LANGUAGE: ENGLISH

AFRICAN DEVELOPMENT BANK

KINGDOM OF SWAZILAND

COUNTRY STRATEGY PAPER 2014-2018

SOUTHERN AFRICA REGIONAL RESOURCE CENTRE (SARC)

NOVEMBER 2013

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CURRENCY EQUIVALENTS
(NOVEMBER 2013)

National currency	=	Lilangeni (SZL)
UA 1.00	=	USD 1.54
UA 1.00	=	SZL 15.34
USD 1.00	=	SZL 9.97

GOVERNMENT FISCAL YEAR
April 1- March 31

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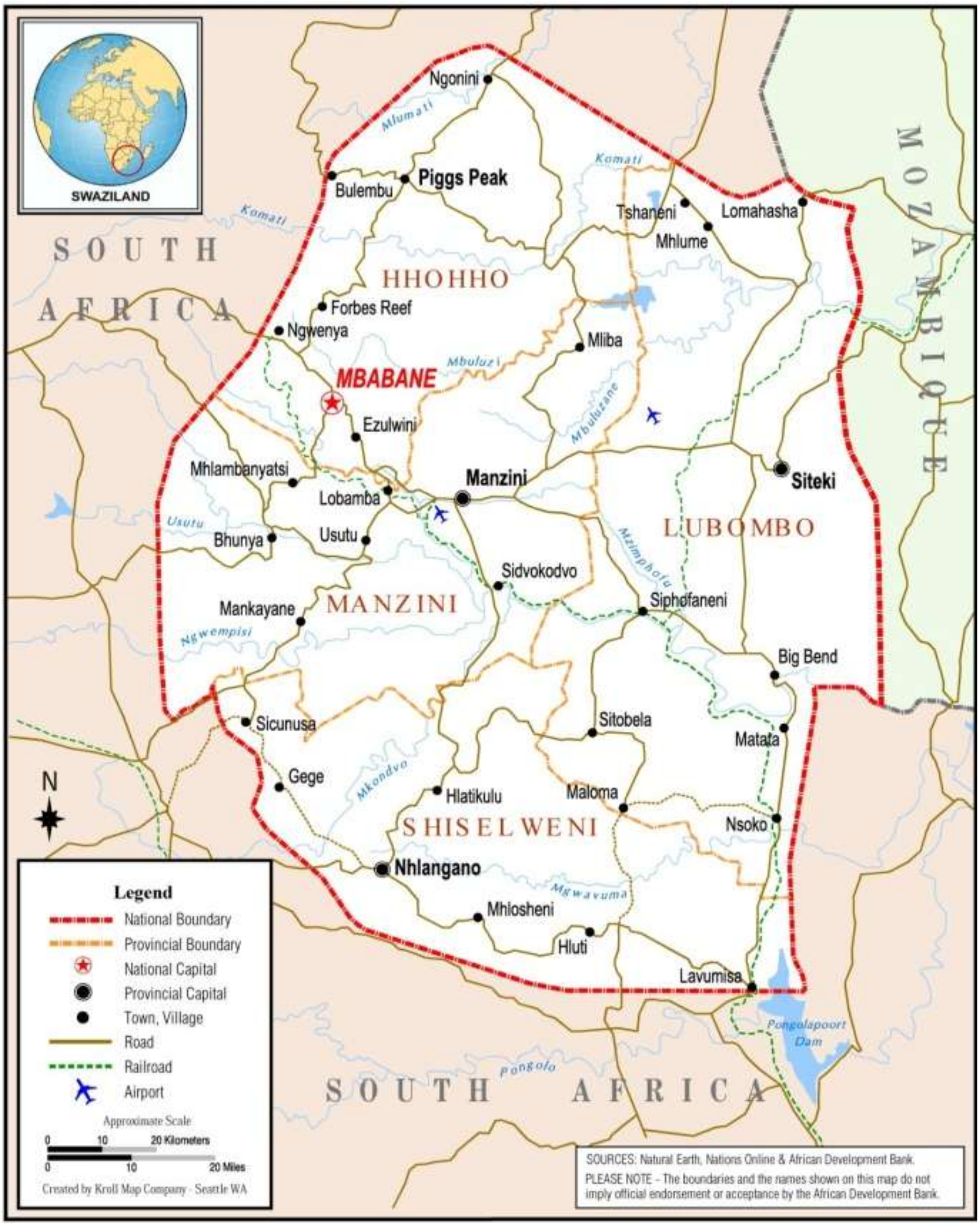
ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AIDS	Acquired Immunity Deficiency Syndrome
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Report
CSP	Country Strategy Paper
EDS	Economic Diversification Study
EU	European Union
FAR	Fiscal Adjustment Roadmap
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IMF	International Monetary Fund
LUSIP	Lower Usuthu Smallholder Irrigation Project
MDGs	Millennium Development Goals
NDS	National Development Strategy
PFM	Public Financial Management
PPP	Public-Private Partnership
PRSAP	Poverty Reduction Strategy and Action Plan
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SARC	Southern Africa Regional Resource Center
SHIES	Swaziland Household income and Expenditure Survey
SMMEs	Small and Medium Enterprises
SZL	Swaziland lilangeni (plural E – emalangeni)
UA	Unit of Account
UNDP	United Nations Development Program
USD	United States Dollar


SWAZILAND
SOUTH AFRICA
MOZAMBIQUE
HHOHHO
MANZINI
LUBOMBO
SHISELWENI
MBABANE
Ngonini
Piggs Peak
Bulembu
Tshaneni
Lomahasha
Mhlume
Forbes Reef
Ngwenya
Mliba
Ezulwini
Mhlambanyatsi
Manzini
Siteki
Lobamba
Bhunya
Usutu
Sidvokodvo
Siphofaneni
Mankayane
Big Bend
Sitobela
Matata
Sicunusa
Gege
Hlatikulu
Maloma
Nsoko
Nhlangano
Mhlosheni
Hluti
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Provincial Capital
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Road
Railroad
Airport
Approximate Scale
0 10 20 Kilometers
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Created by Kroll Map Company - Seattle WA
SOURCES: Natural Earth, Nations Online & African Development Bank.
PLEASE NOTE - The boundaries and the names shown on this map do not imply official endorsement or acceptance by the African Development Bank.

EXECUTIVE SUMMARY

The Kingdom of Swaziland is a small, landlocked, open economy, with close trade and financial ties with South Africa. Around 70 percent of Swaziland's 1.1 million people are based in rural areas, with livelihoods predominantly dependent on subsistence agriculture. The Swazi economy is mainly driven by its membership of the South African Customs Union (SACU) and the Common Monetary Area (CMA). SACU revenues make up almost 60 percent of government revenue. Through the country's membership to the CMA, the Swazi lilangeni exchanges at parity with the rand, this also is legal tender in the country.

For almost two decades Swaziland has been stuck in a low-growth trap, with exogenous shocks reinforcing existing structural constraints to growth. The dawn of South Africa's majority rule, which ended her political and economic isolation, eroded some of Swaziland's advantages as a destination for investment. As foreign direct investment inflows declined, real GDP growth fell from an annual average of 7 percent between 1980 and 1992 to less than 2.5 percent for the period 1993 to 2008. Between 2009 and 2011 the economy grew at an average of less than 1.3 percent. In 2011 the country suffered its worst fiscal crisis since independence due to reduced SACU revenue as a result of the slowdown of the South African economy. Economic activity stagnated, real GDP grew at 0.7 percent. Real GDP is estimated to have contracted by 0.3 percent in 2012.

Swaziland's categorization as a lower middle-income country masks severe social challenges – poverty and inequality are pervasive and this is exacerbated by the high prevalence of HIV/AIDS. The sharp decline in SACU revenues in 2011 highlights Swaziland's economic vulnerabilities. Accelerating progress in laying the foundations for economic competitiveness and diversifying the sources of revenue is therefore a matter of urgency. The Government acknowledges the risks of continuing to treat the volatile SACU revenues as an anchor for expenditure planning. It also recognizes the need to get better value for public resources by increasing the efficiency and effectiveness of service delivery. Addressing these challenges will provide a solution to poverty and inequality.

The new CSP responds to two decades of slow economic growth and emerging evidence of a reversal of Swaziland's economic gains of the last two decades. Turning the economy around requires sustained high economic growth. The new CSP will support the country's economic development by promoting two pillars: (i) *Supporting Infrastructure Development for Sustainable and Inclusive Growth* and (ii) *Strengthening Governance and Institutional Capacity*. The Strategy is aligned to the National Development Strategy (NDS) and the Poverty Reduction Strategy and Action Plan (PRSAP) and is anchored to the Bank's Strategy 2013 - 2022.

The Bank will support Government's efforts to achieve broad-based sustainable growth through: (i) connecting people and regions to markets by upgrading infrastructure, (ii) creating economic opportunities, (iii) providing clean water, and (iv) enhancing public financial management to ensure efficient public spending. Increased efficiency and effectiveness in public sector resource use will enable the Government to invest in productive capital, thereby addressing some of the binding constraints to economic growth.

The CSP seeks to achieve synergies from the full range of Bank instruments to enhance effectiveness and these will be delivered in partnership with the private sector, government and development partners. It builds on good practices established in the current CSP by leveraging the limited Bank resources through strategic partnerships with the Government and other development partners.

I. INTRODUCTION

1. **The new Bank Country Strategy Paper (CSP) for the Kingdom of Swaziland covers the period 2014 - 2018.** The CSP is a result of extensive consultations with the Government of Swaziland and other key stakeholders. It aims to support the Government reverse the slow economic growth the country has experienced for over a decade, which has seen the reversal of the economic gains achieved in the 1980s. The design of the CSP is informed by recent Bank-supported analytical work, such as the 2013 Economic Diversification Study (EDS) and the 2010 Fiscal Adjustment Roadmap (FAR) and the updated 2012 FAR, as well as the CSP Completion Report (CSP-CR) and the Country Portfolio Performance Review (CPPR). The Strategy is aligned to the National Development Strategy (NDS) and the Poverty Reduction Strategy and Action Plan (PRSAP) and is anchored in the Bank's Strategy 2013 - 2022.

2. **In February 2009 the Board approved the CSP for the Kingdom of Swaziland for the period 2009 - 2013.** The CSP was articulated around two strategic pillars: **(i) Investing in infrastructure to increase productivity and competitiveness**; and **(ii) Enhancing health delivery and skills development**. The fiscal crisis of 2010, which emanated from a sharp decline in revenue from the Southern Africa Customs Union (SACU), weakened the macroeconomic environment. The country's ability to continue with its development programs was crippled as the fiscal crisis spilled over to the corporate and financial sectors. In January 2012, the Board approved refocusing of Bank interventions to address the fiscal challenges the country was experiencing resulting in two strategic pillars: (i) *improving public financial management* and (ii) *enhancing agricultural development*. However, the two planned Bank operations under these two pillars could not be implemented. Firstly, the planned budget support could not be provided as the Government and the IMF failed to agree on a second Staff Monitored Program (SMP). Secondly, slow progress in completing the feasibility study of the Lower Usuthu Smallholder Irrigation Project Phase II (LUSIP II) delayed Bank support to the agricultural sector.

3. **The new CSP responds to the two decades of slow economic growth and evidence of a reversal of Swaziland's economic gains.** Turning the economy around requires sustained high economic growth, an overarching goal of the proposed strategy. The Bank will support Government's efforts to achieve broad-based sustainable growth through connecting people and regions to markets by upgrading infrastructure and providing clean water. Bank support will also target improving governance and institutional capacity. Improved efficiency and effectiveness in public sector resource use will enable the Government invest in productive capital, thereby addressing some of the binding constraints to economic growth.

II. COUNTRY CONTEXT AND PROSPECTS

4. **The Kingdom of Swaziland is a small, landlocked, open economy bordering Mozambique and South Africa.** The country has close trade and financial ties with South Africa, which absorbs about 60 percent of Swazi exports and provides 80 percent of imports, including most of the electricity. Around 70 percent of Swaziland's 1.1 million people are based in rural areas, with livelihoods predominantly dependent on subsistence agriculture. The Swazi economy is mainly driven by its membership of the South African Customs Union (SACU) and the Common Monetary Area (CMA).[1]

[1] CMA members include Namibia, Lesotho, Swaziland, and South Africa. SACU members include the CMA countries plus Botswana.

