs) which delays procurement proceedings;
- (j) Limited internal control within procuring entities;
- (k) General weakness in procurement operations and market practices;
- (l) Lack of a procurement manual to be used by PEs and other stakeholders; and
- (m) Absence of complaint review mechanisms and external procurement audit.

The government is however taking steps to address a number of the identified shortcomings, as is discussed in the detail below.

Table 1 – Summary of Overall Risk

Risk Priority areas	Risk rating
Governance	Substantial
Budget	Substantial
Treasury	High
Accounting, Recording and Reporting	Substantial
Internal Control	Substantial
External Scrutiny and Audit	Substantial
Procurement	Substantial
OVERALL RATING	Substantial

3. Governance and Political

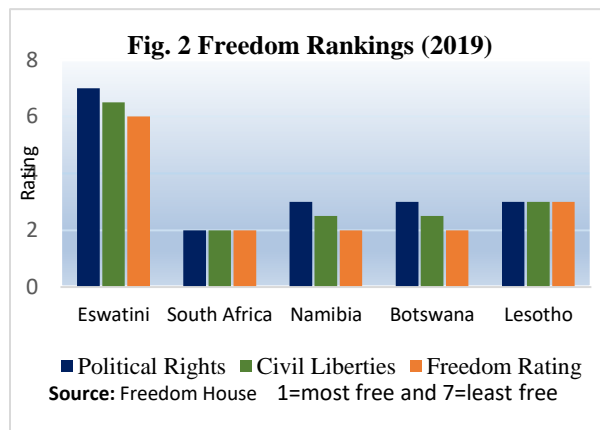
Fiduciary Risk Rating	Substantial
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3.1 Review of Performance

3.1.1 Eswatini’s political landscape has largely remained unchanged over the years, save for the passing of former longtime Prime Minister Sibusiso Dlamini (He served as Prime Minister from 1996 to 2003 and again from October 2008 to September 2018). The last legislative elections were held on 21 September 2018 and were described by SADC and AU as orderly, peaceful and calm. The AU observer mission, however, encouraged the Government to consider reviewing the 1973 decree banning political organizations and allow political parties to participate in elections in accordance with the provisions of the Constitution, and in compliance with the country’s international commitment. This call reinforces a September 2016 High Court ruling that the ban on political parties undermines the constitutional right to freedom of expression and association.

3.1.2 **Following the elections and in line with the 2005 Constitution the King appointed a** Cabinet of 18 Ministers in November 2018, led by Prime Minister Ambrose M. Dlamini (former CEO of Eswatini MTN). The rest of the Cabinet also has a strong private sector focus. As constitutionally mandated, the King further appointed 10 of 76 members of the House of Assembly and 20 of 31 members of the Senate. In February 2019, King Mswati III opened the First Session of the 11th Parliament of Eswatini and gave his Speech from the Throne highlighting the state of the Kingdom and setting the tone for Government's agenda as well as focus of the 11th Parliament. The speech underscored the need for fiscal consolidation and stepping up the fight against corruption. The renewed emphasis on anti-corruption has seen the declaration of assets by Senior Officials led by the Prime Minister.

3.1.3 The foregoing notwithstanding, the Kingdom’s record on political rights, civil liberties and freedom remains poor. In the 2018 Ibrahim Index of African Governance (IIAG) the overall governance rating of Eswatini was 32nd out of 54 countries with a score of 48.7 out of 100. This is a marginal decline from the rank of 30th attained in the 2014 ranking. The country performed more than continental average in personal safety, national security, infrastructure, rural sector, education and health. However, in terms of participation, rights and gender the country scored below continental average. The country’s score (out of 10) on the Economist Intelligence Unit Democracy Index declined from 3.09 (rank 140 out of 167) to 3.03 (rank 141 out of 167) in 2018. However, the Global Peace Index rank moved to 72 out of 163 in 2018, significantly improving from rank of 87 in 2014.



3.1.4 The country’s corruption perceptions as gauged by the Transparency International Corruption Perception Index have shown some deterioration. In 2018, Eswatini was ranked 89 out of 180 countries (score 0.38) compared to the rank of 69 out of 174 countries (score 0.43) in 2014. Government, however, took some action to fight corruption through operationalizing the Anti-Corruption Commission (ACC) in October 2017 and decentralizing its services to the Manzini region. Furthermore, in order to reach the majority of the population, a website for reporting corruption was launched.

3.1.5 A big challenge relates to macro-economic stability in particular the accumulation of domestic arrears estimated at about SZL 5 billion (over 5% of GDP). The budget deficit, which has been financed through domestic and external borrowing, accrual of domestic arrears, drawing international reserves and advances from Central Bank remained high. Recurrent expenses, which are close to 70% of the total budget, are dominated by the wage bill estimated at 14% of GDP. Capital expenditures hover around 30%. Although debt is relatively low (28% of GDP by June 2019) its growth has been exponential in recent times and is bound to rise in an unchanged policy scenario. In the longer term, the country faces significant structural challenges, witnessed by two decades of declining competitiveness, shrinking industrial base and rising unemployment that left the economy vulnerable to balance of payments and climatic shocks. There is therefore need for significant and urgent fiscal adjustment to maintain fiscal and macroeconomic stability and reduce the risk of debt distress.

