AFRICAN DEVELOPMENT BANK

PROGRAM: EMERGENCY FOOD PRODUCTION PROGRAM (EFPP)

COUNTRY: KINGDOM OF ESWATINI

APPRAISAL REPORT

Date: 29 June 2022

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AFRICAN DEVELOPMENT BANK

KINGDOM OF ESWATINI

PROGRAM: EMERGENCY FOOD PRODUCTION PROGRAM (EFPP)

RDGS/AHAI/ECGF DEPARTMENTS

July 2022

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CURRENCY EQUIVALENTS
As of June 2022

1 Unit of Account (UA) = 21.11 Eswatini Lilangeni (SZL)
1 Unit of Account (UA) = 1.34 USD

FISCAL YEAR

1 April – 31 March

WEIGHTS AND MEASURES

1 metric ton	=	2204 pounds (lbs)
1 kilogram (kg)	=	2.200 lbs
1 meter (m)	=	3.28 feet (ft)
1 millimeter (mm)	=	0.03937 inch
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS AND ABBREVIATIONS

AEFPF	African Emergency Food Production Facility
AMIS	Agriculture Market Information System (AMIS)
AfDB	African Development Bank
CEDAW	Convention on the Elimination of All forms of Discrimination Against Women
COVID-19	Corona Virus 2019
CRFA	Country Fiduciary Risk Assessment CSP
CSP	Country Strategy Paper
DPs	Development Partners
EFPP	Emergency Food Production Program
EAIP	Eswatini Agriculture Investment Plan
ENAIP	Eswatini National Agriculture Investment Plan
ESWADE	Eswatini Water and Agriculture Development Enterprise
FAO	Food and Agriculture Organisation
GoKE	Government of the Kingdom of Eswatini
LUSIP	Lower Usuthu Smallholder Irrigation Program
NDP	National Development Plan
NDS	National Development Strategy
PFM	Public Finance Management
PFMA	Public Finance Management Act
SERIG	Support for Economic Recovery and Inclusive Growth Phase 1
SOE	State Owned Enterprise
SPER	Strategic Plan for Economic Recovery
UA	Unit of Account
UN	United Nations
WFP	World Food Program
WHO	World Health Organisation

PROGRAMME INFORMATION

Instrument	AEFPF Crisis Response Budget Support
PBO Design Type	Single Operation

LOAN INFORMATION

CLIENT'S INFORMATION

Borrower	Kingdom of Eswatini
Executing Agency	Ministry of Finance

Financing plan

Country	**Source**	**Amount (USD)**	**Instrument**
Eswatini	ADB	(40.000 million)	ADB loan
	TOTAL COST	**(40.000 million)**	

ADB FINANCING INFORMATION

Loan currency	United States Dollars (USD)
Type of Loan	Fully Flexible Loan
Tenor	Up to 25 years inclusive of Grace Period
Grace Period	Up to 8 years
Average Loan Maturity	TBD (function of the amortization profile)
Repayments	Consecutive quarterly payments after grace period
Interest Rate	Base Rate + Funding Cost Margin + Lending Spread + Maturity Premium
Base Rate	Floating rate based on 6-month LIBOR with free option to fix the base rate
Funding Cost Margin	The Bank funding cost margin as determined each 1st January and 1st July and applied to the Base Rate each 1st February, 1st May, 1st August and 1st November
Lending rate	80 basis points (0.80%)
Maturity Premium	To be determined based on the Average Loan Maturity • 0% if Average Loan Maturity <= 12.75 years • 10 bps (0.10%) if 12.75< Average Loan Maturity <=15 • 20 bps (0.20%) if Average Loan Maturity >15 years
Front-end fees	0.25% of the loan amount payable no later than 60 days from the date of entry into force or at first disbursement, whichever is earlier
Commitment fees	0.25% of the undisbursed amount. Commitment fees start accruing 60 days after signature of the loan agreement and are payable on payment dates
Option to convert the Base Rate**	In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fixed rate to floating or re-fix it in part or for the fully disbursed amount. Transaction fees are payable
Option to cap or collar the Base Rate**	The borrower may cap or set both the cap and floor on the Base Rate to be applied in part or to the fully disbursed amount. Transaction fees are payable.
Option to convert loan currency**(Only for ADB loan)	The borrower may convert the loan currency for both undisbursed and disbursed amounts in full or in part to another approved lending currency of the Bank. Transaction fees are payable

Timeframe – Main Milestones Expected

Programme approval	(July 2022)
Effectiveness	(September 2022)
Last Disbursement	(December 2022)
Completion	(September 2023)
Closing Date	(March 2023)

REPORT AND RECOMMENDATIONS OF THE MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE KINGDOM OF ESWATINI TO FINANCE THE EMERGENCY FOOD PRODUCTION PROGRAM

I. INTRODUCTION: THE PROPOSAL

1.1. Management submits the following proposal and recommendation for an ADB loan of USD 40.000 million (United States forty million) to the Kingdom of Eswatini to finance the African Emergency Food Production Facility ("AEFPF"). The proposal is in response to a request from the Government of the Kingdom of Eswatini dated 4 May 2022. The AEPF Program is designed as a single tranche crisis response budget support targeting the agriculture sector for the FY 2022/23. The program was appraised over the period 13-16 June 2022.

1.2. The design of the program takes into account good practice principles on conditionality and Bank Group provisions on non-concessional debt accumulation policy. The program's purpose is to boost domestic agricultural productivity so as to build the resilience of Eswatini's food systems and mitigate risks to supply inputs in the short to medium term. Its operational policy objectives are to (i) Scale up food production and reduce vulnerability of the poor to high and unstable food prices; (ii) Enhance delivery of agro-commodity financing (supply of fertilizer and seeds to small holder farmers); and (iii) ensure an enabling environment for sustainable agricultural growth through sustaining governance and economic reforms. Key outcomes include (i) *increased domestic production of maize from 127,000MT to the national food security demand of 140,000MT*, (ii) *increase in number of farmers receiving agro-inputs from 13,000 to 20,000* and (iii) *increased overall national area under maize production.*

II. CONTEXT: ECONOMIC, AGRICULTURAL AND SOCIAL

2.1. Macroeconomic and fiscal impact analysis

2.1.1 Eswatini has recently experienced macroeconomic and fiscal imbalances. The economy faces sluggish growth, persistent fiscal challenges, high levels of youth unemployment, poverty and inequality, and low levels of private investments. Since 2020, Eswatini's challenges have been compounded by the COVID-19 pandemic which triggered a 1.9% contraction, 2021 Tropical Cyclone Eloise, and the 2021 civil unrest. The 2022 Russian-Ukrainian war exacerbated Eswatini's nascent recovery process through increased import prices and supply constraints of key energy and food (30% of total imports) as well as agricultural inputs. Domestic inflation is expected to surge to 4.5% in 2022 (initial forecast 4.0 %). Fiscal policy management will be complicated by elevated spending needs with the deficit expected to remain high at 4.8% of GDP in 2022/23, increased indebtedness (42.5% of GDP from 39.3% in 2021), and deterioration of the current account (-0.4% of GDP) and international reserves position. If unmitigated, macroeconomic conditions will worsen, food insecurity will increase, and hence poverty, a recipe for social unrest.

Table 1 - Macroeconomic Indicators

	2017	2018	2019	2020	2021	2022(p)	2023(p)
Real GDP Growth	2.0	2.4	2.6	-1.9	5.9	2.4	1.9
Inflation (%)	6.2	4.8	2.6	3.9	3.8	4.5	4.0
Overall Fiscal Balance (% GDP)	-7.4	-6.5	-6.0	-5.2	-6.4	-4.8	-1.3
Current Account (% GDP)	6.2	0.9	3.8	6.7	0.8	-0.4	0.4

Source: AfDB, Eswatini Authorities

2.2. Agricultural Context

2.2.1. Agriculture (8.6% of GDP), a key pillar of the Eswatini's economy provides critical inputs to manufacturing (30% of GDP) and is a source of livelihood and employment to 70% of the country's population. The impact of the Ukraine crisis on agriculture will thus reverberate across all sectors of the economy given the strong interlinkages with the rest of the economy. Wheat products, sunflower/soyabean oil, maize products, and rice constitutes more than 60% of the food basket in Eswatini and the country is a net importer of maize, wheat and edible oils which are vital for food security.