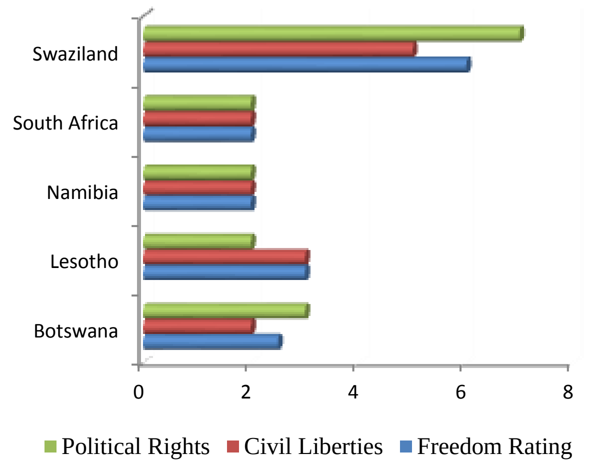
2.1 Political, Economic and Social Context

2.1.1 Political Context

5. **Swaziland has a dual political and governance system where modern and traditional systems coexist.** The modern state comprises democratic parliamentary system modeled along the lines of the British system, a judiciary and an executive; and a traditional monarchy based on chiefdoms. The 2005 Constitution provides for the separation of powers between the executive, the legislature and judiciary. The King holds executive, legislative and judicial powers, although he no longer rules by decree despite being at the apex of both the constitutionally created state and traditional systems. Election of 55 of the 65 seats in the House of Assembly is based on a non-party political system even though pro-multiparty networks do exist. The King directly appoints the remaining seats and 20 of the 30 members of the senate. Balancing views on policy between the state and the traditional leaders is a delicate process that has to be managed by the executive, often requiring a cautious approach.

6. **Swaziland has the lowest scores in political rights, civil liberties and freedom ratings compared to its neighbors (Figure 1)**. The country's ranking in the Global Peace Index declined from 69 out of 153 in 2011 to 88 out of 158 in 2012. The last two years have also seen increased levels of social unrest, with the unions demanding wage increases and pro-poor budgets. In August 2012, the King convened the People's Parliament (Sibaya) in an attempt to bring unity to the nation. Parliamentary elections scheduled for the third quarter of 2013 will usher in a new government, but the political landscape is unlikely to change. In this context, the new Government is expected to continue implementing ongoing economic and structural reforms that are critical to addressing the developmental challenges facing the country.

Figure 1: Political Rights and Civil Liberties



(Scale: 1 - best; 7 - worst)

Source: Freedom House 2013

2.1.2 Economic Context

7. **Swaziland's output is mostly accounted for by industrial and services sectors**. Between 2000 and 2012 the share of services in GDP increased from 38 percent to 43 percent while the share of industry declined from 34 percent to 31 percent (Figure 2a). During the same period, the share of agriculture fell from 10 percent to 9 percent. The manufacturing activities largely consist of agriculture based value-adding activities (confectionery and soft drinks – Swaziland hosts the principal Coca-Cola concentrate plant for Southern and Eastern Africa), canned fruit, forestry products, as well as textiles and clothing. The change in the economic structure has been accompanied by the reduced capacity of the economy to absorb unskilled labor. The increasing role of services, especially the growth of the telecommunications and financial services has led to demand for higher skill levels. These structural changes have therefore reduced the economy's labor absorptive capacity, especially when combined with the low growth and a mismatch between skills supply and demand.

8. **For almost two decades Swaziland has been stuck in a low-growth trap, with exogenous shocks reinforcing existing structural constraints to growth such as the**

dominance of the public and the sugar sectors. The dawn of South Africa's majority rule, which ended her political and economic isolation, eroded some of Swaziland's advantages as a destination for investment. Reforms of the 1990s produced limited results as implementation was constrained by institutional capacity. As the inflows of foreign direct investment declined; real GDP growth fell from an annual average of 7 percent between 1980 and 1992 to less than 2.5 percent for the period 1993 to 2008. Between 2009 and 2011 the economy grew at an average of less than 1.3 percent as SACU revenues dropped thereby reducing government capacity to maintain high expenditures. In 2011, the country suffered its worst fiscal crisis since independence due to reduced SACU revenue, as a result of the slowdown of the South African economy and the unwinding of infrastructure spending associated with the 2010 FIFA World Cup (Figure 2b). Real GDP was estimated to have contracted by 0.3 percent in 2012. A recovery was projected in 2013, with real GDP growth expected at 1.8 percent due to a recovery in SACU receipts.

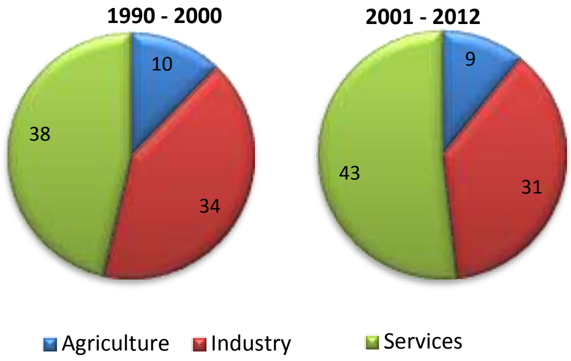
9. **The CMA arrangements limit the scope of Swaziland's monetary and exchange rate policies, which are linked to South Africa's inflation-targeting framework.** As a result, inflation trends in Swaziland closely follow the trends in South Africa (Figure 2c). The main drivers of inflation are food, fuel, utilities and transport. These four expenditure categories constitute about 70 percent of the total consumption basket. Erratic weather conditions and the depreciation of the South African rand tend to intensify inflationary pressures by increasing food prices, and fuel prices which feed into transport costs. Swaziland has historically depended on imports for about 20 percent of its food requirements. Improving food production and enhancing food security are, therefore, important in addressing inflation. The country has been recording single-digit inflation since 2009. Consistent with decreases in food and fuel prices, inflation has been trending downwards since the beginning of 2013 (Figure 2c). In May, inflation slowed to 5.5 percent, the first time in four years that it fell below 6 percent.

10. **Swaziland's fiscal crisis reached a critical stage in 2011, as the Government could not meet some of its payment obligations in time, resulting in the accumulation of domestic arrears of almost 5 percent of GDP.** The fiscal crisis spilled over to the rest of the economy as the accumulation of arrears by the Government created financial constraints on private businesses, which consequently reduced their activities. Increased SACU revenues before the global financial crisis encouraged rapid growth in the public sector, including the wage bill, which is one of the highest in the region. Movements in SACU receipts have important implications for the fiscal balances and the health of the economy in general. SACU revenues constitute about 60 percent of total revenue (Figure 2d). A large fall in SACU revenue and a huge wage bill resulted in the fiscal deficit reaching 11.3 percent of GDP in 2010/11 and remained high (-9.6 percent) in 2011/12. In 2012/13, inflows from the common revenue pool more than doubled to E7.1 billion, compared to their level in 2011/12 resulting in a fiscal surplus of 3 percent of GDP. SACU inflows in 2013/14 were at the same level as in the previous year, enabling Government to clear all payments arrears to the private sector. The wage bill, at 15.3 percent of GDP in 2012/13 and 15.8 percent in 2013/14 remains high (Figure 2e).

11. **Reducing dependence on the volatile SACU revenues remains a major challenge.** The volatility in SACU revenues is due mainly to the instability in the global economy and trade liberalization and the associated tariff reductions. Mobilization of domestic revenue has improved since the establishment of the Swaziland Revenue Authority (SRA) in 2011 and the successful introduction of the value-added tax in April 2012. Domestic revenue improved by 8 percent during the first year of the establishment of the SRA (Figure 2d). A narrow tax base and weak economic growth resulted in a marginal decline in tax collections in 2012/13. There

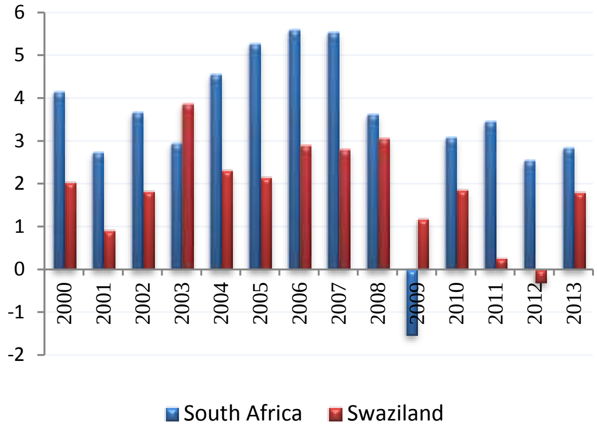
Figure 2: Economic Indicators

Fig.2a: GDP Composition (Percent)



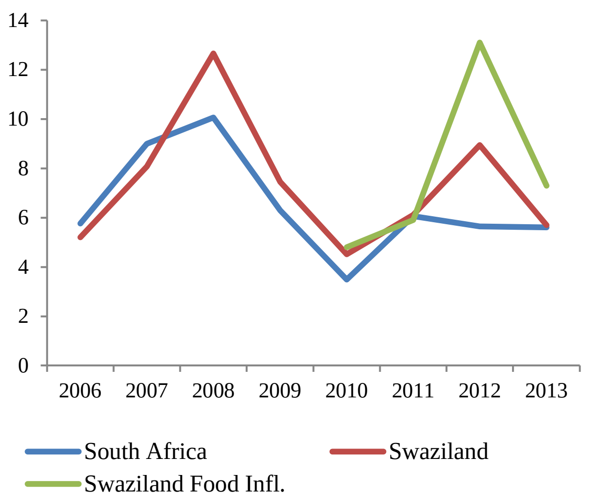
Source: Central Bank of Swaziland

Fig.2b: Comparative Growth Trends (Percent)



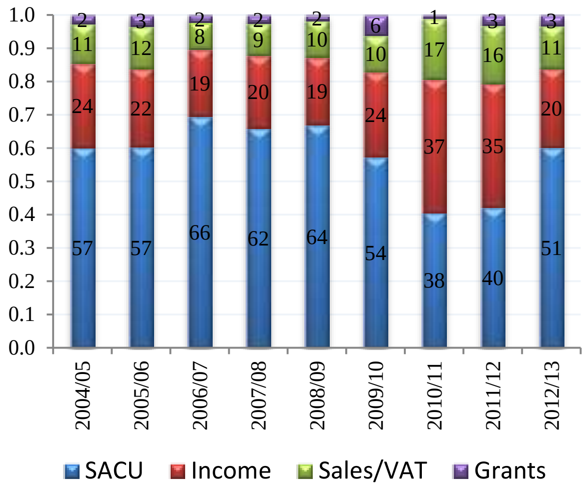
Source: AEO, February 2013

Fig.2c: Inflation Trends (Percent)



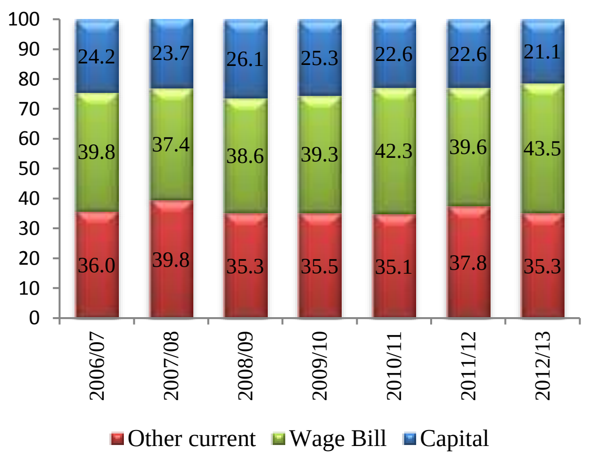
Source: SACU Secretariat

Fig.2d: Revenue Sources (Percent of Total)



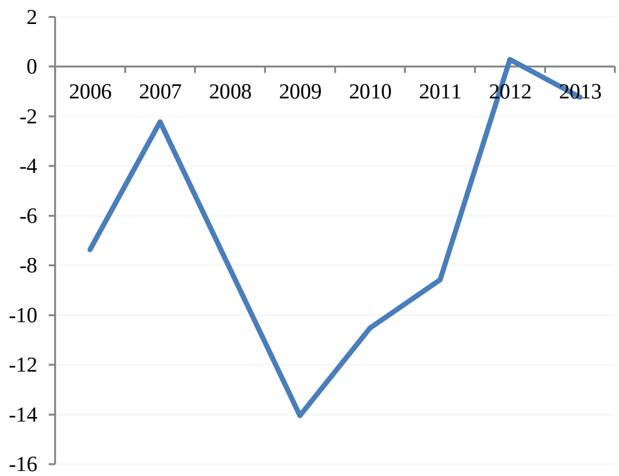
Source: Ministry of Finance

Fig.2e: Government Expenditure Composition
(Percent of Total Expenditure)



Source: Ministry of Finance

Fig.2f: Current Account Balance
(Percent of GDP)



Source: Central Bank of Swaziland

is need to reduce fiscal vulnerabilities through fiscal consolidation and better management of SACU revenue inflows.