3.1.6 These issues were pointed out in the previous IMF Article IV consultations that were undertaken in September 2017, but there has not been significant policy traction to give comfort for a changed macro-economic trajectory. Nonetheless, there are appreciable efforts by the current administration including the drawing up of a National Development Plan, Strategic Roadmap for Economic Recovery and the Arrears Clearance Strategy all of which are anchored on fiscal consolidation efforts by government. The implementation of IFMIS which the country is now embarked upon should contribute to improvement in management and accountability of public finances. The next IMF Article IV Consultation is planned for October/November 2019.

3.2 Based on the foregoing, the risk associated with the governance and political environment is assessed as substantial at September 2019.

4. Performance of the PFM systems and Risk Ratings

Table 2 – PFM Risk Determination

Elements	Average Development Capacity Rating (based on 2015 PEFA Indicators)	Average Development Capacity Rating (based on ¹ UPDATES 2019)	Trajectory	Current Risk Assessment
1. Budget				
1.1 The Budget sub-system capacity is adequate to plan (formulate) budgets for the programs and projects	1.5	1.0	☒	Substantial
1.2 The Budget sub-system capacity is adequate to execute budgetary control of programs or projects	1.5	1.0	☒	Substantial
2. Treasury				
2.1 The Treasury sub-system capacity is adequate to manage the inflow of resources and disbursements of aid funds.	1.5	1.5	-	Substantial
2.2 The Single Treasury Account is an appropriate and reliable way to administer aid funds	0.75	0.75	-	High
3. Accounting Recording and Reporting				
3.1 The Financial Accounting sub-system is sound and capacity is adequate to record programme and/or project transactions and account for their progress and financial status.	1.5	1.5	-	Substantial
3.2 Financial Management information systems have flexibility to accommodate specific reporting requirements of programmes and projects and have procedures in place to ensure timeliness and quality of information produced.	1.5	1.5	-	Substantial
3.3 The Financial Accounting sub-system has an integrated Fixed Assets module for the proper recording and control of assets purchased with programme / project funds.	1.5	1.5	-	Substantial
3.4 The Accounting sub-system maintains up to date records of the country's borrowings.	1.5	1.5	-	Substantial
3.5 The Accounting systems are secure against deliberate manipulation of data and/or accidental loss of or corruption of data.	1.5	1.5	-	Substantial

¹ CSP dialogue 2019 outcomes

Elements	Average Development Capacity Rating (based on 2015 PEFA Indicators)	Average Development Capacity Rating (based on ¹ UPDATES 2019)	Trajectory	Current Risk Assessment
4. Internal Control				
4.1 The Internal Control sub-system capacity is adequate to control the financial operations of programs and projects.	1.4	1.4	-	Substantial
4.2 Competition, value for money and controls in procurement are adequate	-	-	-	
4.3 The Internal Audit function capacity is adequate	1.5	1.5	-	Substantial
5. External Scrutiny and Audit				
5.1 The SAI has the level of “independence” needed to enable it to effectively fulfill its functions.	1.5	1.5	-	Substantial
5.2 The SAI has the capacity to meet its audit mandate	1.5	1.5	-	Substantial
Risk assessment (see para 6 below): Below 0.75 = High Risk, Between 0.76-1.50 = Substantial Risk Between 1.51-2.50 = Moderate Risk Above 2.51=Low Risk				

4.1 Budget

Fiduciary Risk Rating	Substantial
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4.1.1 Review of Performance

i. Credibility of the Budget

Budgeting is guided by the new Public Finance Management (PFM) Act (2017), which by all accounts is a significant improvement on prior editions. As a ‘new’ Act however, understanding of its requirements, and full adherence thereof, will take some time. Budget credibility continues to slide (from highs recorded around 2007, declining during the 2011 review, and appearing to be even lower in 2019) due to unrealistic budgets, and the persistent and growing problem of expenditure arrears (estimated at 6% of GDP in 2018). This is not helped by the current government accounting system (Treasury Accounting System), which is incapable of maintaining reliable records of arrears as it does not incorporate an accounts payable module. Poor project management capacity generally results in persistent slow pace of implementation of capital projects. This thus tends to result in budgeted capital expenditure underspent, further impacting negatively the overall credibility of budgeting.

ii. Comprehensiveness and transparency of the budget

Budget classification follows GFS and COFOG standards, and parliament, starting with a parliamentary budget committee for detailed scrutiny, and ending with the full house for approval, provides the necessary oversight. Comprehensiveness and transparency is however negatively affected by the fact that data on donor financing is not reconciled to other sources to verify accuracy, and neither are risk exposures to public enterprises and sub national government consolidated nor monitored.