2.2.2. The country faces prospects of food supply challenges and price hikes of fuel, farming inputs and basic commodities. High prices of fertilizer and chemicals will result in lower yields as farmers' employ rationing strategies or buying fertilizers without nitrogen – resulting in less production and productivity. Fertilizer prices have escalated since 2021 while the total agro-input costs (fertilizer, LAN, seeds, chemicals) per hectare increased from E5,350 during the 2021/2022 season to an estimated E13,964 in 2022/23 planting season. Maize price increased by about 30% compared to the same period last year and is projected to continue increasing towards the end of 2022. The annual demand for maize (Eswatini's staple) is about 140,000 mt/pa and in the 2021/22 season Eswatini is expected to produce about 127,000 MT – a 30% increase from the previous season due to good rainfall. The country normally imports 40,000 to 60,000 mt/pa to supplement local production. Without interventions the output for the 2022/023 is expected to decline due to high input prices increasing vulnerability in maize supply. There has been a 30% increase in fuel prices since the start of the war. Increases in fuel prices might also lead to reduced area planted due to high costs of land preparation. Small scale farmers relying on engine use for irrigation will also be greatly affected including transport and logistics processes (crops and livestock production). According to the latest draft Vulnerability Assessment Report, over 70% of the population will face food insecurity in the coming months. The country only has about 2,000MT of strategic maize reserves versus the required 3 months' buffer of 10,000MT.

2.3. Poverty and Social Context

2.3.1. The social landscape is marked by high levels of youth unemployment (58.2%), HIV/AIDS (27.2%), poverty (58.9%), and inequality with women disproportionately affected. Prior to the war in Ukraine, Eswatini was experiencing high levels of fragility and challenges related to human development. Annual vulnerability analysis indicates that there are high vulnerabilities due to food insecurity experienced by very poor and poor households, especially women. The households continuously experience shocks (such as drought), reduced income coupled with high food prices, and limited employment for household members, which adversely affects their ability to provide food and nutritional requirements. The war's negative impacts will be transferred to the poorest groups and exacerbate the country development challenges. Government and Development Partners (DPs) are collaborating to reduce the impact of poverty in the vulnerable households.

2.4. Governance and Public Finance Management (PFM)

2.4.1. Eswatini's governance indicators have remained unfavourable despite a slight improvement on the 2020 Ibrahim Index of African Governance (IIAG) where it was ranked 36/54 countries, from the rank of 37/100 in 2019. The country recorded low scores on participation, rights and inclusion (31.2/100) and medium scores on foundations for economic opportunity (50.3/100) and human development 50.1/100). Eswatini experienced a civil unrest in 2021. There were mediation efforts led by the AU and SADC after which in November 2021 King Mswati III committed to hold a transparent and inclusive national dialogue with all Emaswati stakeholders to solicit for solutions to the country's political challenges. To facilitate the dialogue process, a Technical Committee to underpin the dialogue process was established and about $1.5 million allocated in the FY 2021/22 budget to support the process. The initiative has support from DPs. Work is ongoing towards the establishment of a donors' Trust Fund managed by the UN to further support countrywide consultations, expected to run for about 24 months, from the national launch at Sibaya (People's Parliament). Both SADC and the AU support the political dialogue. The next elections are due in 2023.

2.4.2. With regard to PFM, overall, there is notable progress although the approval of PFM Regulations which are key to improving the country's financial management environment by Parliament, is still outstanding. The implementation of the Treasury Single Account is in progress and is a welcome improvement. There is some progress to improve the Internal Audit function, although implementation of Internal Audit recommendations is still low. The Office of the Auditor General (OAG) launched its Strategic Plan in 2021 and the Audit Bill is under review. The authorities are looking at various reform options for SOEs to strengthen accountability and efficiency. The restructuring is bound to impact on the agriculture sector SOEs, that are slated to reduce from 4 to 2. It should be noted that most of the system improvements indicated above are still at the nascent stage. However, the expectation, is that the overall PFM system will improve and benefit from the changes, further confirming the positive trajectory of PFM performance, a prerequisite for the country to be eligible for PBO financing given the current fiduciary risk levels.

III. RATIONALE AND KEY DESIGN ELEMENTS

3.1 Rationale

3.1.1. The Program is aligned to the Government's priorities as outlined in the National Development Plan (NDP, 2019-22), which prioritizes agricultural development as key to economic growth, recovery, poverty reduction, and social wellbeing. The Eswatini National Agricultural Investment Plan (ENAIP) 2015-25 is a key sectoral policy document that promotes sustainable agricultural production and enhancing capacity of farmers for improved crop productivity and reduced food insecurity. The Government is setting up an Agriculture Development Fund (ADF) to sustainably finance agriculture. Key agriculture sector goals to achieve food security include increasing the production of maize, beans, rice, and baby vegetable as well as other grains for local processing and packaging. Production targets include increasing local white maize by 40,000 MT, yellow maize production to meet an immediate target of 25 000 MT and gradually increase to 100,000 MT and legumes production (2,000MT). The program will, therefore, accompany these national efforts.

3.1.2. The Program complements the Bank's interventions in Eswatini. The Lower Usuthu Small-holder Irrigation Project (LUSIP I) and LUSIP II aim to reduce poverty through increased household incomes and enhanced food security by creating the conditions for the transformation of subsistence smallholder farmers into small-scale commercial farmers. Some of the envisaged farmer companies to be formed will be assisted through the ESWADE maize production project. The Mkhondvo-Ngwavuma Water Augmentation Project (MNWAP) project embodies the principles of the ENAIP as it will take a value chain approach from primary production to processing.

3.1.3. The proposed operation is integral to the Bank's engagement with Eswatini as outlined in the Country Strategy Paper (CSP) 2020-24 Priority Area 1: *Scaling Up Infrastructure Investments to Foster Economic Diversification*, for which development of agriculture is key. The envisaged reforms embedded in the budget support will also contribute to Priority Area II: *Strengthening Economic Governance to Improve the Investment Climate.* In addition, the AEFPF is consistent with the Ten-Year Strategy (TYS), and the High 5s, Feed Africa Strategy, Climate Change and Green Growth Action Plan (2021-2025), Strategy for Economic Governance in Africa (SEGA, 2021-25), Gender Strategy, and Jobs for Youth in Africa.

3.1.4. The Bank has a comparative advantage in supporting countries in crises, from the financial and commodity crises, health crisis such as Ebola and the COVID-19 Pandemic as well as natural disasters such as Cyclone Idai. The Bank has specific experience in responding to food crisis such as the Malawi and the Horn of Africa food crises and others which inform the interventions through this operation. The Bank was the only DP to put in place a Facility to support RMCs to respond to the food crisis.

3.2 Collaboration and Coordination with other development partners

3.2.1. The Program is also aligned to the efforts of other DPs supporting agriculture in Eswatini including WFP, FAO, IFAD, UNDP and others. FAO is assisting government with inputs into the ENAIP through value chain planning to facilitate sector development plans that will inform areas of intervention by government as well as establishment of the Agriculture Development Fund and the Registration of Agriculture Associations to improve competitiveness and access to finance for the sector. The WFP and FAO are assisting Eswatini with the Agriculture Integrated Information System which will build onto the Agriculture Market Information System (AMIS). These measures are supported by the proposed Program.