12. **Public debt has grown steadily to about 17 percent of GDP but remains manageable.** Domestic debt has grown rapidly since 2010/11 while external debt has declined by more than 25 percent compared to its level in 2007/08. Given the challenges in realigning expenditure to revenue, the Government resorted to domestic borrowing in the face of increasing difficulties to access foreign loans resulting in crowding-out of the private sector as interest rates rose significantly. Domestic debt rose from 1.5 percent of GDP in 2009/10 to about 9.3 percent of GDP in 2012/13. Domestic payments arrears also rose to about 5 percent of GDP in 2011/12 while foreign reserves were run down to less than two months of import cover. However, Swaziland's overall public debt is among the lowest in sub-Saharan Africa. Notwithstanding the large headroom between the current debt level and the debt-distress level of 40 percent as estimated by the IMF, a cautious approach to debt management is necessary. In particular, the economy lacks automatic stabilizers and there is no defined external debt ceiling, which could result in total debt rising quickly. Fiscal reforms, therefore, need to be implemented expeditiously, including increased allocations to productive investments to lift economic growth.

13. **The fall in SACU revenues was reflected in the worsening of the external position.** The current account deficit widened to 14 percent of GDP in 2009, reflecting the decline in SACU revenues (Figure 2f). Higher transfers from SACU in 2012/13 improved the external balance and the current account registered a surplus of less than one percent. There are structural challenges to Swaziland's current account position which is highly dependent on SACU inflows, sugar related and textiles exports while imports are dominated by essential goods and services such as food, industrial inputs, energy, and fuel. The recovery in SACU receipts in 2012/13 and 2013/14 has, however, helped in rebuilding international reserves from 1.9 months of import cover in March 2012 to more than 6.7 months cover in July 2013.

14. **For the outlook period, given signs of recovery in the developed economies and high SACU transfers, Swaziland's economy is expected to return positive growth.** The economy is projected to grow at rates close to 2 percent or higher if ongoing reforms are maintained and broadened. The current account deficit is expected to widen marginally as both public and private investment increase despite potential higher exports. Similarly, fiscal deficits of less than 3 percent are projected, despite continued high SACU revenues, as the Government increases spending on infrastructure.

15. **Significant risks for the medium and long term remain.** Some of these are exogenous, including the frequent droughts in Southern Africa, compounded by the rapid increase in global food grain prices, and the erosion of trade preferences for the country's main exports to the EU and the United States of America. With about 80 percent of Swaziland's exports destined for South Africa, weaker growth in the region's economic powerhouse may adversely impact on exports. Another downside risk is the uncertainty surrounding the trajectory of SACU revenues in the long term. Access to external financing to support investments in infrastructure is also crucial. From the domestic side, PFM reforms need to be continued and broadened.

2.1.3 Governance

16. **Swaziland's governance indicators compare unfavorably with its neighbors.** The Ibrahim Index of African Governance ranks Swaziland poorly in participation and human rights, as well as sustainable economic opportunity. In 2012, Swaziland was ranked 27 out of 52 countries, with a score of 49 (well below the regional average score of 59). Its

performance in public management dropped by 8.4 points over the last six years to a score of 53.1. In addition, the Bank's Country Policy and Institutional Assessment (CPIA) shows a weakening governance environment, with the country's score declining from 3.5 in 2010 to 3 in 2011. In 2012, the governance score improved to 3.3 but the country's ranking slipped to 47 from 44 in 2011. There are major weaknesses on the expenditure side due to inefficient resource allocations. Strengthening the budgetary process to enhance resource allocation and capacitating oversight bodies to ensure effective delivery of their core mandate and to foster transparency in procurement and accountability will be important.

17. **The Anti-Corruption Commission (ACC) was reestablished in 2008 after the repeal of the Prevention of Corruption Order of 1993.** In the past two years, the ACC has brought some high-profile cases before the courts. Its effectiveness, however, is constrained by inadequate human and financial resources. Swaziland is ranked 88 out of 176 countries in the 2012 Corruption Perception Index, seven places worse off from its 2011 ranking.

18. **As part of the Fiscal Adjustment Roadmap (FAR) the Government has put in place a comprehensive PFM action plan.** Of the seven PFM-related actions required under the Fiscal Adjustment Roadmap (FAR) (Box 1), only the enactment of the PFM Bill is outstanding. The PFM Bill, which was recently approved by Cabinet, provides a good opportunity for implementing the remaining reforms. The Bill sets out the key principles of good governance, including broad participation, inclusiveness, transparency and accountability. The Bank has provided resources for a long-term PFM Advisor to the Ministry of Finance. The IMF and the World Bank are jointly providing technical assistance to strengthen the macro-fiscal framework. The Government has also established a strong framework that will help monitor progress in implementing reforms aimed at improving the business environment.

Box 1: Progress in Implementing the Fiscal Adjustment Roadmap Recommendations

The FAR is the Government's medium-term response to the delayed impact of the fiscal crisis. As noted in the 2012 updated FAR, progress to date has been mixed - on the revenue side, the Bank supported the establishment of the SRA, leading to the introduction of Value-Added Tax (VAT), and the setting up of a large taxpayers' unit all of which have enhanced domestic revenue collection. The involvement of different government departments in expenditure decisions and budget execution impede attempts to manage expenditure. The PFM Bill is expected to close this loophole. The main issue pertains to how decisions on expenditure could be better coordinated and managed, with a view to reallocating savings from the wage bill to productive investments.

The FAR observes that limited institutional capacity and experience with fiscal adjustments made it more challenging to address key fiscal issues. Despite the enactment of many legislations (including the Trade Licensing Bill, the Companies Act, the Mining and Mineral Act and the Financial Services Regulatory Act) implementation has been weak. This culminated in the design of the PFM action plan, which is being supported by five institutions (AfDB, EU, IMF, UNDP and the World Bank). The PFM action plan is centered on capacity building in five main areas: the macro-fiscal framework, cash flow management, fiscal management, PFM in general, and the accountability and transparency frameworks. In addition, the FAR recommended structural reforms to improve the business environment. The Southern Africa Trade Hub's technical assistance to the Swaziland Investment Promotion Authority spearheaded activities in this area. The Investment Road Map was also revised and re-launched by the King in 2012.

2.1.4 Business Environment and Competitiveness

19. **Swaziland's private sector is small and weak.** In the past, a reliance on FDI as the driver of growth led to domestic entrepreneurship being neglected. In addition, a large public sector leaves little space for the domestic private sector, which is poorly organized and lacks influence over Government decision making. The EDS identified an inefficient bureaucracy, corruption, and poor access to finance as the main challenges faced by businesses. In addition, foreign equity in mining is restricted to a maximum of 50 percent. Small enterprises operating on Swazi National Land do not have land title, and this has adverse implications for

access to credit. Access to electricity is considered the third major challenge; according to the Southern Africa Trade Hub Swaziland has the highest electricity cost in SACU. Marginal improvements were registered in dealing with construction permits and trading across borders. The enactment of the Construction and Sectional Title Bills is expected to result in further improvements, in the latter two indicators.

20. **To harness new growth opportunities and attract FDI Swaziland needs to become more competitive, particularly within SACU, where it is lagging behind in Doing Business indicators.** Swaziland needs to maintain gains in the Doing Business and Global Competitiveness rankings. Swaziland moved one position up in the Doing Business rankings to 123 out of 185 countries although it regressed in 8 out of 10 indicators between 2012 and 2013 (Table 1). Its ranking in Global Competitiveness jumped 11 positions from 135 in 2012/13 to 124 in 2013/14, with most of the improvement recorded in the macroeconomic environment and financial market development. Starting a business, however, requires 12 procedures and takes 56 days while enforcing a contract takes 956 days, costs 56 percent of the value of the claim and requires 40 procedures. Investor protection and starting business categories are still ranked at 107 and 129 out of 144, respectively. Despite the low ranking in investor protection, investments are protected under various international conventions, including the Multilateral Investment Guarantee Agency and Bilateral Investment Protection Agreements. Swaziland, however, remains the worst ranked country compared to all the other regional (South Africa - 53; Botswana - 74; Namibia - 90; and Lesotho - 123).

Table 1: Comparative Doing Business Rankings

Indicator	Swaziland 2013	Swaziland 2012	Botswana 2013	Lesotho 2013	Namibia 2013	South Africa 2013
Overall Ranking	**123**	**124**	**59**	**136**	**87**	**39**
Starting a Business	165	160	99	79	133	53
Dealing with Construction Permits	41	44	132	140	56	39
Getting Electricity	156	155	90	133	87	150
Registering a Property	129	128	51	157	169	79
Getting Credit	53	52	53	154	40	1
Protecting Investors	128	124	49	100	82	10
Paying Taxes	58	54	39	95	112	32
Trading Across Borders	141	148	147	144	140	115
Enforcing Contracts	174	173	68	139	41	82
Resolving Insolvency	74	72	29	75	59	84

Source: World Bank, Doing Business Report 2013

21. **There are encouraging attempts to improve the business environment, including the revision and introduction of new legislation.** These measures are aimed at reducing the cost of doing business and improving competitiveness. Examples of these measures include the provision of factory space, easier licensing procedures and issuance of permits and tax reforms. In order to enhance the implementation of measures aimed at improving the business environment, the Government established a task force that has to monitor progress on reforms under the revised Investor Roadmap, which was launched in 2012. The task force is made up of Principal Secretaries who report to Cabinet on a regular basis. The recently launched Public-Private Partnership (PPP) Policy and the proposed PPP Unit pave the way for an environment that is more conducive to scaling up private investments in infrastructure and reducing the burden on Government. Dominance of the public sector, however, remains a challenge. Apart from controlling 40 percent of the economy through the budget, the Government has wide commercial interests in various sectors of the economy. This includes equity in banking, insurance, sugar, telecommunications and property. The concentration of ownership creates opportunities for monopolies and the associated adverse implications for welfare. In addition to crowding out private investment, the Government's role in developing appropriate regulatory and corporate governance systems is compromised.

2.1.5 Trade and Regional Integration

22. **Swaziland's economy is characterized by high dependence on external trade and the South African economy.** Through the country's membership to the CMA, the Swazi lilangeni exchanges at parity with the rand. The rand is also legal tender in Swaziland. There are no exchange controls between CMA countries. Trade and regional integration are crucial to Swaziland's economic development. Its landlocked situation makes it heavily dependent on its neighbors for access to world markets, and for supplies. Swaziland's external trade relations are governed by regional free trade agreements and preferential trade agreements. Swaziland is closely integrated into Southern African markets and is a member of all key regional institutions. In addition to its membership in SACU (which is the source of large revenue transfers), Swaziland is also a member of SADC and the Common Market for Southern and Eastern Africa (COMESA); it is participating in the EAC-COMESA-SADC tripartite negotiations aimed at creating a free trade area covering eastern and Southern African countries. Swaziland also benefits from preferential market access to the EU (mostly regarding sugar exports) and to the USA under AGOA preferences (mostly for textile and clothing exports).

23. **Despite preferential access to regional markets, Swaziland's trade with countries in the region other than South Africa remains small.** Access to regional markets is constrained by high transport costs, cumbersome border procedures and a number of non-tariff barriers. There are significant restrictions on trade in most SACU countries. Efficient transport networks and cross-border processes are, therefore, critical in facilitating trade and promoting regional integration. A regional approach to addressing constraints to trade is, therefore, required. Swaziland's own processes are also considered cumbersome, with the 2013 World Bank Doing Business Report ranking it 141 out of 185 countries on 'trading across borders'.