Rules and procedures for transfers and reallocations are well defined in the new PFM Act, with most requiring parliamentary approval or the issuance of a supplementary budget (which itself requires parliamentary approval).

iii. Policy-based budgeting

The new Act sets out a clear annual budget calendar, with adequate provisions for each stage of budget preparation, to ensure parliamentary approval before the start of the financial year. While this appears to be generally adhered to, in the event of failure to approve the budget on time, the Act details contingency procedures for up to four months during which the Minister (of Finance), may, by warrant, authorize withdrawals from the Consolidated Fund for urgent or necessary expenditures. The Act also allows for multi-year expenditure commitments. However, in practice, both multi-year investments and recurrent expenditures are not adequately costed, and there is no clear link between objectives, priorities, programs and each annual budget.

iv. Predictability and control in budget execution

Taxpayer obligations and liabilities appear to be transparent, although there are shortcomings regarding tax registration: the tax registration systems in use for each type of tax are not integrated nor is there a stringent system of penalties for failure by taxpayers to register. Comprehensive information on tax arrears and the related reconciliations are non-existent. All together this means that the overall process for tax registration, assessment, and enforcing payment can be considered weak.

As work progresses on the proposed new integrated financial management information system (IFMIS), government still works on a system of warrants to control expenditure, which system is characterized by weak commitment controls and a burgeoning expenditure arrears problem. Several payments still occur outside the existing accounting system (foreign currency payments and special accounts for capital projects), further compromising accounting control.

Southern African Customs Union (SACU) transfers form a significant part of the government's revenue streams, but of late SACU revenues have been unstable, volatile, and on a sustained downward spiral, again negatively impacting predictability.

4.1.2 Current Risks– The sub system will be positively impacted by the recent introduction of the PFM Act 2017, but until adherence to the requirements of the Act improves, together with the proposed introduction of an IFMIS to modernize and improve accounting control, challenges will remain:

- (n) Managing, and clearing existing expenditure arrears;
- (o) Improving commitment controls;

- (p) Tightening the taxpayer registration process;
- (q) The need to establish transparent rules for governing horizontal allocations between regions, to enhance further, fairness in resource allocations;
- (r) Introducing complete reconciliation between tax assessments, collections, arrears, and receipts from customers;
- (s) Costing of multi-year plans.

4.1.3 Mitigation

The Government has sought the assistance of the IMF in developing a short term measure and tool to control arrears, which is still under development. But long term, an integrated financial management information system is under development which will hopefully enhance both expenditure management, and commitment controls, key drivers of the expenditure arrears problem. The taxpayer area will require a separate focus and assistance from interested donors to rectify and modernize.

4.1.4 Overall Ratings

Overall risk rating for the budgeting sub system was **substantial** at September 2019.

4.2 Treasury

Fiduciary Risk Rating	High
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4.2.1 Review of Performance

The sub system is also governed by the PFM Act 2017, although the associated PFM and Treasury Regulations to give full effect to the Act are still under preparation. Quarterly cash flow forecasts are prepared quarterly by treasury to assist in the allocation of available cash resources, but the forecasts are prepared largely based on historical information (previous year performance/requirements, and previous quarter). The formula is thus more incremental, than dictated by zero based approved future requirements. The current treasury system is centralized, meaning that ministries, departments, and agencies (MDAs) do not have a tangible input in the forecasting process, again reducing the credibility and accuracy of the forecasts.

On the positive side, and with regards to controlling payments, expenditures are based on warrants issued quarterly in advance, thus payments can only be made where there is a budget allocation. However, the issue of accumulated expenditure arrears remains significant. Efforts to clear these have included a suspension of capital projects above E500 million since July 2018, as well as a hiring freeze. Improved cash flows therefrom resulted in known expenditure arrears declining by just over E1 billion in the six months to December 2018. The challenges already mentioned on the commitment control side means that this remains a significant management challenge for government, as new arrears are likely to continue to be generated.

Government is now committed to introducing a Treasury Single Account to improve cash management, but again, this is still in process and not yet implemented. Aside from several government and quasi government bank accounts, the **accounts of donor-financed projects remain outside the treasury consolidation process.**

4.2.2 Current Risks

- (a) Poor cash forecasting techniques;
- (b) The absence of a Treasury Single Account;
- (c) The accounts of donor financed projects still remain outside the treasury consolidation process.

4.2.3 Mitigation

Implementation of the new PFM Act, the related treasury regulations, combined with implementation of a new IFMIS and the proposed Treasury Single Account will help address the bulk of the shortcomings.

4.2.4 Overall Risk Rating

The overall rating for the treasury sub system at September 2019 was high.