3.3. Meeting the Eligibility Criteria

3.3.1. Eswatini meets the eligibility criteria for budget support in line with the Bank Group PBO Policy (see Appendix III). The *Government remains committed to poverty reduction and inclusive growth*. The Government's reform agenda to address the root causes of poverty and social exclusion are anchored on its NDP 2019-22 and the Strategic Roadmap for Economic Recovery (Strategic Roadmap) (2019-2022), prepared through a wide-ranging participatory process. *Macroeconomic stability is satisfactory*. The Government remains committed to implementing fiscal measures to stabilize the economy and support growth including reforms aimed at widening the revenue base, improving expenditure efficiency, reducing the public wage bill, and limiting transfers to SOEs. *Political Stability*: Although recently Eswatini has witnessed some civil unrest, generally the country is stable and a national dialogue supported by SADC and Partners is ongoing. *The overall fiduciary risk is rated substantial but with a positive trajectory*. The Government has a clear commitment to ramp up all aspects of the PFM through the ongoing implementation of the 2017 PFM law and this is expected to lead to an improvement in the overall PFM system performance. *The framework for donor coordination is adequate*. The Bank has been in close dialogue with the other partners in the design of this operation.

3.4. Application of Good Practice Principles on Conditionality

3.4.1. Good practice principles on conditionality have been applied (Annex II). The Bank continuously engaged the Government at all levels over this operation to ensure predictability and ownership: (i) The designed operation is fully aligned the NDP (2019-22), the post COVID-19 Economic Recovery Plan and the EAIP 2015-25; (ii) There has been coordination to ensure better complementarity of the PBO with other reforms particularly those in the previous budget support operations by both the World Bank and the Bank. Synergies with interventions of partners such as the WFP, IFAD, and FAO, in the agriculture sector have also been optimized. The prior actions have been carefully selected against a robust accountability and results measurement framework; (iii) This operation is contextualized to country circumstances and builds on ongoing plans and reforms for optimal impact of policy dialogue in light of the timelines; (iv) Monitoring of progress will be done in a transparent manner through supervision and assessment reviews with RDGS playing a critical role.

IV. THE PROPOSED PROGRAM

4.1. Programme Goal, Purpose and Content

4.1.1. The program's purpose is to boost Eswatini's agricultural production and productivity so as build the resilience of food systems and mitigate risks to food supply in the short to medium term. Its operational policy objectives and Pillars are: (i) *Scaling up food production and reducing vulnerability of the poor to high and unstable food prices*; (ii) *Enhance delivery of agro-commodity financing (supply of fertilizer and seeds to smallholder farmers);* and (iii) *Ensure an enabling environment for sustainable agricultural growth through sustaining economic and governance reforms.*

4.2. Pillar I: *Scaling up food production and reducing vulnerability to high and unstable food prices*

4.2.1. Challenges and Constraints: The main maize value chain challenges are low productivity and production levels by smallholder farmers due to inadequate capacity and poor access to finance, structural exclusion from the formal markets that offer better prices (millers), and climate change effects, especially droughts and high-intensity storms. Eswatini's annual maize shortages stand at around 40,000MT, with shortfalls complemented by imports. Productivity is constrained by limited access to farming implements, and low investment in inputs. The combination of high cost of inputs and low productivity (1.7 MT/Ha against the target of 4MT/Ha) contribute to low profitability and low revenue for smallholder farmers. According to the Eswatini Vulnerability Assessment of February 2022, about 28% of the population is at risk of acute food insecurity this percentage may significantly increase due to the looming food crisis induced by the Ukrainian crisis.

4.2.2. Recent Government Action: Below is an outline of Government's ongoing initiatives to improve agricultural development and achieve sustainable food systems and 6% annual production growth by 2030:

i. **Value chains planning and structuring** through development of Commodity Sector Development Plan Agreements. The process starts with the establishment and registration of commodity associations to drive the development of commodity value plans. The registration of the Horticulture Association is complete and the Grain Association is being catalysed with the target to have it finalised by 31 March 2023.

ii. **Agriculture Development Fund Establishment** with facilities for de-risking agriculture value chains. The fund will help to leverage private sector investments in priority agriculture value chains, especially towards the inclusion of smallholder producers. The Fund will be sustained through the collection of levies by the sector SOEs and it will also contribute to the sustainability of the adopted sector policy initiatives under this budget support. The Fund regulations are due to be submitted for Cabinet approval during the period from June to July 2022.

4.2.3. Other ongoing programs include:

iii. **Smallholder Farmers Input Subsidy Scheme:** Under this program, beneficiary farmers pay 50% upfront in a National Maize Corporation (NMC) bank account and receive a 50% subsidy on their inputs for maize, sorghum, and beans as well as tractor hire services. The subsidy is provided to the farming parcels up to 1 hectare. Gross margins for maize are currently at E3 395/ha and E9,735/ha with the subsidy. About 13,000 farmers benefitted during the 2021/2022 seasons with an oversubscription of about 2500. The 2022/23 budget allocation is E42.2 million ($2.8m), from E 40.1 million in 2021/22 and is inclusive of E 10 million for the tractor hire service.

iv. **ESWADE Maize Production Program:** Farmers with more than 5 hectares of land are assisted with farming inputs from a E45million ($3million) Revolving Fund. The farmers should have a good track record of performance and should market their produce through the NMC. The proceeds from the sale of the maize are paid directly to ESWADE which repays the loan made to the farmer to the Revolving Fund and pays the balance to the farmer. After three years' the farmers are expected to "graduate" and access funding through commercial banks. The 2021/2022 season was the first year of operation and the fund suffered setbacks in terms of the fertilizer value chain. The success of the program is very important towards achieving the objective of increasing national self-sufficiency in grain production.

4.2.4. Measures to be supported by the Program: The program will target the main outcome of increasing agricultural production and productivity of maize. Key indicators include: (i) The 2022/23 budget allocation for the input supply program to be scaled up and to be availed at least 3 months in advance of the planting season to allow better planning by farmers and agro dealers, (ii) Scaling up of the ESWADE maize scheme, (iii) The input subsidy scheme to be scaled up from 13,000 beneficiaries to 20,000, with the target of increasing maize production from 127,000 MT to the national requirement of 140,000 MT.

4.3. Pillar II: *Enhancing delivery of agro-commodity financing (fertilizer and seeds to small holder farmers)*

4.3.1. Challenges and Constraints: The main challenge is the high costs of farming inputs that needs to be reduced. During the planting season, there is high demand for inputs versus supply which leads to shortages and results in some farmers (both ESWADE and Smallholder) receiving inputs late. To facilitate better planning, it was recommended that (i) Government should announce the input subsidy at least 3 months in advance of the planting season, (ii) Farmers should pay their 50% down payment early, and (iii) Early award of working contracts to agro dealers.

4.3.2. Recent Government Action: The WFP and FAO are assisting Eswatini with the Agriculture Integrated Information System which will build onto to the Agriculture Marketing Information System (AMIS) developed by National Agriculture Marketing Board ('Namboard'). The system will map producers and all nodes of the value chain and provide real time data on supply and demand. It will indicate who will plant what and when, providing market intelligence to the government and agro-dealers to ensure adequate supply of inputs and also real time information on the strategic food reserves for the country.

4.3.3. Measures to be supported by the Program: (i) The Agriculture Development Fund draft Regulations to be submitted to the Bank*(prior action)*, (ii) The Registration of the Grain Association to be finalized by March 2023 *(policy measure*), (iii) Implementation of the Agriculture Integrated Information System to be tracked according to project plan by end 2022. The project plan to be shared with the Bank (Policy measure), (iv) Additional support to the ESWADE revolving fund to assist more farmers to access fertiliser and agro-inputs. The combination of these measures will in a more efficient agriculture system for the country.

4.4. Pillar III: *Ensuring an enabling environment for sustainable agricultural growth through macro-economic and governance reforms.*

4.4.1. Challenges and Constraints: Eswatini's continued fiscal imbalances requires continued implementation of fiscal consolidation to achieve sustainability. As such, ongoing efforts to streamline SOEs to reduce fiscal risks remains key, including agricultural sector SOEs that are likely to be reduced from 4 to 2. The envisaged Agriculture Development Fund is expected to relieve some of the fiscal pressure on the budget in terms of subsidies. Continued PFM reform efforts are key to strengthening information management, commitment controls, budget preparation and execution, which all impact on the resilience of the economy and spending on social sectors such as agriculture. Ongoing efforts on procurement reform will also help with the participation of SMEs including agriculture SMEs in the supply chains. Addressing issues affecting private sector competitiveness and SMEs access to finance is important for private sector development.