24. **With about 70 percent of all trade conducted with South Africa, there are attempts to align Swaziland's customs systems to those of South Africa.** The objective is to make it easier to operationalize one-stop border posts. A major step in this direction is the extension of the operating times of the Ngwenya border post with South Africa to 16 hours a day. There are plans to further extend the operating time to 24 hours. To reduce transport costs and improve access to the ports, Swaziland Rail plans to rehabilitate its railway link to Maputo and also to develop and upgrade a regional railway line jointly with South Africa to link the northern hinterland to Richards Bay. In addition, planned improvements to the regional road network would enhance competitiveness and facilitate trade.

Box 2: Recommendations of the Economic Diversification Study

- Invest in efficient transport, logistics and communications networks to enable Swaziland to join global production networks.
- Maximize benefits from the SACU, especially from South Africa, by reducing the cost of exporting and importing; and refraining from sector specific incentives that introduce market distortions. The focus should be on reducing overall trade costs and going beyond the lowering of border taxes only.
- Maintain an outward-orientated economy to achieve faster growth and development, especially true for a small country such as Swaziland.
- Introduce efficient regulations and maintain capable institutions to attract good investment. Key focus areas include reducing government involvement in and competition with business, consistent implementation of the Investor Roadmap, competitive telecoms and ICT sectors and land reform, including private title acts.

25. **Diversification of export markets is important.** A substantial share of Swaziland's exports (sugar and sugar derivatives and textiles) is governed by preferential market access to the EU and the USA. The major challenge to Swaziland's external trade is uncertainty about the future of AGOA and the anticipated expiry of preferential market access to the EU.

Preferential market access to the EU and the USA will expire in 2015 and 2017, respectively. The erosion of trade preferences is likely to reduce the country's competitiveness, further exacerbating the performance of the external sector. Consistent with recommendations from the EDS an aggressive export strategy supported by greater openness is critical, in view of the country's small market size (Box 2).

2.1.6 Social Context

26. **Poverty:** Despite its middle-income country status, poverty levels remain high. The UNDP Human Development Index for Swaziland remains low, (rank 140 out of 187 countries). Even though poverty declined from 69 percent to 63 percent as reflected in the 2001 and 2010 Swaziland Household and Expenditure Survey (SHIES), huge regional differences in the prevalence of poverty have been observed. The driest regions of the country (Lubombo and Shiselweni) are the poorest. The Hhohho and Manzini regions, which include the major urban centers of Mbabane and Manzini, respectively, have the lowest poverty rates. Female-headed households are poorer than male-headed households, with 67 percent of the former group being considered poor compared to 59 percent for the latter. It has also been observed that rural households involved in non-commercial farming activities derive about 12 percent of their income from these activities and are the poorest. They are followed by households with self-employed heads.

27. **Unemployment:** Swaziland's unemployment rate remains high. According to the SHIES, the unemployment rate was estimated at about 29 percent for both 2007 and 2010. The situation is likely to have worsened due to the accumulation of payments arrears to the private sector resulting in significant job losses. Unemployment is also affected by low growth and a mismatch between the supply of and demand for skills. Despite huge government outlays in vocational and tertiary education, technical skills in engineering and science remain undersupplied. The youth, which make up 53 percent of the labor force, are the most affected by unemployment. Recovering the job losses will require significantly higher growth than that envisaged for the outlook period. The decline in industrial and agricultural output as a share of the GDP does not augur well for reversing the unemployment situation. The growing services sector is both skills and capital intensive hence addressing unemployment requires labor-intensive investments to absorb its youthful and largely rural-based workforce.

28. **Food Security:** Food security is threatened by a number of factors, especially unsustainable farming techniques, low rainfall and limited irrigable land. Extension services required to lift agricultural productivity, also, do not adequately cover smallholder farmers. An Irrigation Policy was formulated, in 2007, to address the problem of food security. The Maguga dam project, which was financed by the Bank and completed in 2001, allowed for the irrigation of over 6,000 ha of land and benefited more than 30,000 households, while the Lower Usuthu Smallholder Irrigation Project (LUSIP) became operational at the end of 2008, creating about 6,500 ha of irrigable land. The organization of the farmers into cooperatives has also facilitated the provision of extension services, thereby enhancing productivity. Problems emanating from soil erosion, the haphazard location of non-agricultural activities, overgrazing, and policy conflict present challenges to food security.

29. **MDGs: Significant progress towards achieving MDGs in the period before the fiscal crisis was not sustained.** High levels of donor support have assisted Swaziland register successes, especially in the health and education sectors. Goal 2 (Achieving Universal Primary Education) and Goal 6 (Combating HIV/AIDS, malaria and other diseases) are likely to be achieved while the rest still present significant challenges. Although the prevalence of HIV/AIDS has stagnated, at 26 percent it remains the highest in the world. This has also

reduced life expectancy to less than 50 years and has adversely impacted labor productivity and has led to a smaller skills base. The fiscal situation has also suffered as the dependency ratio increased; leading to higher demands for public support yet the fiscal crisis has constrained the Government's ability to continue providing life-saving drugs to HIV/AIDS patients. Donors have moved in to fill the gap as far as prevention and treatment are concerned. However, the Government has had to meet the costs of providing for orphans and the elderly who have lost their breadwinners. The introduction of the Free Primary Education program, now in its 5^{th} year, will ensure universal primary education by 2015. Net enrolments rose from 72 percent in 2007 to over 92 percent in 2010. Swaziland has also stabilized the prevalence of HIV/AIDS and is on course to eliminate malaria.

2.1.7 Cross-cutting Issues

30. **Gender Equality:** Despite progress on gender equality, including the ratification of international conventions such the African Charter on Human Rights and People's Rights of Women in Africa and the SADC Protocol on Gender and Development, strong paternalistic traditions are still to be overcome. Swaziland's 2012 gender inequality index is 0.525 and has an inequality adjusted Human Development Index of 0.346. The dominant patriarchal practices will have to be overcome if gender equality is to be fully implemented. In addition, the economic status of women and their well-being are currently disproportionately affected by the discriminatory clauses and practices enshrined in a range of legal instruments.[2] The proportion of women in wage employment, between 1990 and 2010, is less than 30 percent against the 2015 target of 50 percent.

31. **Environment and Climate Change**: Swaziland is endowed with a wide range of forest resources. The total forest area is estimated at 32 percent of total land area, including 7 percent of planted forests. The cultivated plantations and natural woodlands are increasingly being degraded due to uncontrolled fires and extraction of forest products, agricultural development, and large livestock populations. Swaziland is also prone to volatile weather conditions. The Climate Emergency Institute reports that, by 2050, Southern Africa's temperatures and rainfall are expected to have risen by 2-4°C and to have fallen by 10-20 percent, respectively, compared to the 1961-90 baselines. Land degradation and ecosystems are also projected to worsen, negatively impacting productivity and possibilities for gaining a livelihood, especially in Swaziland's low lying regions.

32. **Swaziland has the institutions that handle climate change and green growth issues, such as the National Climate Change Committee and Designated National Authority.** The 2010 Technology Needs Assessment, whose aim was to identify and evaluate climate change mitigation and adaptation technologies and measures consistent with Swaziland's national development priorities established gaps in education, training and public awareness. All greenhouse gas emissions are currently estimated at 25.4 million tons of CO_2 equivalent and are expected to increase to 33.4 million tons by the year 2030, as the country responds to poverty and food security challenges. Proposed mitigation measures include a fuel switch from coal to sugarcane trash in the sugar industry, strengthening and promoting renewable energy sources, efficient energy system and ethanol blending. Implementation of these proposals is supported by the Swaziland Environment Act 1992 and the Environment Management Act 2002, which provide the legal framework for managing

[2] These include: (i) the minority status of women in the Marriage Act 1964; (ii) Administration of Estates Act, (iii) the Industrial Relations Act; and, (iv) the Deeds Registry Act. Despite progress in politically empowering women (22 percent of seats in Parliament against a target of 30 percent), the economic empowerment of women lags behind.

the environment that requires that all Government programs be subjected to environmental assessment. The UNDP is currently assisting in building national capacity in climate change issues.

2.2 Strategic Options

2.2.1 Country Strategic Framework

33. **The PRSAP (2006 - 15) forms the key document for implementing the country's National Development Strategy - NDS (1997 - 2022) and the "Vision 2022".** The overall goal of the PRSAP is to reduce poverty by 30 percent by 2015 and eradicate it by 2022. The Strategy rests on six strategic pillars: (i) maintaining macroeconomic stability as a basis for growth; (ii) accelerating broad economic growth for the benefit of all citizens; (iii) helping poor people to engage in income-generating activities; (iv) using fiscal policies to distribute the benefits of growth fairly; (v) improving living conditions for poor people; and, (vi) improving governance and strengthening institutions. Government recently developed the Fiscal Adjustment Roadmap (which was updated in 2012) and the Economic Recovery Strategy (ERS), which are largely aimed at addressing macroeconomic instability and stimulating growth, respectively.

34. **The PRSAP acknowledges that while the country has seen notable growth since independence, "the benefits did not trickle down equitably to the whole population, thus widening inequalities".** Economic growth has been sluggish to meet the target of reducing poverty by 30 percent by 2015. Weak institutional capacity in some areas has hindered progress towards enhanced service delivery despite the existence of the requisite legal and institutional framework. The Government, however, has recorded some achievements in critical areas. Investments in irrigation facilities have helped transform subsistence farmers into commercial farmers, boosting incomes and food security in the Komati and LUSIP I project areas. Acknowledging that the prevalence of HIV/AIDS remains the highest in world, Government has halted an increase in the incidence of the pandemic. It has also made tremendous progress towards controlling malaria and making the transition towards eliminating it altogether.

2.2.2 Challenges and Weaknesses

35. *Infrastructure bottlenecks:* Making progress towards achieving the primary goals of the PRSAP has been a challenge due mainly to inadequate investments for maintaining and developing infrastructure. Despite its middle-income status and large infrastructure investments, Swaziland faces bottlenecks in all kinds of infrastructure, including those relating to transport, electricity, and telecommunications, all of which increase the cost of doing business. The Global Competitiveness Index ranks Swaziland at 73 out of 144 countries in the quality of its infrastructure. To support growth over the long term, Swaziland needs to address its shortcomings in infrastructure, especially for the rapidly growing urban areas, and position itself as a competitive node for the region and as a new driver of growth. The country can also benefit from creating conditions for expansion in local entrepreneurship, improving the environment for agribusinesses, targeting support to smallholder farmers, and exploiting the potential for developing commercial agriculture with strong links to value chains in South Africa.

(i) **Transport**: The transport system in Swaziland is based principally on road and rail transport. Road freight services however became more dominant as investments in rail stopped. A major portion of the goods transported within Swaziland is conveyed by road. However, only 58 percent of the Swaziland's regional road networks are in a good condition compared to 88 percent in South Africa, its major trading partner. Limited rail transport increases the cost of transportation. A key challenge for Swaziland is to balance the increase in transport investments and maintenance of such infrastructure.

(ii) **Electricity:** Swaziland is an energy-deficit country - it imports about 80 percent of its electricity requirements from South Africa and some 10 percent originate in Mozambique. It also has the highest tariffs in the region, which increases the cost of doing business. Domestic electricity generation covers only 10 percent of the total demand. In view of the existing power deficits in South Africa, it is critical for Swaziland to start investing in renewable energy generation capacity, which is consistent with green growth objectives, to avoid potential future shortages.

(iii) **Telecommunications:** The sector is characterized by the existence of monopolies in both the mobile and fixed telephone networks, which has resulted in high tariffs and the slow introduction of new technologies. The state-owned Swaziland Posts and Telecommunications Corporation (SPTC) continues to dominate telecommunications and postal services. Swazi Telecom, under the SPTC, has the monopoly over fixed-line services, while Swazi MTN is the only mobile operator. SPTC (51 percent of the shares), MTN of South Africa (30 percent) and Swaziland Empowerment Limited (19 percent) own Swazi MTN. Swaziland lags behind its neighbors, South Africa, Botswana and Namibia, in telephone penetration. According to International Telecommunications Union the country registered about 4 fixed lines per 100 inhabitants compared to 8 in South Africa and Botswana. Swaziland also falls behind South Africa and Botswana in mobile phone subscribers. It has a penetration ratio of 66 per 100 inhabitants compared to 150 for Botswana and 135 for South Africa.