4.3 Accounting and Reporting

Fiduciary Risk Rating	Substantial
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4.3.1 Review of Performance

The sub system is likewise guided by the PFM Act 2017. Implementation of the Act is still largely at infancy, with the bulk of the related regulations not yet approved nor issued. The existing government accounting system {the Treasury Accounting System (TAS)} has been operating for several decades, uses outdated technology, and does not incorporate an accounts payable module. Not enough information is maintained by MDAs on resources received directly by them, bank reconciliations are not done regularly, and the reliability of accounting records has been questioned on more than a few occasions (according to the March 2018 auditor general's report, government bank balances were misstated, financial liabilities were misstated, and revenues were misstated). Although ministries prepare quarterly budget to actual comparison reports, treasury does not consolidate these to present a government wide position, nor is the ministry generated data reconciled to the TAS. A further key point to note is that donor project accounting is generally conducted outside of the TAS, with the concomitant banking independent of treasury. On debt, the Minister of Finance is mandated by Act of Parliament to raise loans and issue guarantees on behalf of central government, and recording is done using the Commonwealth (CS-DRMS) system, but weaknesses exist as regards loans and guarantees to public enterprises and sub-national government. There is no system to reconcile the completeness, validity, and accuracy of the information on loans and guarantees.

Government has committed to replace the problematic TAS with a modern IFMIS, work on which has already started, but as is normal, implementation of this new system is expected to take several years to complete. Allied to the implementation of the new IFMIS will be a new multi-dimensional Chart of Accounts, which will improve transaction classification, reporting capacity, and comprehensiveness of reports.

4.3.2 Current Risks

These pertain primarily to the outdated accounting system currently in use, and the separate accounting for donor projects.

4.3.3 Mitigation

Again full implementation of the new PFM Act and enumeration of the related PFM regulations, coupled with the intended implementation of a new IFMIS will address the various issues in time.

4.3.4 Overall rating

The overall risk rating for the accounting and reporting sub system at September 2019 was substantial.

4.4 Internal Controls

Fiduciary Risk Rating	Substantial
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4.4.1 Review of Performance

Both the PFM Act 2017 and the Treasury Instructions (not yet updated to align with the new Act) directly address internal controls and allocate specific duties and responsibilities to accounting officers in ministries. While some measure of control is exercised through the TAS, certain types of recurrent expenditures (such as salaries, utilities, travel and personnel allowances) plus capital contracts are not committed in the TAS and thus not subject to effective control. As already noted, some commitments also occur outside the formal procurement and commitment processes, thereby undermining the integrity of efforts to control expenditure and limit it only to approved budget.

Payroll is under the Ministry of Public Service, and is computerized in an HR System. However, outside the system, challenges still occur, particularly as regards the timing of processing of payroll changes, with warrant holders often at fault regarding authorization and signing of documents necessary for the processing of approved changes (arrivals, departures, promotions sometimes lagging up to six months). On the plus side, the existence of 'ghost' employees has been partially addressed through the conduct of a comprehensive payroll and skills audit.

The PFM Act 2017 legally regulates the existence of the Internal Audit Department as well as formation of Audit committees at ministerial level (yet to be implemented). While the Internal Audit Department's independence was enhanced by its relocation from Treasury to reporting directly to the Minister of Finance, it is still generally regarded as ineffective due to a high focus on pre-audits, on firefighting (special audits on request), with many audits still conducted on a reactive basis rather than a proactive, risk based modern approach. Follow up of the implementation of recommendations still does not appear to be formalized, although the unit is receiving donor support to modernize and further improve its footprint.

4.4.2 Current Risks

Main risks relate to the expenditures outside the formal procurement and commitment system, as well as delayed processing of payroll changes.

4.4.3 Mitigation Measures

The IFMIS, and new regulations to support the PFM Act 2017 should help address the issue of commitment control, while education and training of key staff will improve turnaround time for the processing of payroll changes.

4.4.4 Overall Rating

The above mitigations notwithstanding, the assessed overall rating of risk relating to internal controls was **Substantial**, at September 2019.

4.5 External Scrutiny and Audit

Fiduciary Risk Rating	Substantial
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4.5.1 Review of Performance

The 2006 supreme law of the Kingdom of Eswatini and Audit Act No 4 of 2005 establishes and stipulates the powers, rights and duties of the Office of the Auditor General. Appointment of the Auditor General by the King is thus provided for in the constitution, and such appointment by the King is done on the advice of the Minister of Finance after a recommendation by the Civil Service Commission. The Auditor General has a constitutional mandate to audit the public accounts of Eswatini for all offices, courts and authorities of the Government. The Auditor General may be removed from office by the King acting on advice of an ad hoc committee, and such removal shall be on the basis of serious misconduct or incapability to discharge duties. The office is affiliated to the International Organisation of Supreme Audit Institutions (INTOSAI) and the African Organisation of English Speaking Supreme Audit Institutions (AFROSAI-E).