4.4.2. Recent Government Action: The Government has prioritized reforms aimed at rebuilding confidence, restoration of macroeconomic stability, and fiscal sustainability as well as improving the investment climate for private sector development. The Government is keen to ensure that the country's SOEs are well positioned to contribute to job creation, improved serve delivery, inclusive growth, and poverty alleviation. The Government also seeks to reduce its footprint in the economy and allow the private sector to play a leading role in economic recovery key to sustainable and inclusive economic growth. All of these will impact positively on the agriculture sector.

4.4.3. Measures targeted by the Program: The program will support dialogue and measures targeting economic and governance reforms already underway by the Government and supported by the Bank's intervention in Support for Economic Recovery and Inclusive Growth Phase 1 (SERIG I) to strengthen public finance management, fiduciary controls and an enabling environment for the private sector. These include: (i) Approval of the PFM Regulations, (ii) Approval of the Procurement Regulations to foster transparency in procurement including of fertilizer and the participation of SMEs and women, and (iii) Implementation of the SOE Reform Roadmap, including a relook at the mandate and performance of agriculture SOEs. The program will also support dialogue to enable the development of the Agriculture Development Fund toward de-risking climate-smart investments in the agriculture sector resulting in more production for the sector.

4.5. Program Beneficiaries

4.5.1 The program beneficiaries include the people of Eswatini in particular the poor and vulnerable, who will benefit from the safeguarding of food supplies at affordable prices. Under the input subsidy scheme, 20,000 smallholder farmers will benefit up from the current 13,000. Farmers and people in rural communities are bound to be positively impacted. The private sector will also benefit from a more conducive business enabling environment. Ultimately, the program will result in enhanced social protection and increased food security. High sustained and inclusive growth is the ultimate benefit which are positive outcomes for the population as whole.

4.6. Financing Needs and Financing Arrangements

4.6.1 Over the years, the financing of public investment, including agriculture has largely been financed from domestic sources but, in recent years, external financing has assumed greater significance in the form of loans and to a lesser extent grants. In FY2022/23, the share of agriculture spending to total government spending is at 5.9%, a decline from 14.9% of total spending in 2021/22. It is expected to slightly increase to 6.2% in 2023/24. The agriculture capital budget accounts for the largest share the sector budget, averaging 83.7% over the period 2019-22 and is expected to remain high at 76% in FY2023/24. The share of the Input Subsidy Program, to be supported under the PBO is expected to increase from 1.3% of the total agriculture budget to 3% in 2022-24 with this proposed program.

Table 2: Eswatini Agriculture Financing (SZL Million)					
Year	**2019/20**	**2020/21**	**2021/22**	**2022/2023**	**2023/24**
Nominal GDP	65,079.9	66,506.9	71,600.4	78,524.9	84,213.7
Total government expenditure	**23,402.2**	**23,594.1**	**21,048.9**	**23,127.6**	**21,901.3**
of which capital budget	5,758.7	4,999.2	3,483.3	5,327.0	4,912.4
Recurrent expenditure	**16,063.7**	**16,202.1**	**17,749.2**	**16,218.4**	**14,675.0**
Total agriculture budget	1,549.0	2,152.4	3,143.8	1,356.6	1,351.1
of which Agric recurrent expenditure	293.3	*292.2*	321.4	*304.4*	322.8
agriculture capital budget	1,255.7	1,860.2	2,822.4	*1,052.2*	1,028.3
Input Subsidy Programme	-	-	**40.1**	**191.0**	**130.0**
Of which GoKE	-	-	40.1	42.2	130.0
PBO Contribution		-	-	148.8	-
Expressed as Percentages					
Agric. budget as % of GDP	2.4	3.2	4.4	1.7	1.6
Agric. budget as % of total budget	6.6	9.1	14.9	5.9	6.2
Agric capital budget as % of agric total budget	81.1	86.4	89.8	77.6	76.1
Input Subsidy Programme as % of agric. budget	0.0	0.0	1.3	3.1	3.0
Growth in agric budget (%)		39.0	46.1	-56.8	-0.4
Source: Ministry of Finance Budget Estimates					

4.7. Prior Actions

4.7.1 Before the operation is presented to the Board for approval, the documentary evidence for the prior actions presented in Table 3, below, would have been met with the required documentary evidence submitted to the Bank. All the prior actions and triggers are drawn from the policy matrix jointly agreed between the Government and the Bank during the program appraisal mission.

Table 3: Prior Actions and Required Evidence

Prior Actions	Evidence
Confirmation of the presence of an overall strategy for development and investment in Agriculture	Letter from the Minister of Agriculture confirming the key objectives of the Agriculture Investment Plan in enhancing productivity and ensuring food security for the vulnerable and a copy of the Agriculture Investment Plan.
Confirmation of Budget allocation for the input supply scheme	Letter from the Minister of Finance proposing the increase in budget allocation in the FY 2022/23
Plans to establish the Agriculture Development Fund	Submission of the draft regulations to the Bank.

4.8. Policy Dialogue

4.8.1 The key areas of policy dialogue will relate to enhancing macro-economic stability and fiscal consolidation to prevent further deterioration of the fiscal position. This will be undertaken in the context of the ongoing SERIG Program. The dialogue is underpinned by the Government's own fiscal consolidation program and supported by the Bank through MIC-TAF grant which is supporting the restructuring of SOEs including those in the agriculture sector for increased performance and service delivery. In the agriculture sector, dialogue will focus on efforts around the Integrated Information Management System and modalities to increase access to finance for farmers.

4.9. Impact on Gender, Poor and Vulnerable Groups

4.9.1. Gender: The operation will have positive social and gender impacts given its impact on food security and nutrition. A separate MIC grant that complements this intervention will provide technical assistance towards the finalization and approval of the Gender Policy. This initiative does not have any adverse impacts, rather, it will contribute some positive impacts including: (i) increasing women's economic participation, (ii) accelerating women's productivity in agriculture, reducing poverty and hunger; (iii) increasing women's income and economic sustainability; (iv) policy dialogue and the implementation of policy reforms will enhance a review of legal framework to address structural factors that promote more women's access to markets; (v) increase the participation of women led or owned MSMEs in business, especially those in agribusiness. Given the magnitude of the potential positive impact on employment preservation, creation, and skills development in the agriculture sector, which is massively feminine, it is proposed to target a Gender Marker System (GMS) Category GEN II for all the operations.

4.9.2. Fragility and Resilience: Eswatini is vulnerable to recurrent economic and fiscal crises, which impedes its ability to build resilience. The recession triggered by the pandemic, and the fiscal measures implemented in response, have caused budgetary balances to deteriorate, and led to a sharp rise in indebtedness. The increased need for expenditure on health spending, social protection, and support to the private sector has widened fiscal gaps, pushing more the country into a risk of debt distress. Food and water insecurity often triggered by exogenous shocks and disputes over control of land elevate fragility risks in Eswatini, especially for the most vulnerable communities. Climate change, biodiversity loss and environmental degradation undermine livelihoods that depend on the availability of and usage of land and water resources. Food insecurity can emerge from underinvestment in agriculture and rural infrastructure, inefficient food markets, population displacement or extreme weather. The proposed operation will benefit the poor and vulnerable, in Eswatini who will benefit from the safeguarding of food supplies at affordable prices.