(iv) **Water and sanitation:** The Government recognizes that provision of potable water and adequate sanitation is essential for improving the quality of life of its citizens and mitigate environmental and pollution management challenges. Maintenance of water and sanitation schemes remains a major challenge, with close to one third of the existing schemes in need of rehabilitation to ensure continued operation. Access to clean water supply is estimated at about 70 percent while access to sanitation is below 60 percent. The key challenges facing the sector are: (a) water scarcity, (b) low level of access to sanitation services, (c) aging infrastructure and (d) financial constraints as the share of government spending allocated to the sector is small. To improve the services in the sector in order to reach the national target by 2022 more funds are required.

(v) **Irrigation:** Despite Swaziland's huge potential for agricultural production, limited irrigation-related infrastructure is holding back the sector's growth and crop diversification. Swaziland also needs to renegotiate its water rights with South Africa, where the sources of some of its rivers are found, to ensure greater access to water.

36. **Institutional capacity, business environment and high prevalence of HIV/AIDS:** Limited institutional capacity to improve economic governance reduced effectiveness and efficiency of public services, while the non-conducive business environment resulted in low investment. In addition HIV/AIDS reduced productivity and increased the demand for public resource allocations.

37. **Erosion of preferences:** Swaziland's export sector relies on receipts from sugar (including sugar confectionary and soft-drink concentrates) and to a lesser extent on the textiles and clothing industry. Therefore, developments in the global regimes for trade in both subsectors, in particular the erosion of trade preferences in the United States and the EC markets, will greatly affect Swaziland's exports. Expectations of the renewal of the AGOA preferences, although providing a lifeline to the textiles sector, attracting new investments would require significant improvements in the country's competitiveness.

38. **High dependency on SACU revenue:** There are uncertainties in the trajectory of SACU revenues in the longer term given the ongoing negotiations on the revision of the revenue sharing formula. Following a path toward fiscal sustainability over the next five years will be critical for dealing with the immediate challenge of any sharp decline in SACU revenues. The Government will need to reprogram its fiscal priorities, improve tax collection, mobilize alternative sources of financing, and increase expenditure efficiency. The fiscal adjustment will require restructuring expenditure, while protecting allocations to social sectors and growth-supporting activities. Strengthening the effectiveness of public spending and the accountability framework is at the core of fiscal consolidation.

2.2.3 Strengths and Opportunities

39. **Proximity to South Africa and Mozambique:** Despite its small market, Swaziland is geographically well situated to supply a market of almost 80 million in SACU and Mozambique. South Africa provides the largest market and a major source of foreign investment while fast-growing Mozambique is a potential market. Better trade facilitation and an attractive business environment present opportunities that could be exploited by Swaziland. The country's membership in the CMA also provides stability to the financial sector and confidence in the local currency, which is pegged at par to the rand. Swaziland has not benefited from the free movement of capital in recent years, due mainly to perceived economic and political risks.

40. **Availability of good agricultural land:** Swaziland's agro-ecological conditions allow for greater diversification of agricultural production if the requisite infrastructure is provided. With almost 70 percent of the population dependent on agriculture for its livelihood there is great potential for the sector's growth through the development of related infrastructure and the adoption of new technologies to improve productivity. Sugar cane production remains a major activity for the medium term; agriculture also presents opportunities for renewable energy generation from biomass.

41. **Better employer-labor relations and lower labor costs:** Labor relations in Swaziland are healthier compared to those in South Africa and wages are also about 20 percent lower. Investments in skills development and improving the business environment would create a distinct advantage over its neighbor and thus attract new investments.

42. **Unexploited mining potential:** Although its resource base is small, Swaziland has not fully exploited its potential in the mining sector. Coal reserves, estimated at about 158 million tons, could attract private sector investments for the export market. The mining sector, however, has restrictions from a policy perspective and also suffers from institutional capacity constraints. Investors face equity restrictions and shorter periods for prospecting rights.

2.3 Aid Coordination/Harmonization and Bank Positioning in Swaziland

2.3.1 Aid Coordination/Harmonization

43. **Aid coordination in Swaziland has been relatively weak - a common feature in most middle-income countries in Africa.** During the fiscal year 2011/12, the total volume of Overseas Development Assistance (ODA) flows into Swaziland was about USD111.9 million, the equivalent of 7.7 percent of the 2011/12 national budget and 2.7 percent of the country's GDP. Major donors are the USA (in health) and the EU (in agriculture and capacity building). The United States provided almost a third of the total inflows (USD35.6 million) through the President's Emergency Plan for AIDS Relief (PEPFAR). Areas of focus for each of the development partners are presented in Annex III. The Bank played a key role in galvanizing donor support for reforms in Swaziland (Box 1). The FAR identified key

economic and structural reforms that formed the basis of the IMF SMP and ongoing PFM reforms, although the outcomes have been mixed.

44. **The Aid Coordination and Monitoring Section (ACMS) in the Ministry of Economic Planning and Development was strengthened in 2009, with a view to coordinate development assistance and ensure country ownership.** The ACMS has organized two successful Donors' Retreats over the past two years. The ACMS has started developing a comprehensive Aid Information System that would assist in monitoring development partners' activities and help channel the available resources to priority development areas. In 2011 Swaziland participated in a survey on monitoring the implementation of the principles and progress towards achieving targets of the Paris Declaration and the Accra Declaration. The Survey shows that although there has been some progress, harmonization and use of country systems is still limited and only 56 percent of aid is channeled through the budget.

2.3.2 Bank Positioning in Swaziland

45. **The Bank's current focus in Swaziland was guided by the 2009 – 2013 CSP, including the modifications at mid-term.** The original 2009 – 2013 CSP focused on two pillars: (i) Investing in infrastructure to increase productivity and competitiveness; and (ii) Enhancing health delivery and skills development. Emerging challenges in the aftermath of the financial crisis that hit Swaziland in 2009 required a review of the proposed interventions. A revised mid-term CSP was approved by the Board in January 2012 with it pillars refocused to (i) *Improving PFM reforms,* and (ii) *Enhancing agricultural development*. No new lending operation was approved during the life of the current CSP. Non-satisfactory performance under the IMF SMP, as a result of challenges in securing a 10 percent wage cut, precluded the Bank from providing the budgetary support that had been requested by the Government (Annex X). The SMP consisted of revenue enhancing, expenditure reducing and rationalization, as well as structural measures. In addition, the implementation of LUSIP Phase II is on hold pending the completion of the feasibility studies. The Bank, however, remained engaged through non-lending activities that responded to the country's challenges.

Box 3: The Lower Usuthu Smallholder Irrigation Project (LUSIP)

The overall objective of LUSIP is to contribute to poverty reduction and uplifting living standards of the Lower Usuthu Basin farmers through the commercialization of their activities. This would enable them to shift to high-value crop production in a sustainable way. Most households in the area have access to less than 2 ha of land; productivity is very low and can hardly produce enough for their food requirements. The region's climate is semi-arid, droughts are frequent and crop yields are unreliable. The project area is one of the poorest in the country and households rely heavily on remittances. The greatest challenge for the population is the limited access to irrigation water, which adversely affects their ability to generate income, ensure food security and gain access to complementary infrastructure.

LUSIP is being implemented in two phases - the first phase involved investing in large-scale irrigation systems comprising a complex network of dams, water reservoirs and canals to meet the farmers' demand for water in a cost-efficient way. Three dams were constructed to form a reservoir to store water diverted from wet season flood flows in the Great Usuthu River. Construction of the main infrastructure and the development of irrigation systems spanning more than 6,500 ha have been completed. More than half of the farm plots are under production and the uptake of the rest of the plots is set for completion by March 2014, with additional financing from the EU. A second phase will extend the irrigation system and develop a further 5,000 ha.

The benefits of integrating smallholder farmers into the mainstream economy are expected to be huge; the intensification and diversification of high-value crops will become a possibility for the 30,000 people living in the project area. The transformation of subsistence smallholder farmers into small-scale commercial farmers will require complementary infrastructure development, including electricity and transport. The inclusion of social infrastructure will also contribute to improved health outcomes for the rural population.

46. **Bank Group Portfolio:** The current Bank portfolio comprises 8 public sector operations, with a total commitment value of UA 17.3 million (Annex IV). The portfolio has been distributed into three sectors; agriculture (80 percent), water and sanitation (8 percent), transport (2 percent) and multi-sectoral (10 percent). The Komati Downstream Development Project (KDDP) is the only investment project and was financed through the ADB and Nigerian Trust Fund resources. Five of the six projects financed through Middle-Income Countries (MIC) grants are multi-sectoral in nature. The water sector project is financed through a grant from the African Water Facility. The Bank has also provided technical assistance to develop a trade facilitation strategy and the update of the FAR. In addition, Swaziland benefits from regional projects such as the Capacity Building Project in Open Distance Learning and Control of Communicable Diseases Project that are managed by the SADC Secretariat. Although the Bank's portfolio in Swaziland is small, the Lower Usuthu Smallholder Irrigation Project has played a critical transformative role (see Box 3).

47. **The Role of the Southern Africa Resource Center (SARC):** Major strides in deepening dialogue, responding to client needs and donor coordination have taken place since the opening of SARC in South Africa in January 2012. The Bank's engagement with the Swazi Government has helped galvanize support for PFM reforms. Although progress in implementing reforms has been slow there is evidence of Government's commitment to reforms. Given the close proximity to Swaziland, the Bank's responsiveness to requests from the Government and portfolio challenges has been enhanced. The frequent engagements have also increased the interaction between the Bank and other stakeholders, leveraging its role as a convener and catalyst in bringing different stakeholders together, thereby boosting the Bank's visibility and profile. As a result the Bank was requested by the Government to coordinate the Agriculture Sector Working Group. High-level interactions between SARC and the Government are expected to enhance project ownership and commitment (at the political and technical levels) and thus help avoid delays in implementation.

2.3.3 Lessons Learned

48. **The current CSP, as well as completed and ongoing interventions have provided important lessons for the design of the new CSP.** Implementation of reforms without strengthening the responsible institutions proved difficult. The success of the revenue reforms, in particular, was a result of the Bank's support to the establishment of the Swaziland Revenue Authority. A similar approach has now been adopted, including other development partners, for PFM reforms where the Bank is providing technical assistance to the Ministry of Finance. Analytical work has also informed the dialogue process and provided critical information upon which government decisions for policy revisions have been based. These lessons are contained in the combined CSP-CR and the 2013 CPPR (see Box 4 and Annex V).

III. BANK GROUP STRATEGY FOR SWAZILAND

3.1 Rationale for Bank Group Intervention

49. **Swaziland's categorization as lower middle-income country masks severe social challenges.** Poverty and inequalities remains prevalent, with limited opportunities for escaping the trap. Large sections of the Swazi population are engaged in subsistence activities that are characterized by low productivity. Creating opportunities for inclusive participation in economic activities through infrastructure investments has potential for enhancing the contribution of Bank support to Swaziland's development aspirations. The effectiveness and impact of such investments require capable institutions. Strengthening governance systems and institutional capacity would help in getting better value for public resources by increasing

the efficiency and effectiveness of service delivery. Addressing these challenges will provide a solution to poverty and inequality, which remain high. This strategy observes that Swaziland has development challenges that far exceed its current institutional or financial capacity. The Bank therefore is expected to play an important role in capacitating institutions and catalysing resource mobilization for the sustainable development of Swaziland.

Box 4: Lessons from the CSP-CR and CPPR

- The Bank's knowledge work, such as the FAR and the EDS, has provided a better understanding of bottlenecks in policy and program implementation. Institutional support activities, where the Bank and other development partners are involved, are informed by the knowledge work. A strong outreach and information dissemination program to encourage debate and share information on available Bank instruments will enhance dialogue and broaden the funding modalities in Bank interventions.
- Due attention needs to be given to institutional capacity at the project design/preparation stage. Swaziland has most of the institutions needed to implement economic and structural reforms but their capacity had not been assessed. Development partners' insistence on reform implementation without significant institutional support and capacity building has therefore proven to be ineffective. Similar observations have also been made at the project level, especially in critical areas such as procurement and project management.
- Ensuring that prior conditions are met or that sufficient progress is made in that regard is important in avoiding delays in project implementation after loan approval and signature.