For financial audits, performance audits, and environmental audits, the office appears to have an acceptable mix of staff, although even for these areas, the level of certification is low. Deficiencies still occur in the area of IT audit, whose importance can only increase given the shortcomings of the current TAS, as well as the projected pervasive coverage of the soon to be implemented IFMIS. Staff numbers overall could be improved, which would help to increase coverage. Audit reports are generally issued with minimum delays (generally 1 or 2 months) (with the latest available report being for March 2018). Reports are tabled in Parliament, with debate led by the Public Accounts Committee (PAC). Beyond this, specific recommendations are issued to relevant MDAs for implementation, with follow up of recommendations carried out by the Auditor General. There is little evidence of implementation of the audit recommendations, as evidenced by high incidences of repeat audit findings.

The audit of state owned enterprises is out-sourced to private audit firms, as is the audit of sub national governments. Some donor financed projects are audited by the AG’s office however, although with considerable delays.

4.5.2 Current Risks

The main risks relate to coverage (or lack thereof of especially subnational authorities), and a lack of systematic follow up and implementation of audit recommendations.

4.5.3 Mitigation

AFROSAI-E affiliation and adherence to its recommended and prescribed practices will help improve the effectiveness and operations of the department.

4.5.4 Overall rating

The risk rating at September 2019 remains **Substantial**.

5 Review of Performance: Procurement

Fiduciary Risk Rating	Substantial
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A. Main findings of the Bank Procurement Assessment Report (BPAR)

I. Legal, Regulatory and Policy Framework

1. Public procurement in the Kingdom of Eswatini is regulated by the Public Procurement Act, 2011. The Act, which became effective in 2013, describes the institutional framework, methods of procurement, procedures, rules and ethical behavior. The Public Procurement Act N° 7 of 2011 (the Act) requires the existence of regulations to enable compliance with most of its provisions (e.g. applications for deviations and thresholds for issuance of tender award notices require regulations). Currently, there are no regulations issued under the Act and procuring entities are experiencing difficulties in complying with the Act. It is worth noting that the existence of the Act without the immediate commencement of the Public Procurement Regulations (PPRs) renders majority of the sections of the Act unenforceable. For example the Act provides that the PPRs shall define the stages of the procurement process; shall define the procuring entity responsible for different types and values of procurement; a procuring entity shall use one of the methods specified in the PPRs for all procurement; all procurement activities shall be conducted in accordance with the detailed rules specified in public procurement regulations.

2. The existing Public Procurement Regulations (PPR) of 2008 were prepared before the Act of 2011 came into force. Therefore, the biggest question is that since the PPRs are not in place yet, which instrument in line with the Act are the PEs using as a guide in their procurements. As a result, there is an urgent need to fast track the approval of the draft Public Procurement Regulations (PPRs) in line with the Public Procurement Act of 2011 to repeal the 2008 PPRs. The revised regulations are being

drafted in line with the new Act for the legal framework to be fully operational. A draft regulation that conforms to the 2011 Act has been developed with the assistance of the United Nations Development Program. Eswatini procurement systems provides for use of standard bidding documents for procurement of goods and works by any procuring entity. These documents are undergoing major revision along with revised Procurement Regulations.

3. The Act applies to all public procurement conducted by “Procuring Entities” (PE) which are defined as any entity designated to conduct public procurement activities and shall include any Ministry, Department, Agency, category A public enterprise or Local Government Authority, except where procurement is related to defense or national security or where an international agreements is concluded between the Government of Eswatini and any donor organization and may require use of procurement rules and procedures provided in the said agreement.

II. Institutional Framework and Management Capacity

4. According to the provisions of the Procurement Act, Eswatini has already established a Public Procurement Regulatory Agency (ESPPRA). ESPPRA is an independent regulatory body with responsibility for policy formulation, regulation, oversight, professional development and information management and dissemination in the field of public procurement. Although Board members of ESPPRA have been appointed but it has still to be fully functional. ESPPRA shall also perform the role of independent review institution.

5. The Eswatini Public Procurement Regulatory Agency (ESPPRA) has been in operation since 2013, following the appointment of the Board of Directors in April 2013, after coming into force of the Public Procurement Act No.7 of 2011 (the Act) in May 2013, and appointment of the Executive Director or Chief Executive Officer in November 2013. The Agency has adopted an incremental recruitment approach and by the end of February 2017 employs a total of twenty (20) staff as follows: CEO, 5 executive management level personnel, internal auditor, and 13 professional and support staff.

6. The operational structure of the Agency comprises the Board of Directors as established under Section 13 of the Act, the Standing Review Panel as established under Section 50 of the Act, and 6 Directorates which are delineated as follows: (i) Office of the Executive Director / Chief Executive Officer ; (ii) Directorate of Procurement Policy, Legislation and Investigations; (iii) Directorate of Monitoring and Oversight; (iv) Directorate of Capacity Building; (v) Directorate of Information and Communications Technology; and (vi) Directorate of Finance and Administration.