4.10. Impact on other Areas (Environment, Climate Change etc.)

4.10.1. Climate Change and Green Growth: The project is not directly exposed to any physical climate risks. Using the Bank's Climate Safeguard System (CSS), the project is classified as Category 3. However, it will take the opportunity to build agricultural and food systems resilience in Eswatini. In scaling up food production, the project will promote the adoption of climate-smart crop varieties and soil conservation practices. Overall, the project is aligned with the adaptation and mitigation goals of the National Climate Change Policy (2016), the updated Nationally Determined Contribution (NDC,2021), and the Bank Climate Change Policy and Strategy 2021-2030.

4.10.2. Environmental and Social Safeguards: The project category is proposed as Category 3 in accordance with the Bank's Integrated Safeguards System. The nature of the project falls under the Bank's emergency relief program which exempts it from environmental and social assessments. Thus, the program will not require Environmental and Social Assessments (ESAs) and their disclosure for clearance by the Bank. The program activities will not generate any negative environmental and social risks and impacts. The program will support existing Bank and Government interventions in the agriculture sector via budget support hence no physical investments or activities will be created. The Executing Agency for this program will be the Ministry of Finance. There is no dedicated E&S role required in the program's institutional structure. However, there is a requirement for the Executing agency to monitor, seek guidance and report to the Bank any arising E&S risks identified (if they arise) during implementation which need to be managed and reported as per the Project's Category 3 proposed classification. The Executing Agency and any contractors and sub-contractors are required to adhere to applicable Bank's Integrated Safeguards System (ISS) and comply with applicable national laws and regulations. The project cost has included a Post Board approval E&S Audit to assess the E&S risks and impacts during implementation and ensure that these are adequately prevented and mitigated.

V. IMPLEMENTATION AND LEGAL DOCUMENTS

5.1 Implementation, Monitoring and Evaluation

5.1.1 The Executing Agency is the Ministry of Finance. The resources target reforms in the agriculture sector and will be implemented by Ministry of Agriculture in collaboration with other stakeholders. The program will rely on the national monitoring and evaluation framework and rigorous review and supervision will be carried out in accordance with the arrangements applicable to PBOs. The policy and financial impact of the program will be evaluated against the specific indicators detailed in the results framework for this operation. RDGS will play a lead role in policy dialogue, monitoring and evaluation of the policy reforms supported under the program, and will also monitor risk mitigation measures. Program implementation review will be carried out every six months to assess progress against the reform actions and policy measures set out in the RBF. This will be coordinated with other DPs providing support in the area including IFAD, FAO, WFP. A Program Completion Report will be prepared to evaluate progress against outputs and outcomes and draw lessons for future operations in Eswatini and the region.

5.2 Financial Management, Disbursement and Procurement

5.2.1. Country Fiduciary Risk Assessment (CFRA): The Bank undertook the Country Fiduciary Risk Assessment (FRA) in line with the Bank's guidance on the FRA framework for policy-based operations. The FRA assesses the inherent fiduciary risks associated with the use of national Public Financial Management (PFM) and Procurement Systems of Eswatini. The FRA establishes whether the Bank can rely on the core PFM systems for the implementation of the Bank's Aid initiative, as well as indicate the scope for capacity development where weaknesses are identified, in line with the Bank's commitment to operationalize the objectives of the Paris Declaration. In assessing the fiduciary risk, the team used recent diagnostic reviews including but not limited to Public Expenditure Financial Accountability (PEFA) 2011, the 2018 Country Portfolio Performance Assessment (PPA), and the Worldwide Governance Indicators (WGI) as updated. The team also reviewed a number of reports and publications on public procurement in Eswatini. The Team also held discussions with the Government of the Kingdom of Eswatini as well as Development Partners. The assessment notes modest but positive trajectory in the PFM performance, but still rates the overall fiduciary risk as Substantial.

5.2.2. Disbursement, Financial Management, and Audit Arrangements: The Ministry of Finance will play a central role in the financial management of the overall program, including overseeing the drawdowns, planning for the use of funds, controls, reporting, and arrangements for oversight. The loan proceeds will be credited to the designated account at the Central Bank of Eswatini. Upon fulfilment of conditions/prior actions the funds will be transferred into a foreign currency holding account to be opened in the Central Bank by the Ministry of Finance. The Ministry of Finance will promptly confirm to the Bank the amounts received in the foreign currency account and subsequently credited to the local currency account as well as credited to the budget management and financial reporting system. The external audit of the proceeds of the loan will be included as a part of the external audit of the Government budget by the Office of the Auditor General. A copy of the approved audit report covering any year in which disbursement occurs should be shared with the Bank as soon as it is available, in any case no later than nine months after the applicable year end. In addition, as further fiduciary assurance, the flow of funds into and out of the foreign currency holding account will be subject to a separate audit, by the Auditor General. The report on the audit of the flow of funds should be shared with the Bank no later than six months after the end of the financial year in which disbursement occurs. The Terms of Reference for the funds flow audit will be shared with the Bank

5.2.3 Procurement: The procurement arrangements for the proposed operation will be in accordance with country procurement systems as detailed in the Public Procurement Act No. 7 of 2011. The use of country procurement systems is consistent with the Bank's Procurement Policy for Bank Group Funded Operations.

VI. LEGAL DOCUMENTATION AND AUTHORITY

6.1 Legal Documentation

6.1.1 The financing instrument for this Crisis Response Budget Support is a ADB Loan governed by a Loan Agreement between the Kingdom of Eswatini (the "Borrower") and the African Development Bank (the "Bank") for an amount of $40.491 million (the "Loan").

6.2 Conditions Associated with the Bank's Intervention

6.2.1 *Conditions Precedent to Entry into Force of the Loan Agreement:* The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the Bank.

6.2.*2* *Prior Actions:* Before the proposal is presented to the Board of Directors of the Bank for consideration, the Borrower shall have provided evidence, satisfactory in form and substance acceptable to the Bank, that the Prior Actions for the Program outlined in Table 4 have been fulfilled.

6.2.3 *Conditions Precedent to disbursement of the Loan*: The Loan will be disbursed in one tranche, subject to the entry into force of the Loan Agreement and the opening of a foreign currency special account at the Central Bank of Eswatini for the deposit of the proceeds of the Loan, in form and substance satisfactory to the Bank.

6.3 Compliance with Bank Group Policies

6.3.1 This program complies with all applicable Bank Group policies and guidelines and key Bank Group applicable ones are: (i) Policy on Program-Based Operations (PBOs) (2012), (ii) Operational Guidelines on the Programming, Design and Management of PBOs, (iii) Ten-Year Strategy (2013-22), (iv) Strategy for Economic Governance in Africa 2021-2025, (v) Revised Staff Guidance on Quality-at-Entry Criteria and Standards for Public Sector Operations, (vi) Private Sector Development Strategy, 2013-2017, (vii) Integrated Safeguards System (ISS) and its Operational Safeguard Requirements together with national regulation requirements; and (viii) Proposal for the Establishment of the African Food Production Facility (2022).

VII. RISK MANAGEMENT

7.1 The Potential risks and mitigation measures for the Program are presented in Table 4, below:

Table 4: Risks and Mitigation Measures

Risk Description	Rating	Mitigation Measures	By
Macro-economic risk: Macro-economic/External shock. Economy vulnerable to volatility of SACU Revenues and external shocks such as drought and the COVID-19 pandemic.	Substantial	Mitigation: More strengthened PFM systems and improved diversification of sources of growth. Irrigation measures being embraced	GoKE
Governance risk: Lack of political will to implement reforms and policy reversals	Moderate	Mitigation: In recent times, Government has demonstrated great commitment to reform which will be sustained through joint dialogue.	GoKE
Fiduciary risk: Although Eswatini has continued to make progress in PFM, there are several weaknesses including difficulties in completing end of year accounts, bank reconciliation not up to date, over and under expenditure on budget.	Substantial	Mitigation: Efforts already underway to establish TSA and there is commitment to implement IFMIS in the near future. Program will accompany some of the reforms.	GoKE

VIII. RECOMMENDATION

8.1 Management recommends that the Board of Directors approve an ADB loan not exceeding USD 40 million to the Kingdom of Eswatini for the fiscal year 2022/2023 for the purposes, and subject to the conditions, stipulated in this report.