50. **Swaziland's capacity to sustain growth will depend on its ability to manage vulnerabilities and to develop new sources of growth.** There is need to shift from reliance on the public sector to the private sector as the main driver of economic growth and job creation. To do so, Swaziland needs to address two main challenges: (i) undertake a fiscal adjustment to realign its budget to the sum of the long-term trend in SACU receipts and domestic revenues while increasing public sector efficiency. To do so, the country will need to address its weak institutional capacity, a major obstacle to sustainable growth; (ii) enhance economic competitiveness by improving infrastructure to create an enabling environment for business development and to reduce the cost of doing business.

51. **The transformation path is likely to be a challenging one, particularly in view of a changed external environment and weak institutional capacity.** Consistent with the Bank's transformation agenda, the Government, is committed to exploring new opportunities for sustainable private-sector led growth. There are ongoing efforts to improve the business environment through structural policy reforms and to enhance competitiveness through the development of infrastructure. Further efforts will be directed at exploiting the potential of the agricultural sector through the commercialization of production. The need for external resources to support these processes, in terms of financial and technical assistance, is huge.

3.2 Strategic Pillars, Deliverables and Targets

3.2.1 Strategic Pillars

52. **The Swazi Authorities agreed that a strategy aimed at achieving rapid economic growth and broad-based improvements in living standards needs to address two key challenges:** (i) preventing a repeat of the fiscal crisis that could once again lead to the depletion of official reserves, undermine the private sector confidence in the economy, destabilize the parity of the lilangeni to the rand and compromise government credibility to address development priorities, and (ii) restoring external competitiveness. Based on this understanding, the reform priorities of the Government provide the strategic direction for the development that the new CSP intends to support. The Bank's partnership with Swaziland is based on the intersection of the PRSAP and the Bank Strategy 2013-2022 and is defined to be relevant and responsive to the needs of lower middle-income countries. The strategy exploits the Bank's comparative advantages and analytical capacity, employs lessons from the

previous CSP to reinforce achievements made and reshape its interventions for maximum development impact.

53. **The new CSP will support the country's economic development by promoting two pillars:** (i) *Supporting Infrastructure Development for Sustainable and Inclusive Growth* and (ii) *Strengthening Governance and Institutional Capacity*. Within the context of these two themes, the CSP activities have been grouped into four "results clusters" that take into account cross-sectoral synergies for maximum impact. The proposed activities are consistent with two of the Bank's core operating priorities (infrastructure and governance) and are aimed at supporting Swaziland achieve high, inclusive, and sustainable growth.

Pillar I - Supporting Infrastructure Development for Sustainable and Inclusive Growth

54. **In order to support growth over the medium term, the shortcomings in infrastructure need to be closed to position the country as a competitive node for the region.** Bank assistance will help integrate the poor and vulnerable groups of society in the development process by giving them better access to opportunities arising from improved infrastructure and rural development. Developing infrastructure will reduce the costs of doing business in Swaziland and thus generate investors' interests. Social infrastructure, such as the provision of clean and safe water and improved sanitation, has a direct impact on inclusive and sustainable social development as it mitigates environmental risks. Such services also directly benefit the health of the population by reducing waterborne diseases and lowering expenditure on health services. Particularly women and children can use time saved in collecting water for social interaction or economically productive activities.

55. **Building on Synergies and the Bank's Catalytic Role:** The Bank's investments in the infrastructure sector are limited to only three subsectors (irrigation, water and sanitation and road transport), where there is no demonstrable private sector interest. There are, however, strong synergies that could be exploited. Investments in irrigation infrastructure create opportunities for power generation, with private sector capital contributing towards a solution to the country's energy challenge. Currently the total energy generation capacity in Swaziland is only 60.1 Megawatts (MW) against the maximum demand of 203 MW. The Bank could play a catalytic role in attracting private investments in energy, especially co-generation from sugar bio-mass. Conducting feasibility studies and institutional support in developing regulations that would allow the participation of IPPs could assist, given the interest in the private sector. Similarly, improving the competitiveness of the country through improved transport systems would attract investments in the tradable sector.

Pillar II - Strengthening Governance and Institutional Capacity

56. **To help Swaziland make the necessary fiscal adjustments in response to the sharp decline in SACU revenue, the Bank will support the Government's efforts to curtail budgetary spending, improve public sector performance and the efficiency of resource use.** The Bank's engagement will be aligned with the key priorities of the Government's PFM Reform Program. Developing capacity in economic governance is critical to maintaining macroeconomic stability. The CSP will support interventions towards improving the macroeconomic framework, public sector performance and the efficient use of resources. The Bank's engagement will also aim to improve transparency, accountability, and predictability in public administration. Particular attention will be given to missing elements in the current PFM action plan, including structured capacity development for accounting staff, enhancement of the ICT environment within the Auditor-General's Office and strengthening of the public assets accounting system. Effective PFM is critical to enhancing public service delivery and also improving the business environment.

3.2.2 Deliverables and Targets

Pillar I - Supporting Infrastructure Development for Sustainable and Inclusive Growth

57. **Smallholder Irrigation Infrastructure - LUSIP II:** The Bank, together with other development partners (EU, European Investment Bank, the Arab Bank for Economic Development in Africa (BADEA)) expects to co-finance development of irrigation infrastructure. Expected outcomes in this sector are: (i) the commercialization of smallholder farming; (ii) enhanced productivity, agricultural diversification and food security; and (iii) broader economic participation of rural communities and reducing poverty. All these outcomes assist in achieving some of the objectives of the Bank Strategy 2013-2022.

58. **Water and Sanitation:** Water supply and sanitation challenges in rapidly growing towns are reaching acute levels. The Ezulwini Water Supply and Sanitation Project and the Nondvo Dam are potential candidates for Bank Group financing. Consistent with the inclusive agenda, the project outcomes include: (i) improved quality of life through increased access to safe water and better waste disposal facilities; (ii) reduced environmental risks; (iii) reduced waterborne diseases and lower expenditure on health services; and (iv) enhanced social interaction and economic engagement for women and children.

59. **Transport infrastructure:** The Government is keen on developing its regional roads that would support trade and regional integration. Likely outcomes from this intervention are: (i) improved efficiency of freight services and reduced costs; (ii) enhanced competitiveness and trade; (iii) increased investments; and (iv) reduced road accidents. Transport sector interventions will focus on the regional Manzini-Mbadlane Road. The Kuwait Fund, Abu Dhabi Fund for Development and BADEA are potential co-financing partners in the sector.

Pillar II - Strengthening Governance and Institutional Capacity

60. **Governance:** Accountable, transparent and efficient governance systems form the basis for ensuring sustainable and inclusive growth. The Bank, in partnership with other development partners (EU, IMF, UNDP, World Bank) will support the PFM reform process. Key areas of interventions include strengthening the budget process, expenditure controls, and internal and external audit functions. The interventions will target addressing specific skill requirements, especially in the Auditor General’s Office, infrastructure related investment skills and institutional arrangements for sustainability, as well as strengthening procurement systems. Improving the public procurement system, in view of the dominance of the public sector, can have direct and beneficial effects on the overall economic situation in Swaziland (Annex VII). Such interventions will also ensure effective implementation and sustainability of Bank projects. The Government is also in discussions with the Bank’s Africa Legal Support Facility with a view to supporting complex negotiations on natural resource related investments.

3.2.3 Cross-cutting Issues

61. **Business Environment:** Support of the reform efforts will, among other things, improve the business environment, attract investments and enhance Swaziland’s competitiveness. These efforts will, therefore, enhance the growth potential of the country. The elevated role of the Swaziland Investment Promotion Authority, following the re-launch of the Investor Roadmap in 2012 presents an opportunity for the development of Small and Medium Enterprises. Recent legislation will likely result in the dismantling of monopolies, including in such protected sectors as telecommunications and energy, thereby allowing greater participation of the private sector, which could be supported under the Bank’s private sector window when the opportunities arise.

62. **Gender:** The growing focus of Government to expand agricultural irrigation schemes provides a good opportunity to improve the quality of life of the disadvantaged population. Women and children are the main beneficiaries of the recent developments in agriculture, as the provision of water and power has reduced the time required to maintain a functional home. This has enabled women to allocate more time to economically productive activities while children are being released to attend school. The Bank intends to continue supporting the sector and will incorporate gender and children-related dimensions in future projects.

63. **Knowledge solution:** Knowledge products have been instrumental in the current engagement between the Bank and the Swazi authorities. Going forward, knowledge development and dissemination will play an increasing role in defining program selection and implementation. The Bank will continue to mobilize grant resources from trust funds to undertake research and technical assistance work for business development purposes and dialogue with the Government.

3.2.4 *Financing Instruments*

64. **In order to enhance the effectiveness of assistance, the CSP seeks to achieve synergies from the full range of Bank instruments,** namely lending, technical assistance, and analytical work to be delivered in partnership with the Government and development partners. It builds on good practices established in the current CSP of leveraging the limited Bank resources through strategic partnerships with the Government and other stakeholders.

65. **The resource envelope available for support to Swaziland has dwindled over the past two years.** In this context, the Bank would have to leverage its limited resources to attract additional financing from other development partners, a role it employed successfully in the past. For example, for LUSIP Phase I, UA10.22 million of Bank resources helped mobilize UA77.62 million of donor resources and another UA18.56 million from the Government and beneficiaries of the project. New partners need to be identified to address the broader infrastructure challenge, while maintaining selectivity in Bank interventions. Co-financing opportunities with development partners will be pursued to further leverage the impact of Bank assistance.

3.2.5 *Monitoring and Evaluation*

66. The Bank will monitor the implementation of the CSP using the project results frameworks, which will be updated at mid-term. Country portfolio review missions and country project missions will provide additional information through related documentation. Sector specialists, in collaboration with the sector agencies, will compile the sector outcomes data. The Bank will also assess the relevance of the CSP against the Government's priorities at mid-term in 2016.

3.3 Country Dialogue Issues

67. The current dialogue on structural and policy reforms is likely to continue during the implementation of the new CSP. Discussions on measures to improve institutional capacity and areas rated poorly by the CPIA, as well strengthening the framework for monitoring results, including the quality of statistics and portfolio performance will be important.

3.4 Potential Risks and Mitigation Measures

68. The Bank program in Swaziland faces risks from three main sources: the difficult scope and scale of the required adjustment; limited implementation capacity and weak institutions and limited access to external financing, including the small Bank envelope. Any or all of these can undermine the achievement of the CSP objectives. The Government is

committed to improving economic governance, and to better manage SACU transfers. The CSP program has been designed to help Swaziland sustain reforms while mitigating the risks.

69. *Fiscal adjustment:* Failure to adjust expenditure to a level commensurate with the long-run trend in SACU receipts may continue to cause fiscal and potentially, macroeconomic instability. Limiting the role of the public sector to the efficient provision of key public services that promote private-sector growth and employment is, therefore, important. Despite Government commitment to reforms, the political situation is unlikely to change. Support for structural policy and PFM reforms will address some of the constraints.

70. *Counterpart funding:* Delivering investments in infrastructure and services in ways that leverage private participation is central to the success of the CSP. Key risks include the inability of the Government to address issues in land acquisition, tariff setting, and state-owned enterprise reform that are needed to encourage PPP investments. The Bank will support the Government in the establishment of the PPP Unit to facilitate private investments. The Bank will also focus its policy dialogue and capacity development support in areas that have sound prospects for advancing private participation in the provision of infrastructure.

71. *Institutions:* The Government's limited capacity and weak institutions present a major risk to implementing the CSP. To address this risk, the Bank has aligned the CSP program with Government priorities and, through program selectivity, on areas of its comparative advantage. The Bank intends to continue working with other development partners so that the joint and complementary efforts strengthen and leave in place self-sustaining institutions that can carry on with the sector reform agenda.

72. *Weak results monitoring system*: Recent attempts to develop the macroeconomic framework in preparation of the introduction of the medium-term fiscal framework (MTEF) have raised questions on the reliability of economic and social statistics. Data inadequacy is a serious constraint to effective monitoring of the program performance and exacerbates the risks. Improved data and information systems also enhance the quality of project preparation and implementation. Concerted efforts are, therefore, required to build the capacity and improve the institutional set up of the statistical systems. This will help monitor the results framework and provide a basis for developing mitigation measures.