7. It has to be pointed out that the low classification under the Public Enterprises Unit (PEU) remuneration ceilings for category A public enterprises (at Group 5E) led to more than 50% of the preferred candidates declining the respective job offers. Retention of staff has also been a challenge due to the low remuneration on offer and inability to attract high-caliber staff that can effectively kick-start the different departments in the first place.

8. The Agency oversees all public procurement conducted by public procuring entities and the scope of this oversight covers Government Ministries, Departments and Agencies, as well as category “A” public enterprises and Local Government Authorities or municipalities. Its mandate under the Act includes responsibility for policy, regulation, oversight, professional development, and information

management and dissemination in the field of public procurement. The new regulations will govern, inter alia, the procurement practices of 91 entities in the form of 19 government ministries, 9 government agencies and departments that procure for themselves, 50 state-owned enterprises, and 13 local government authorities.

9. As much as the Agency has realized significant milestones since its inception, a number of challenges have been encountered. Some of the challenges include (cf. ESPPRA 2017 Annual Report): (i) Initial financial constraints i.e. the initial subvention was inadequate to commence recruitment for a majority of the critical positions; (ii) Inadequate staffing levels due to phased-in approach to recruitment that has further been bogged-down by scarcity of skills in the country on procurement; (iii) Delayed commitment to facilitate completion of a Reference Price project involving the collection of market prices for Government; (iv) Due to lack of Public Procurement Regulations issued under the Act, a court judgment on the validity of the Public Procurement Procedures has been adverse. However, major procuring entities have indicated that they are adopting the best practices contained in the Procedures and that they have found them to enhance their ability to comply with the Public Procurement Act, 2011.

10. The subventions that Government provides to the Agency, which currently stand at an average of E8.24 million (circa USD 633,000) per annum, are far less than the amount of financial resources required to install adequate operational capacity. Therefore, the Agency remains weak year after year, with inadequate skills and other critical resources to effectively pursue its mandate. This is because there is currently very limited public reform capacity in terms of skills and experience both at national and institutional levels, including within the Agency. This then means that interventions such as massive mobilisation technical support and intensive training of procurement officers, the Agency's officers, and the private sector are required for the design and implementation of a meaningful reform programme that will deliver sustainable results.

III. Procurement Operations and Market Practices

11. Procurement is not presently seen as a professional function in Eswatini. There are no job descriptions related to procurement roles and responsibilities and no requirement that those working in procurement should have in terms of procurement education or training. Public procurement in Eswatini poses significant risk toward failure to achieve value for money and efficiency due to nonoperational procurement system, lack of full compliance with procurement law and use of incomplete Regulations and Bidding documents.

12. In a challenging fiscal situation, the Government has been making efforts to strengthen the procurement management function for major spending ministries, starting with initial institutional capacity-building activities and implementation of the legal framework. However, the key regulatory institutions such as the Government Tender Board (GTB) and the Eswatini Public Procurement Regulatory Agency (ESPPRA) lack qualified staff and do not have adequate information technology (IT) tools to facilitate their operations but, instead, manually operate the systems. Compliance with procurement reporting formats, as well as the accuracy of the information, is questionable.

13. Procurement data are not readily available at the GTB, Ministry of Finance (MoF), ESPPRA, or the ministry level, thus making monitoring and regulation problematic. The private sector has low

confidence in the transparency and integrity of the current public procurement system. Staff capacity, procurement planning, and contract management remain weak and unrelated to sector strategic plans, annual work plans (AWPs), and budgets. Efficiency of public procurement in the current fiscal environment is cardinal.

14. The Agency commenced a project whose primary objective is to compile a report on market prices for commonly purchased items (described as common use items in the Act), particularly to serve as a reference for procuring entities. Procuring entities will be required to make reference to this list when preparing procurement plans, evaluating bids, awarding tenders and shopping for low value items. This follows the publication of ESPPRA Circular No. 1 of 2015, entitled: “Control of prices paid by Procuring Entities to prevent awarding of contracts to tenderers that offer prices above market”. The on-going Market Prices Project seeks to put in place a process that will enable the publication of regular updates on the market prices of common use items procured by Government. Further, the project will result in the production of the Price Comparison Schedule.

15. Awareness training was conducted through various fora on the Public Procurement Act, 2011, to 100% of the procuring entities, Senate members of the Parliamentary Finance Portfolio Committee, and the Public Accounts Committee (PAC). The Agency has conducted workshops to disseminate the Public Procurement Act and procurement procedures in order to enable effective implementation of the Act.