ANNEX I: RESULTS BASED FRAMEWORK

A PROJECT INFORMATION						
PROJECT NAME AND SAP CODE: Eswatini AEFPF Budget Support (P-SZ-AA0-013)						
COUNTRY: KINGDOM OF ESWATINI						
PROJECT GOAL: To boost local agricultural productivity in particular that of cereals and grains so as build the resilience of Eswatini's food systems and mitigate risks to supply in the short to medium term.						
PROJECT ALIGNMENT WITH COUNTRY AND AEFPF:	a) Country ambition: Food security and import substitution b) AEFPF: To build the resilience of Africa's food systems and mitigate risks to supply in the short to medium term c) Alignment indicators: Increased domestic production of staple grain crops					
B RESULTS MATRIX						
RESULTS CHAIN AND INDICATOR DESCRIPTION	**RMF/ADOA INDICATOR**	**UNIT OF MEASUREMENT**	**BASELINE [2021/2022]**	**TARGET AT COMPLETION [2022/2023]**	**MEANS OF VERIFICATION**	**FREQUENCY OF REPORTING**
OUTCOME 1: Increased local production of maize (staple food)						
OUTCOME INDICATOR 1.1: increase in local production of maize	X	Tonnage of maize	127,000MT	140,000MT	Crop estimate report	Annual
OUTCOME INDICATOR 1.2: Increase in number of farmers receiving agro inputs	X		13,000	20,000	NMC Reports	Annual
OUTCOME INDICATOR 1.3: Increase in number of hectares producing maize	X	Ha	74,799	82,599	MoA reports	Annual
OUTPUT 1: Domestic food production is adequate						
OUTPUT INDICATOR 1.1 Budget allocation for inputs (absolute amounts)	☐	#SZL	SZL 42.2 million	SZL 191million	Budget Statements	Annual
OUTPUT INDICATOR 1.2 Volume of agro-inputs delivered to farmers:	X	KGs	Fertiliser: – 3.9 mil LAN – 2.6 mil Seeds -325,000.00	Fertiliser:– 6 mil LAN – 4 mil Seeds -500,000.00	NMC Reports	Annual
Implement the Integrated Agricultural Information System	☐	#	0 (2022)	1 (2023)	MoA reports Agricultural Information System	Annual
OUTPUT 2: Enhanced agro-commodity financing (fertilizer and seed supply financing)						
OUTPUT INDICATOR 2.2: Agriculture Development Fund (Yes/No)	☐	Yes/No	No (2022)	Yes (2023)	Ministry of Finance reports	Semi-annual

Number of farmers receiving agro input support from ESWADE Revolving Fund (50 % women)	☐	#	46%	50%	ESWADE annual report	Annually
OUTPUT INDICATOR 2.4: Agriculture Associations registered along commodity lines – at least one grain	☐	Number	1(2022)	2 (2023)	Ministry of Agriculture reports	Annual
	OUTPUT 3: An enabling environment for improved agricultural production through economic and governance reforms					
OUTPUT INDICATOR 3.1: The Gender Policy is submitted to Cabinet	☐	Yes/No	No (2022)	Yes (2023)	Cabinet's circular Approved Policy	Annual
OUTPUT INDICATOR 3.2: PFM regulations which promote transparency in PFM Gazetted	☐	Yes/No	No (2022)	Yes (2023)	Government Gazette, Publications	Annual
OUTPUT INDICATOR 3.3: SOE Reform Road map which includes agriculture sector SOEs adopted by Cabinet for Implementation	☐	Yes/No	No (2022)	Yes (2023)	Government Gazette, Publications	Annual
	OUTPUT 4: Bolstering resilience to withstand agricultural shocks					
4.1 An early warning system to guide agricultural production is maintained	☐	Yes/No	Yes (2022)	Yes (2023)	Early Warning Bulletin	Annual
4.2 Annual food vulnerability assessment is maintained	☐	Yes/No	Yes (2022)	Yes (2023)	Vulnerability Assessment Committee Reports	Annual
4.3 Increase strategic maize reserves	☐	KGs	2000MT	10,000MT	NMC reports	Annual
	OUTPUT 5: Financial accountability and transparency mechanisms put in place					
OUTPUT INDICATOR 5.1: Timely production of independent audit(s) covering all food crisis response and emergency expenditure	☐	Yes/No	No	Yes	Auditor General Report	Annual

ANNEX II: ESCON NOTE

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

AFRICAN DEVELOPPEMENT BANK GROUP

A. 26Basic Information[1]

Project Title: Emergency Food Production Facility	**Project ''SAP code''** P-SZ-AA0-013
Country: Kingdom of Eswatini	**Lending Instrument**[2]: DI ☒ FI ☐ CL ☐ BS ☐ GU ☐ RPA ☐ EF ☐ RBF ☐
Project Sector: Agriculture	**Task Team Leader**: Pumla Adelaide MAJIKIJA
Appraisal date: 13th - 16th June 2022	**Estimated Approval Date**: 15th July 2022
Environmental Safeguards Officer: xxxx	
Social Safeguards Officer: Daniel Ouma OGOL	
Environmental and Social Category: 3 / **Date of categorization**: 26 June 2022	**Operation type**: SO☒ NSO☐ PBO☐
Is this project processed under rapid responses to crises and emergencies?	Yes ☒ No ☐
Is this project processed under a waiver to the Integrated Safeguards System?	Yes ☐ No ☒

B. Disclosure and Compliance Monitoring
B.1 Mandatory disclosure

Environmental Assessment/Audit/System/Others (specify: NA.	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	N/A
Date of receipt, by the Bank, of the authorization to disclose	N/A
Date of disclosure by the Bank	N/A
Resettlement Action Plan/Framework/Others (specify:)	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	N/A
Date of receipt, by the Bank, of the authorization to disclose	N/A
Date of disclosure by the Bank	N/A
Vulnerable Peoples Plan/Framework	
Was the document disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA.	

B.2. Compliance monitoring indicators

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes ☐ No ☐ NA ☒
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes ☐ No ☐ NA ☒
Is the total amount for the full implementation for the Resettlement of affected people, as **integrated in the project costs, *effectively mobilized and secured***?	Yes ☐ No ☐ NA ☒
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes ☐ No ☐ NA ☒
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes ☐ No ☐ NA ☒