IV. CONCLUSION AND RECOMMENDATION

4.1 Conclusion

73. **Swaziland has reached an important juncture in its development trajectory, where significant policy changes are required to take the country out of the slow growth path.** Current efforts to implement reforms, although inadequate, are encouraging and should, therefore, be supported. The new CSP intends to assist Government implement critical interventions while also channeling resources into those areas that promote inclusive growth and sustainable development.

4.2 Recommendation

74. The Boards of Directors are hereby requested to consider and approve the CSP for Swaziland for 2014-2018.

ANNEX I: PROPOSED CSP RESULT-BASED FRAMEWORK (2014 - 2018)

Country Development Goals	Constraints	Final Outcomes (by 2018)	Final Outputs (by 2018)	Mid-Term Outcomes (by 2016)	Mid-Term Outputs (by 2016)	Bank deliverables during CSP period
Pillar 1 : Supporting Infrastructure Development for Sustainable and Inclusive Growth						
1. Water and Sanitation To improve access to safe drinking water and proper sanitation services	Water scarcity Aging infrastructure Water and sanitation infrastructure lagging behind growing urbanization	Increased access to safe water supply in the project area. Increased access and connection to proper waste treatment system and improved waste disposal systems. <u>Indicator</u> *up to 90% of the population (in selected region) with access to potable water supply and sanitation (Base line 60% in 2010)*	Ezulwini water system expanded/upgraded. Ezulwini sewage system upgraded <u>Indicator</u> *About 5000 additional households provided with reliable safe water supply and proper sanitation.*	Improved access to safe water supplies Improved access to appropriate sanitation system	At least 50% of the project implemented.	<u>Ezulwini Town water and sanitation project</u> - New loan
2. Irrigation Improve and commercialize agricultural production. Reduced level of food insecurity Diversification of agricultural exports	Unpredictable weather patterns Limited access to irrigation water	Increased access to (and use of) irrigation services Increased number of crops cultivated <u>Indicator</u> *3189 smallholder farmers with access to affordable irrigation service, and improved incomes*	Irrigation schemes completed and functional in the project area <u>Indicator</u> *5000 hectares of farmland supplied with irrigation systems* *Higher agricultural productivity*	Improved crop planning and capacity building of the farmers	Farmers cooperatives fully incorporated into the project area 2500 hectares of farmland supplied with irrigation systems	<u>LUSIP II Project</u> - New loan

Country Development Goals	Constraints	Final Outcomes (by 2018)	Final Outputs (by 2018)	Mid-Term Outcomes (by 2016)	Mid-Term Outputs (by 2016)	Bank deliverables during CSP period
3. Transport Improve the quality, coverage and safety of transport services	Poor quality and inadequate coverage of transport services.	Improved market access and reductions in the time and cost required for the marketing of produce Indicator *Reduce transport costs 15%* *Average annual value of trade goods transiting through Swaziland to major markets/ports increases* *5% reduction in road accidents*	Manzini-Mbadlane road project completed. Indicator *3okm of road completed and operational* *Increase in national roads in good and reasonable conditions from 58% in 2011 to 60%* *in 2018.*	Partial reduction in transport costs	Detailed financing plan completed and works in progress Transport Master Plan completed	Manzini-Mbadlane Road - New loan and other financing mobilized Ongoing Transportation Master Plan - Identifying new road projects
4. Energy Sustainable energy supply	Weak regulatory environment and limited institutional capacity	Improved regulatory environment and strengthened regulatory institution Indicator *Revised regulations*	Fully developed regulations	Power sector governance enhanced and cost efficient investment options	Completed feasibility study Identified measures to strengthen the regulatory agency	Renewable Energy Feasibility study and Institutional support - MIC grant

Country Development Goals	Constraints	Final Outcomes (by 2018)	Final Outputs (by 2018)	Mid-Term Outcomes (by 2016)	Mid-Term Outputs (by 2016)	Bank deliverables during CSP period
Pillar 2: Strengthening Governance and Institutional Capacity						
5. Governance and institutional capacity Improve efficiency in management and coordination between Government and implementing agencies	Limited capacity, institutional gaps, lack of accountability and transparency	Increased level and quality of public service delivery. Indicator *CPIA score on economic governance improves to 4.*	Support to identified Government Departments and Agencies. Indicator *4 institutions supported and new systems in place*	Improved capacity in PFM area Improved service delivery and business environment	Institutional systems established in at least 2 institutions targeted in the PFM action plan >60% of target officers in civil service trained	Identified Government Departments and Agencies - Institutional support and technical assistance grants (PFM related activities)

ANNEX II: INDICATIVE LENDING AND NON-LENDING OPERATIONS

Year	Amount (UA Million)	Projects	Potential Partners
Lending Program			
Pillar I. *Supporting Infrastructure Development for Sustainable and Inclusive Growth*			
2014	15	Water and Sanitation - Ezulwini	-
2015	26	Irrigation - LUSIP II	BADEA, EU, EIB
2014	29	Manzini-Mbadlane Road - Regional Road MR3	BADEA, Kuwait Fund, Abu Dhabi Fund for Development
Non-lending Program			
Pillar II: *Strengthening Governance and Institutional Capacity*			
2014	1	Institutional Support to the PPP Unit	SADC
2014	2	Feasibility Studies in Energy	-
2014	3	Institutional and capacity development in support of PFM reforms and project implementation	EU, IMF, UNDP, World Bank
2014	0.8	Institutional Support to Ministry of Agriculture	FAO, IFAD, EU
2015	0.5	ESW Renewable Energy	USAID
2016	2.5	Technical Assistance for the Regional Rail Project	Transnet

ANNEX III: 2013 DONOR MATRIX

	Governance	**Agriculture**	**Infrastructure**	**Health**	**Education**	**Capacity Building**	**Other**
African Development Bank							
BADEA							
European Union							
Global Fund							
Japan (JICA)							
Republic of China (Taiwan)							
United Nations (FAO, UNDP, UNFPA & UNICEF)							
United States (PEPFAR)							
World Bank							

Source: AfDB based on ACMS data

ANNEX IV: CURRENT PORTFOLIO

No.	Project Name/Country	Dept.	Approval Date	Age	Disbursement Deadline	Amount Approved (UA	Amount Disbursed (UA m)	Current Assessment of Implementation Performance	2011 Assessment of Implementatio
1	Komati Downstream Development Project –ADB/NTF- P-SZ-AAA-001	OSAN	12/12/02	10.7	31.12.11 (ADB)	8.91	100.00	completed and closed	
			12/12/02	10.7	31.12.11 (NTF)	4.95	100.00		
2	Lower Usuthu Smallholder Irrigation study - PSZ-AAC-004	AWF	5/22/09	4.3	31.12.12	0.84	100.00	completion scheduled in 4th quarter of 2013	
3	National Transportation Master Plan Study- MIC- P-SZ-DB0-011	OITC	10/25/09	3.9	30.12.13	0.35	29.66	completion scheduled in 4th quarter of 2013	
4	Economic Diversification Study- MIC PSZ-K00-002	SARC	12/4/10	2.8	31.10.12	0.30	62.75	completed and to be closed	
5	Institutional Support To Establish The Swaziland Revenue Authority –ADF-PZ1-SZ-KA0-001	OSGE	11/28/06	6.8	11.04.12	0.49	96.75	completed and to be closed	
6	WSS Study on Lavumisa-Nsalitje Corridor- P-SZ-E00-001	OWAS	5/17/07	6.3	12.04.12	0.46	82.25	completed	
7	SCB-II P-SZ-KOO-003	ESTA	1/2/12	1.7	30.06.14	0.49	-	Delayed effectiveness	N/A
8	TA For Public Financial Management Reforms - P-SZ-KAO-003	OSGE	3/11/11	2.5	31.12.13	0.48	-	Advisor now in post, application for extension of DD submitted	N/A
	Total					**17.28**	**91.75**		

Key:
- Satisfactory performance
- Unsatisfactory performance
- Highly satisfactory performance

ANNEX V: SUMMARY OF THE CSP-CR AND CPPR

Introduction: The pillars of Swaziland's 2009-2013 CSP were (i) Investing in infrastructure to increase productivity and competitiveness; and (ii) Enhancing health delivery and skills development. Its focus was modified at mid-term in response to the fiscal crisis and the persisting low growth. Both the original and mid-term CSPs were aligned and supported Swaziland's NDS and the PRSAP.

Status of the CSP Implementation: None of the proposed 9 (in original CSP) or 2 (modified CSP) lending projects were implemented. Macroeconomic conditions quickly changed soon after the approval of the original CSP and priorities altered. Government's intention to secure budget support at mid-term was unsuccessful as it could not meet the conditions for such operations. The delay in completing the feasibility studies for the agriculture project also meant that support in that sector could not go ahead. For non-lending operations, 3 out of 6 planned projects were implemented suggesting an implementation rate of 50 percent. One unplanned project was also implemented and has galvanized donor support for PFM reforms.

Lessons Learned: Lessons in implementing the current CSP are presented in Box 3 above.

2013 Country Portfolio Improvement Plan

Major issues	Actions required	Responsibility
Delays in compliance with conditions	Selectivity of conditions; relax conditions; and dialogue precedent to entry into force of the loan	Bank
	Sensitize GoS during loan/grant negotiations for fulfillment of conditions	Government
	Improve quality at entry of projects: Ensure that almost all conditions are met before Board Approval (to avoid delays at a later stage)	Bank/Government
Delays in Loan signature & effectiveness	GoS to immediately sign loan agreements after Board approval (do not wait for 180 days)	Government
	Relax conditions	Bank
Delays in procurement & disbursement	Ensure that all required original documentation exists at PIU level	Government
	Streamline & accelerate procurement processes	Bank
	Ensure effective communication between PIUs & Bank	Bank/Government
	Train PIU staff in Procurement, Disbursement & Financial Management	Bank
Delays in submission of Audit Reports	Advise and assist PIUs to adhere to Loan Agreements and to submit Audit Reports on time	Government
Staffing of PIUs	Ensure PIUs staffing is commensurate with work load	Bank/Government
Infrequent and inefficient communication between all stakeholders	More efficient use of electronic communications between the PIUs & Bank	Bank/Government
	Improve communication between MoF & PIUs	
	Regular, at least quarterly interactive advocacy meetings between Bank (SARC), PIUs & MoF on issues of delays	
Internal communication is infrequent & inefficient	Improve communication between: (i) SARC & HQ (ii) Sector Depts & Country Dept (iii) Sector Depts & Finance Dept	Bank
Poor knowledge of Bank financial products, procedures, rules & regulations	Capacity Building through training of PIU staff (procurement, financial management , etc)	Bank
	Training of Bank staff (rules & regulations) & structured information dissemination activities	
Sustainability of project funding after completion is not always ensured	Ensure there are budgetlines for all approved and ongoing project activities	Government
	Increase beneficiaries participation in working capital through introduction of cost reflective tariff structures	
	Ensure community driven approach from design to implementation	

ANNEX VI: FIDUCIARY STRATEGY - FINANCIAL MANAGEMENT

Performance of National Systems

The 2009 PEFA assessment report on Swaziland reflected a positive trajectory (from the 2007 Assessment) in a number of areas including accounting, recording and reporting, budget execution and the external scrutiny and audit. A modest regression was noted in the areas of tax administration and the credibility of the budget.

A number of challenges within the PFM environment remain. The Government of Swaziland continues to address these through various means, principally through PFM (in part supported by the Bank through an MIC TA) and the Updated Fiscal Adjustment Roadmap (UFAR).

The budgeting system currently makes limited use of the medium-term expenditure framework initiatives. About 30 percent of all recurrent budget goes through the automated system and the entire capital budget goes through the Tender Board. Over expenditures on the recurrent budget, however, are prevalent. Due to poor IT systems, the accounting records are not reliable and in-year budget reports are not produced. Quarterly accounting reports comparing actuals against budget targets are maintained at individual ministry level yet there is no evidence of their consolidation. International accounting standards are not used in preparing central Government financial statements.