16. More efficient procurement is necessary for development and the indicators of successful implementation of the Public Procurement Act include the institutionalisation of an independent procurement agency, a restructured Tender Board system, and an independent review system. Improved procurement efficiencies will help fund key policies and such efficiencies will be achieved through 100% implementation of the Public Procurement Act and Regulations by all Parastatals, Government and local Government Authorities. This will be supported by: (i) Procurement manuals developed and operationalised for Government, all Parastatals and local Government; (ii) independent review structures enhanced, in place, and fully operational; and (iii) procurement audit reports produced for all procuring entities.

IV. Integrity and Transparency of the Public Procurement System

17. So far, the Office of the Auditor General (OAG) carries out external audit function of public funds. In the existing procurement system, all procurement related claims are channeled through the Permanent Secretary’s (PS) office in the Ministry of Finance, who then refers the matter to the Director, Corporate Services and Supply Chain Management for follow up and report back to the PS. Under the new act with setting up of ESPPRA, procurement related claims would be handled by an Independent Review Committee within the ESPPRA.

18. The new Act establishes a Code of Conduct for all public officers and politicians involved in procurement. The section 60 (f) states that “public officers should at all times avoid conflicts of interest and the appearance of conflict of interest”.

19. The functions of ESPPRA include to : (i) Conduct audits of any procurement activities governed by the Procurement law; (ii) Investigate the conduct of any procurement activities that are

suspected to involve violations of this law or public procurement regulations; and (iii) Refer breaches of this Act to the relevant budgetary, oversight and law enforcement bodies or initiate prosecution action by the Agency where appropriate.

20. The Act mandates ESPPRA to conduct investigations on matters related to award of public contracts. A draft Investigations Procedures Manual has been completed. Since the engagement of the Senior Investigations Officer in January 2016, the Agency received and investigated six (6) cases of allegations or complaints on misprocurement.

B. Fiduciary Risk Assessment

21. The annual value of Public Procurement in Eswatini averages SZL 10 billion per annum, which is equivalent to about 25% of GDP. According to the International Monetary Fund (IMF) 2015, falling revenue from the Southern African Customs Union (SACU) and a high government wage bill could see the budget deficit reach as high as 16% of the country's GDP. Reforms in public procurement practices will play a major role in reducing government expenditure and budget deficits.

22. A coherent and structured reform approach across sectors will be required to improve efficiency in the procurement system.

C. Level of recommended use of the Country Procurement System

Based on the Country procurement assessment above, the initial assessed risk is **Substantial**, but falls down to **Moderate** after proposed mitigating actions are taken within the timelines below:

Table 4: Identified Discrepancies and Proposed Reform Actions

Fiduciary Risks	Proposed Reform Actions	Responsible
Delay in the approval of the Public Procurement Regulations (PPRs)	Issuance of Public Procurement Instructions pending full passage of the Regulations by Parliament	Government
Current unavailability of SBDs delays procurement proceedings	Issuance of the national Standard Bidding Documents (SBDs) to improve efficiency, transparency and procurement outcomes	MoF, ESPPRA
Lack of financial resources and staffing within the ESPPRA	Generating funds, and revenue to ensure the sustainability of ESPPRA (financial autonomy, adequate staffing and skills)	Government with the support of Development Partners
The Act requires the Agency to grant levels of authority, which shall be determined by the capacity and workload of each PE	Employment of a capacity assessment tool to allocate levels of authority to procuring entities based on the capacity and workload of each PE. The PEs to be assessed in order to legitimize their ability to conduct procurement	ESPPRA

Fiduciary Risks	Proposed Reform Actions	Responsible
Limited internal control within the Procuring Entities	Operationalize the Entity Tender Boards and the Government Tender Board. The internal control mechanisms, within Procuring Entities, should be strengthen through adequate allocation of roles and responsibilities, segregation of duties, proper quality control, etc.	Government
Weaknesses in procurement operations and market practices	Developing the public procurement profession within Eswatini and improving practices to ensure optimal performance	MoF, ESPPRA
Lack of a procurement manual to be used by PEs and other stakeholders	Issuance of a Public Procurement Manual that could enable PEs to improve their compliance without jeopardizing the efficiency of their respective business operations	ESPPRA
Absence a capacity development strategy consistent with the regulatory framework	Deployment of a capacity building strategy, including the training of staff of the Agency, PEs, the Government Tender Board, the Private sector, Civil society organizations (CSOs) and key decision makers	Government with the support of Development Partners
Absence of complaint review mechanisms and external procurement audit	Establishment of the Independent Review Committees (IRC) to effectively handle procurement related claims and complaints. In collaboration with the Office of the Auditor General, the ESPPRA should be able to conduct procurement audits and investigations of suspected violations of the Act.	Government

6. Fiduciary Risk Management Framework: Key to Risk Ratings

Low (L) Risk implies a situation where the structure of PFM broadly reflects good international practice and there is routine compliance with the majority of controls within the system.

Moderate (M) Risk implies a situation where the structure of the PFM system broadly reflects good international practice, although there may be some gaps or inefficiencies. There is basic compliance with controls within the system and although regular exceptions occur, these are not financially significant.