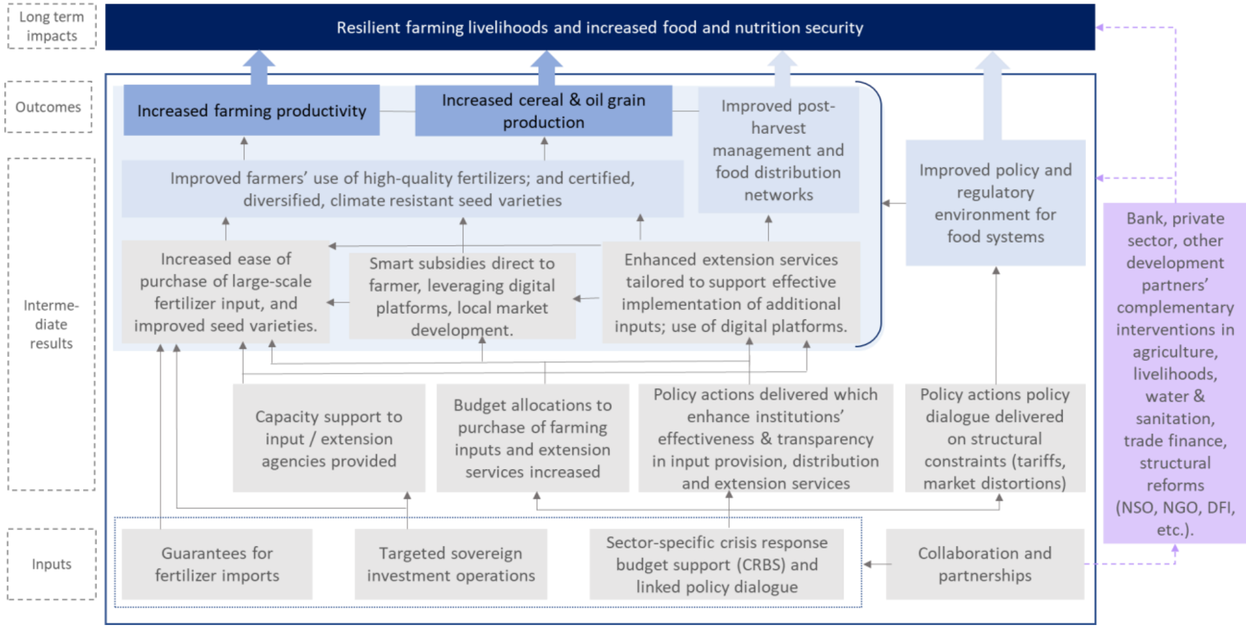
C. Clearance

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?
Yes ☒ No ☐

Prepared by:	***Name***	***Signature***	***Date***
Environmental Safeguards Officer:	xxxx		
Social Safeguards Officer:	Daniel Ouma OGOL		27/06/2022
Task Team Leader:	Pumla Adelaide MAJIKIJA		
Submitted by:			
Sector Director:	Martin FREGENE		27/06/2022
Cleared by:			
Director SNSC:	Maman-Sani ISSA		28/06/2022

[1] **Note**: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*
[2] **DI**=Direct Investment; **FI**=Financial Intermediary; **CL**=Corporate Loan; **BS**=Budget Support; **GU**=Guarantee; **RPA**=Risk Participation Agreement; **EF**=Equity Financing; **RBF**=Results Based Financing.

ANNEX III: Theory of Change



- The long term impact of the proposed program will result in resilient food systems for Eswatini through increase farming production of maize and productivity through the use of appropriate agro-inputs.
- Through the input subsidy scheme farmers will be assisted with fertiliser, seeds and agro chemicals. ESWADE will also assist farmers graduating to commercial farming with farming inputs through the maize production revolving fund.
- The Agriculture Development Fund will be established to de-risk agricultural financing unlocking private sector participation in funding agriculture and increasing the country's production output.
- The Grain association will help to develop value plans for the sector and drive the development of this value chain to be as developed as the sugar value chain.
- The integrated agriculture information system will map producers and all nodes of the value chain and will assist to provide real time data on the supply and demand. It will indicate who will plant what and when providing market intelligence to the government and agro-dealers to ensure adequate supply of inputs and also real time information on the strategic food reserves for the country.

- The consolidation and streamlining of SOEs will create focus along the value chain creating improved policy and regulatory environment for food systems in Eswatini**.**

ANNEX IV: ESWATINI - MEETING THE ELIGIBILITY CRITERIA FOR PBO

Prerequisites	Country Eligibility
Government Commitment	The Government has developed a home grown and credible reform agenda articulated in the National Development Plan (NDP) 2019 – 2022 and the Strategic Roadmap for Economic Recovery (Strategic Roadmap) (2019-2022), prepared through wide-ranging participatory process involving various stakeholders. The NDP 2019 – 2022 and the Strategic Roadmap 2019 – 2022 complement each other and articulate the country's development priorities to address the root causes of poverty and social exclusion. They both support and operationalize the National Development Strategy (NDS) and constitute the country's nationally owned poverty reduction strategy. The Government is also currently implementing a post-COVID-19 fiscal consolidation and structural reform plan, the post-COVID-19 Economic Recovery Strategy to deal with the effects of the pandemic and propel the economy to long-term stability and growth. The post-COVID-19 recovery strategy includes adjustment measures that encompass fiscal consolidation, addressing revenue and expenditure challenges as well as reforms to strengthen the public financial management system. The authorities have also expressed a strong commitment to accelerating implementation of poverty reduction and social inclusion measures under NDP 2019 – 2022 and the Strategic Roadmap 2019 – 2022. The Government is currently finalising the new National Development Plan (2023/24-2027/28 as the successor to the current blueprint. The goal of the new NDP (2023-2027) goal is to encourage the adoption of good governance principles to achieve economic recovery, sound macro-fiscal management, poverty and inequality reduction, a vibrant private sector, an accountable and transparent government, inclusive economic growth and employment, improved national unity and rule of law, and strengthened political stability. The new NDP will be the operational policy document with priorities for the medium-term guiding resource allocation. It brings together all the policy documents into a single framework on which the Medium-Term Fiscal Framework (MTFF) is yearly based. The country will now have a single medium development framework instead of various blueprints.
Macroeconomic framework	Notwithstanding the COVID-19 pandemic and civil unrest, Eswatini's economy rebounded by 5.9% in 2021 from -1.9% in 2020. The growth recovery in 2021 was propelled by manufacturing growth (13.4%), which benefitted from uptick in business activity and rebound in demand following upliftment of lockdown measures. Construction activity growth (6.7%) was boosted by the reopening of the economy which facilitated resumption of projects implementation. The agriculture and forestry subsector recorded a 4.9% expansion, thanks to strong forestry activities growth (31.6%) and animal production that benefited from good rains. Conversely, crop production, in particular sugarcane, was negatively impacted by excessive rains as well as a prolonged strike that reduced the harvest. Services sector growth was tepid (2.2%) as contact-facing activities continued to be constrained by COVID-19 related restrictions coupled with austerity induced weak domestic demand. While overall economic activity gathered momentum in 2021, partly reflecting low base effects, the violent civil unrest weighed down robust growth

Prerequisites	Country Eligibility
	recovery. Potential obstacles to growth include new virus due to weak demand due to weak SACU inflows, new viral mutations, slow vaccination, domestic and global geo-political tensions, in particular the Russia-Ukraine conflict which will negatively affect agricultural production and prices. Resultantly, growth is projected to slow down to 1.9% in 2023. Major tailwinds include continued fiscal consolidation, structural reforms, and national political dialogue.
Political stability	**Eswatini's political governance architecture has largely remained intact despite the 2021 social unrest that amplified calls for the further opening of democratic space.** In June-July 2021, the country experienced a severe civil unrest triggered by protests for constitutional reforms around, among others, the right to elect the country's Prime Minister. Following two fact-finding missions by SADC officials and a working visit by President Cyril Ramaphosa of South Africa to explore solutions to the crisis, King Mswati III committed to a transparent and inclusive national dialogue process to chart the way forward. The national dialogue is expected to take twenty-four months beginning 2022. The dialogue has the support of Partners who are working towards a Basket Fund led by UNDP to support the National Dialogue Process
Satisfactory fiduciary risk assessment	**Overall, there is notable progress on PFM reforms.** However, the approval of PFM Regulations by Parliament, key to improving the country's financial management environment, is still outstanding owing to awaited amendments on the PFM Act. Implementation of the Integrated Financial Management Information Systems (IFMIS) has been slow but is expected to pick pace in FY2023/24 and no progress has been registered with regards to the Treasury Financial and Accounting Instructions. However, implementation of the Treasury Single Account is in progress, a welcome improvement. There is some progress to improve the Internal Audit function, although implementation of Internal Audit recommendations is still low, varying between 30-50%. The Office of the Auditor General (OAG) launched its Strategic Plan in 2021 and needs TA support for its successful implementation as the department faces several challenges including severe staffing constraints which compromises delivery. While the Audit Bill is under review; it is not clear when it will be presented to Parliament for approval. Cabinet approved the report and roadmap on SOEs that is now at implementation stage. Priority activities include review of the Public Enterprises Act, development of the Public Enterprise Policy, Costing of Exit Packages and Financial Analysis of the Savings, development of the new Governance Structure for SOEs and Framework for Performance management. In procurement, a Country Procurement Assessment was conducted in 2019 and updated in 2021. The initial assessed risk was Substantial, with room for re-categorization to Moderate if proposed mitigating actions are implemented. However, the implementation of the IFMIS has suffered some set back following the withdrawal of EU support, but the Ministry remains committed to implementing the IFMIS. AfDB has previously offered its support in this regard should Government wish to borrow for the roll out of IFMIS. It should also be noted that the majority of the system improvements indicated above are still at the nascent stage, thus their effectiveness is yet to be assessed and confirmed. The expectation however, is that the overall system performance will improve and benefit from the changes, further confirming the positive trajectory of PFM performance, a prerequisite for the country to be eligible for PBO financing given current fiduciary risk