The Office of the Auditor General (AG) has made progress in aligning the country's National External Audit Service to best practice, including the decision to adopt the International Standards on Auditing with effect from the 202/13 audit. Efforts to train staff are ongoing, albeit not adequate. The AG's Office ICT systems are not adequate to ensure effective delivery of their services. In some instances knowledge gained through training is wasted. Overall external audit outcomes have been positive in recent years, although submissions from ministries and the Accountant General do not adhere to regulations and are not complete.

The Bank's fiduciary risk assessment concluded that fiduciary risk is substantial, although it could be reduced in the medium term after the mitigating measures.

Summary Table on PFM Risk Assessment

Risk Pillars/Risk category	Comprehensiveness	Transparency	Effectiveness	Timelines	Overall initial risk rating
Budget	M	M	S	M	**M**
Audit and reporting	S	S	S	M	**S**
Corruption					**S**
Overall initial risk rating					**S**

Level of recommended use of the Country Public Financial Management System

For any budget support operations, the use of public spending systems will be adopted, subject to the continued commitment of the Kingdom's Government to the implementation of the 2012 – 2015 PFM Action Plan in line with the 2012 – 2015 Policy reform matrix. Public projects will partially use existing country implementation procedures and control systems, with specific reinforcements on internal audit, accounting and external audit as and when necessary. For autonomous public entities, the adequacy of their operational, financial and governance capacity will need to be assessed. Those found to be meeting the Bank's minimum requirements will be allowed to use existing systems, subject to reinforcement as may be deemed necessary.

ANNEX VII: FIDUCIARY ENVIRONMENT - PROCUREMENT

Legislative and Regulatory Framework

Public procurement in Swaziland is regulated by the Public Procurement Act, 2011. The Act is generally consistent with international standards and applicable to all levels of "public body," except for the State Owned Enterprises (SOEs'), established and mandated by the Government to carry out procurement using public funds. Notwithstanding this provision, international agreements concluded between the Government of Swaziland and any donor organization may require use of procurement rules and procedures provided in the said treaty or agreement (Sub-section 4(2) and Section 5 of the Act). The Act describes the institutional framework, methods of procurement, procedures, rules and ethical behavior. The existing Regulation of 2008 was prepared before the new Act came into force. Revised regulations are needed if the Act is to be fully operational and deserves urgent attention.

Institutional Framework and Management Capacity

Swaziland does not have an independent procurement institution that oversees the function. It is noted that the National Tender Board carries out both the oversight and implementation responsibilities raising questions on conflict of interest. The Swaziland Public Procurement Regulatory Agency (SPPRA), which is yet to be established, is expected to remedy this situation. It will be responsible for monitoring public procurement, managing procurement statistical databases, reporting on procurement to other parts of the government, providing implementation tools and documents to support training and developing procurement capacity without direct involvement in the implementation of procurement processes.

The Government Tender Board (GTB) to be established in accordance with the Act shall be the highest approval authority that would ensure that procurement is conducted in accordance with the Act and public procurement regulations. Under the current framework all procurements from central government agencies exceeding Emalangeni (E) 50,000 for works, E 20,000 for goods and E 20,000 for consultancy services go through the National Tender Board (NTB). The NTB is supported by a secretariat that reviews the procurement specifications to ensure that they are appropriate and generic and processes requests.

Procurement Operations and Market Practices

Procurement is not presently seen as a professional function in Swaziland. There are no job descriptions related to procurement roles and responsibilities and no requirement that those working in procurement have procurement education or training. The public procurement markets in Swaziland, to a large extend, functions well and is competitive. Also, it appears that there are no systemic constraints that make it difficult for SME's and similar targeted groups to participate in procurement contracts.

Integrity and Transparency

SPPRA will have an established unit responsible for monitoring performance of procuring entities (Section 10c (i) (1)) and prepare annual procurement audit reports to ascertain compliance with the Act. Currently 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. The new Act however, establishes an Independent Review Committee to handle procurement complaints, in accordance with the Act, or related fields.

Ethics and Anti-Corruption

The Government has established the Anti-Corruption Commission, which carries out investigations on public procurement cases. The new Act establishes a Code of Conduct for all public officers and politicians involved in procurement. In section 60 (f), states that "at all times avoid conflicts of interest and the appearance of conflict of interest".

ANNEX VIII: SELECTED ECONOMIC AND FINANCIAL INDICATORS

Indicators	Unit	2000	2007	2008	2009	2010	2011	2012 (e)
National Accounts								
GNI at Current Prices	Million US $	1,702	3,433	3,566	3,365	3,475	3,971	...
GNI per Capita	USD	1,600	3,030	3,100	2,880	2,930	3,300	...
GDP at Current Prices	Million US $	1,517	3,039	3,020	3,168	3,894	4,179	3,705
GDP at 2000 Constant prices	Million US $	1,517	1,829	1,873	1,895	1,931	1,945	1,939
Real GDP Growth Rate	%	10.2	3.5	2.4	1.2	1.9	0.7	-0.3
Real per Capita GDP Growth Rate	%	8.6	2.1	0.9	-0.4	0.4	-0.7	-1.7
Gross Domestic Investment	% GDP	18.2	12.3	11.0	10.3	10.7	10.7	12.6
Public Investment	% GDP	5.6	6.5	5.8	5.5	5.6	5.6	6.5
Private Investment	% GDP	12.6	5.8	5.2	4.9	5.0	5.0	6.1
Gross National Savings	% GDP	14.6	10.3	5.7	-0.1	1.7	0.1	10.6
Prices and Money								
Inflation (CPI)	%	12.2	8.1	12.6	7.6	4.5	6.1	8.9
Exchange Rate (Annual Average)	local currency/USD	6.9	7.0	8.3	8.5	7.3	7.3	8.2
Monetary Growth (M2)	%	-6.6	21.5	15.4	26.8	7.8	5.4	...
Money and Quasi Money as % of GDP	%	19.7	24.6	24.4	28.7	29.2	28.9	...
Government Finance								
Total Revenue and Grants	% GDP	27.0	39.5	37.6	34.1	23.7	24.2	38.9
Total Expenditure and Net Lending	% GDP	28.3	30.6	39.6	40.1	37.9	33.8	35.9
Overall Deficit (-) / Surplus (+)	% GDP	-1.3	8.8	-2.0	-6.0	-14.3	-9.6	3.0
External Sector								
Exports Volume Growth (Goods)	%	1.3	-4.4	-20.1	16.0	-8.9	7.9	11.4
Imports Volume Growth (Goods)	%	-11.2	-6.9	-29.5	49.5	-18.1	-7.7	0.6
Terms of Trade Growth	%	-14.3	6.1	-7.2	20.8	-10.9	-11.7	-16.7
Current Account Balance	Million US $	-46	-141	-224	-410	-609	-433	-98
Current Account Balance	% GDP	-3.0	-4.7	-7.4	-12.9	-15.6	-10.3	-2.6
External Reserves	months of imports	2.3	2.3	2.6	3.1	2.2	1.6	...
Debt and Financial Flows								
Debt Service	% exports	1.0	2.3	1.7	1.7	2.3	3.1	3.4
External Debt	% GDP	23.3	17.5	15.9	12.6	12.3	11.3	11.2
Net Total Financial Flows	Million US $	35	55	54	38	70	102	...
Net Official Development Assistance	Million US $	13	51	70	56	91	130	...
Net Foreign Direct Investment	Million US $	106	37	106	66	136	95	...

Source : AfDB Statistics Department: Development Data Portal Database, March 2013. United Nations: OECD, Reporting System Division. IMF: World Economic Outlook, October 2012 and International Financial Statistics, October 2012;

Notes: … Data Not Available (e) Estimations Last update: March 2013

ANNEX IX: MDGS STATUS TABLE

Goal 1: Eradicate extreme poverty and hunger	**1990[1]**	**2000[2]**	**2012[3]**
Employment to population ratio, 15+, total (%)	44.3	43.3	43.7
Malnutrition prevalence, weight for age (% of children under 5)	…	9.1	7.3
Poverty headcount ratio at $1,25 a day (PPP) (% of population)	78.6	62.9	40.6
Prevalence of undernourishment (% of population)	22.6	16.8	27.0
Goal 2: Achieve universal primary education			
Literacy rate, youth female (% of females ages 15-24)	…	92.9	95.1
Literacy rate, adult total (% of people ages 15 and above)	…	81.7	87.4
Primary completion rate, total (% of relevant age group)	63.3	62.2	76.9
Total enrollment, primary (% net)	74.2	75.0	82.6
Goal 3: Promote gender equality and empower women			
Proportion of seats held by women in national parliaments (%)	3.6	10.8	13.6
Ratio of female to male primary enrollment	97.3	94.5	89.8
Ratio of female to male secondary enrollment	…	98.2	97.3
Goal 4: Reduce child mortality			
Immunization, measles (% of children ages 12-23 months)	94.0	92.0	98.0
Mortality rate, infant (per 1,000 live births)	73.7	84.4	65.8
Mortality rate, under-5 (per 1,000)	102.3	125.5	94.5
Goal 5: Improve maternal health			
Births attended by skilled health staff (% of total)	56.0	74.0	82.0
Contraceptive prevalence (% of women ages 15-49)	26.7	43.6	63.5
Maternal mortality ratio (modeled estimate, per 100,000 live births)	290.0	360.0	320.0
Goal 6: Combat HIV/AIDS, malaria, and other diseases			
Incidence of tuberculosis (per 100,000 people)	337.0	1120.0	1317.0
Prevalence of HIV, female (% ages 15-24)	…	…	15.3
Prevalence of HIV, male (% ages 15-24)	…	…	6.3
Prevalence of HIV, total (% of population ages 15-49)	10.6	25.5	26.0
Goal 7: Ensure environmental sustainability			
CO2 emissions (kg per PPP $ of GDP)	0.8	0.5	0.5
Improved sanitation facilities (% of population with access)	49.0	54.0	57.0
Improved water source (% of population with access)	43.0	59.0	71.0
Goal 8: Develop a global partnership for development			
Net total ODA/OA per capita (current USD)	59.9	22.7	107.8
Internet users (per 1000 people)	0.0	32.9	81.3
Mobile cellular subscriptions (per 1000 people)	…	132.4	617.8
Telephone lines (per 1000 people)	21.9	40.6	37.1

Sources: AfDB Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports. *Note : ... : Data Not Available, Last update: April 2012*

Annex X: The IMF Staff Monitored Program

1. The Objectives of the program were:

- To reduce the deficit to below 3 percent of GDP by 2013/14.
- To maintain the debt-to-GDP ratio below 40 percent over the medium term. Beyond this threshold, Swaziland's risk of debt distress would rise rapidly.
- To strengthen the capacity of the Ministry of Finance, notably in terms of budget preparation, fiscal transparency, and expenditure controls.
- To continue making progress towards the United Nations Millennium Development Goals, and especially in the fight against HIV/AIDS.

2. The structural, fiscal and financial measures to achieve these objectives were:

- Government to submit to Parliament of a supplementary budget that formalized the expenditure cuts needed for FY 2011/12 **-** (a) wage bill cuts of E 305 million, through the removal of circulars 1 and 2, an across-the-board wage cut of 10 percent, and an additional cut in the travel budget, and (b) additional cuts on non-priority capital spending of about E 450 million.
- Submit to Parliament of the law defining the public wage setting process, so as to allow a unilateral wage adjustment by Government – the standing law required successful negotiations between Government and civil servants.
- Submit to Parliament of a Value Added Tax (VAT) Bill and creation of a full-service Large Taxpayer Unit (LTU) at the SRA.
- Government to preserve pro-poor spending throughout the fiscal adjustment period and reduce the cost of doing business to boost private sector-led growth.
- Eliminate unauthorized expenditure commitments and centralize all budgetary functions and merging the Ministries of Finance, Economic Development and Planning, and Public Service, into one ministry.
- Convert the Central Transport Authority into a public enterprise.
- Submit to Parliament the PFM Bill and Cabinet approval of the PFM Action Plan.
- For the medium-term **-** implement a modern integrated fiscal management integrated system, (ii) introducing a full treasury single account, and (iii) reorganization of the Ministry of Finance, as advised by IMF.
- Put in place the arrears clearance plan implement financial sector reforms and protect the lilangeni/rand parity.

Government achieved all the targets or is in the process of implementing the recommendations except for the required cut in wages and the merger of ministries. The seemingly insurmountable challenges in these two areas and disagreements on the growth and debt forecasts resulted in there being no agreement on how to move the process forward.