Substantial (S) Risk implies a situation where the structure of the PFM system falls short of good international practice in a number of areas and/or there are numerous and/or material weaknesses in compliance with many controls within the system.

High (H) Risk implies a situation where the structure of PFM system shows a significant divergence from good international practice and/or there is widespread lack of compliance with many of the controls within the system. Inefficiencies and leakage from the system may be financially significant.

7 Key fiduciary risk not addressed by the existing PFM reforms

PFM Reforms in the Kingdom of Eswatini do not have an identifiable home in the form of a recognised PFM Reform Secretariat. Establishing one enables the government to not only coordinate the reforms, but ensure proper sequencing while avoiding duplications that may occur. This would likely expedite implementation of the proposed IFMIS as well as establishment of a functional Treasury Single Account. The government will be encouraged to consider formalizing the establishment of a PFM Reform Coordinating Secretariat to clarify the path of reform, and coordinate the combination of government and donor efforts aimed at improving the PFM landscape in the kingdom. The following are some of the key fiduciary risks not addressed by the existing reforms:

- Accounting for donor financed projects;
- Audit recommendation implementation

8 Short-term safeguards to mitigate key fiduciary risks

There is a need to continuously assess the implementation of the reforms and prepare evolving strategies to address shortcomings as well as to accelerate the implementation of the ongoing reforms. For the ongoing reforms, the government and development partners should maximize efforts on the following areas to accelerate the implementation of the PFM reforms in the country:

- Formalize the formation of a PFM Reform Secretariat, augmented by a robust platform for inclusive dialogue with interested donors;
- Ensure adequate funding for the key elements of the agreed PFM reforms;

For the upcoming CSP period, Bank financed investment projects will continue to be ring fenced and accounted for and audited outside the TAS and IFMIS due to the current inflexibility of TAS regarding the production of necessary Bank specific reports, while policy based operations can be implemented within TAS/IFMIS as no unique and separate reporting is expected nor required. The use of Borrower Procurement Systems will continue to be determined on a case by case basis.

8 Monitoring fiduciary risk

The Bank, in collaboration with Development Partners will support and cooperate with the Government of the Kingdom of Eswatini in addressing fiduciary risks identified for each operation.

9 Country Fiduciary Strategy

9.1 Financial Management

As already noted, during the upcoming CSP period, investment projects will continue to be accounted for outside of the TAS/IFMIS, pending a review of compatibility and capacity of the IFMIS when fully operational, to determine its ability to generate Bank specific financial reports. Bank specific audits will continue to be conducted by the AG.

9.2 Procurement

Use of the Borrower Procurement System versus application of bank rules will continue to be assessed on a case by case basis during the upcoming CSP period.

End Notes

ⁱ In April 2018, at the 50/50 Jubilee celebrating 50 years of independence and the King's 50th birthday, the country was renamed the Kingdom of Eswatini from the Kingdom of Swaziland.

ⁱⁱ Eswatini practices a Tinkhundla (community centers) –based electoral system of government. 59 Tinkhundla elects a representative to the House of Assembly in Parliament. According to Section 79 of the Constitution of Eswatini, the Tinkhundla system of Government emphasizes the devolution of state power from central government to Tinkhundla. Candidates for the national elections are elected based on individual merits and are not affiliated to political parties. The country is divided into 4 administration regions.

ⁱⁱⁱ In 2019, the Government of Eswatini produced a Voluntary National Report (VNR) report on 10 Sustainable Development Goals which are national priorities. This includes SDG 1 - no poverty SDG 2 - zero hunger; SDG 3 - health and wellbeing; SDG 4 - quality education; SDG 6 -clean water and sanitation; SDG 7- affordable and clean energy; SDG 8 – decent work and economic growth; SDG 9 - innovation, infrastructure and industrialization; SDG13 - climate action; SDG16 - peace, security and justice for all; SDG 17 - partnerships for the goals. According to the VNR Government prioritized and ranked the following SDGs SDG 8, SDG 2, SDG 4, SDG 3, SDG, SDG 7, SDG 9, SDG 1 and SDG 13.

^{iv} The various laws include amendments to the 1964 Marriage Act which prohibit child marriages of persons under the age of 18, passing of the Sexual Offences and Domestic Violence Act of 2018, which provides the framework to curb sexual and gender-based violence in the country and the 2015 amendments of the Deeds Registry Act to allow women married in community of property to register their own assets.

^v The GII is an inequality index which measures gender inequalities in three important aspects of human development—reproductive health, measured by maternal mortality ratio and adolescent birth rates; empowerment, measured by proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education; and economic status, expressed as labour market participation and measured by labour force participation rate of female and male populations aged 15 years and older.

^{vi} Eswatini mainstreams principles enshrined in various DC effectiveness covenants signed by the Government and its development partners since 2000, among them the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan Outcome Document (2011).