Prerequisites	Country Eligibility
	levels. The Bank continues to primarily use country systems on a case by case basis, while continuing its support, where required, for the system's reform aimed at further improvement. There is opportunity to engage in dialogue and influence the necessary reforms to further strengthen the fiduciary environment through this operation which supports measures to improve budget execution and Audit as well as transparency in procurement. Priority activities include review of the Public Enterprises Act, development of the Public Enterprise Policy, Costing of Exit Packages and Financial Analysis of the Savings, development of the new Governance Structure for SOEs and Framework for Performance management. In procurement, a Country Procurement Assessment was conducted in 2019 and updated in 2021. The initial assessed risk was Substantial, with room for re-categorization to Moderate if proposed mitigating actions are implemented.
Harmonization	A harmonized donor framework for budget support operation is not in place in Eswatini given that only the World Bank (WB) and the AfDB are currently engaged in this area of support to Eswatini. There is also no on-going process to establish a budget support group under the proposed operation. However, the Bank worked closely dialogue with the IMF and the WB in the design of the precursor SERIG Operation. Consultation has been undertaken with DPSs active in the agriculture sector such as FAO, IFAD and WFB in the preparation of this operation and the interventions of this PBO complement the activities of these DPs

ANNEX V: APPLICATION OF GOOD PRACTICE PRINCIPLES ON CONDITIONALITY

Principle 1: Reinforce Ownership: The P**rogram** is designed to support the implementation of the Eswatini National Development Plan (NDP) 2019 – 2022, and the Agriculture Investment Plan.

Principle 2: Agree up front with the government and other partners on a coordinated accountability framework: The policy reforms to be supported by the operation are strategic priorities fully discussed with Government of the KoE to ensure ownership.

Principle 3: Customize the accountability framework and modalities of Bank support to country circumstances*:* The prior actions and triggers have been carefully selected against a robust accountability and results measurement framework, which will serve as the results framework for monitoring and evaluation. The Bank will supervise the operation. The operation will also benefit from the existing aid architecture – donor coordination framework.

Principle 4: Choose only actions critical for achieving results as conditions for disbursement: Disbursement of the single tranche of the ABS will not be subject to any conditionalities. However, before the operation is presented to the Board, certain prior actions have to be met. The prior actions chosen focus on critical actions to strengthen agriculture productivity and financing, and broader structural reforms with positive impact on the sector.

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support*:* Extensive consultation with other development partners and stakeholders will be undertaken during the supervisions. RDGS and the liaison office in Eswatini will play a critical role in this regard.

ANNEX VI. GOVERNMENT REQUEST

Telephone: 4048145-9
Fax: 4043187
Telex: 2109 WD

MINISTRY OF FINANCE
PO BOX 443
MBABANE
ESWATINI

THE KINGDOM OF ESWATINI

04 May, 2022

Kennedy K. Mbekeani
Deputy Director General
African Development Bank

Dear Sir,

SUBJECT: REQUEST FOR BUDGET SUPPORT ON THE PREVAILING FOOD CRISES

The Russia-Ukraine crises has brought three types of crises to the Eswatini economy and these include;

1. Food supply crises,
2. Fuel price hike crises and,
3. Increase in prices for basic food commodities (wheat).

Further, challenges of fertiliser supplies in the region has resulted in delays in farming by local food producers and poor yields.

I kindly request the Bank's support for the prevailing food crises estimated at US$35 - US$40 million to enable Government to meet the food demand for the country.

Please accept sir, the assurances of my highest consideration.

Yours sincerely,

Hon. Neal H. Rijkenberg
Minister of Finance

Kennedy K. Mbekeaini
Deputy Director General
African Development Bank

Dear, Sir

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Please accept sir, the assurances of my highest consideration.

Yours sincerely,

Hon. Neal H. Rijkenberg
Minister of Finance

ANNEX VII. ESWATINI LETTER OF DEVELOPMENT POLICY

Telephone: 2404 8145/9
Fax: 24043187
Telex: 2109WD
Email:
dlaminisiza@gmail.com

MINISTRY OF FINANCE
P.O. Box 443
MABABANE
ESWATINI

THE KINGDOM OF ESWATINI

20 June 2022

Dr. Akinwumi A. Adesina
The President
African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire

DRAFT LETTER OF DEVELOPMENT POLICY

Dear Mr. President,

On behalf of the Government of the Kingdom of Eswatini, I am writing to request the support of the African Development Bank (AfDB) for financial support to the tune of USD 40 million in the form of a budget support loan. The support is meant to assist the Government to deal with several challenges confronting the country, chiefly the looming food and agricultural sector crisis partly induced by the conflict between Russia and Ukraine.

Background

Eswatini has encountered a number of challenges during the last two years inter-alia: (i) the emergence of the COVID-19 pandemic that severely upended critical socio-economic activities and reversed poverty eradication gains; (ii) the Tropical Cyclone Eloise that landed in Eswatini in January 2021 extensively damaged key infrastructure, particularly roads and bridges; (iii) the June-July 2021 civil unrest, which costed the economy around SZL3 billion (about USD200m), further added serious damage to economic infrastructure, business properties and resulted in loss of precious lives and personal injury; and (iv) the ongoing Russia-Ukraine war that has triggered steep increases in the cost of food imports and caused supply constraints of key agricultural inputs, thereby threatening food security, a situation that may further fuel social tensions. The above highlighted crises, thus, compounded the country's already existing development challenges that include high levels of poverty (58.9%), inequality (51.4%) and unemployment (33.3%) – particularly youth unemployment (58.4%). As a result, Government's financial resource needs to address and mitigate the socio-economic impacts of the challenges and rebuild the economy have been severely strained, more so at a time of fiscal consolidation that is aimed at restoring macroeconomic stability and fiscal sustainability. This makes overcoming these challenges very complex, in an environment of low growth and insufficient job creation.

Mr. President, despite the abovementioned challenges, the Government of the Kingdom of Eswatini is grateful to the African Development Bank, for its unwavering financial support to Eswatini through various financing instruments. The recent assistance received under the Support for Economic Recovery and Inclusive Growth Phase 1 (SERIG 1) aimed at jumpstarting the economy from the effects of COVID-19 through support towards macroeconomic stability and fiscal sustainability has been very important to our recovery efforts. Without this support, our efforts to deal with the effects of the pandemic and emerging challenges would have been an arduous task. This development policy letter, thus, provides an update of Eswatini's recent economic developments and its reform agenda towards an economic recovery path in the medium-term.

Eswatini's Development Framework

Eswatini's development objectives are anchored on the National Development Strategy (NDS, 1997-2022), Vision 2022. Underlying this vision is the fight against poverty to ensure that Eswatini's living conditions are improved significantly to near advanced countries' standards, and this is envisaged to be delivered through sustainable economic development, social justice and political stability. The NDS is operationalised through successive medium term development blueprints – the National Development Plans (NDPs). The current NDP (2019/20-2021/22) is focused on Eswatini's economic recovery that is underpinned by good governance, sound macroeconomic management, fiscal stability, efficient public service, dynamic private sector, well managed natural resources, environmental sustainability and efficient economic infrastructure. The Government is currently reviewing the NDP (2019-22), with a view to increase its focus on accelerating post COVID-19 economic recovery. The new NDP (2023/24 – 2027/28) will cover a period of five years and will largely centre around the themes of the current NDP, given that its successful implementation was limited by the outbreak of the COVID-19 pandemic, hence the areas covered remain relevant. Worth mentioning is that the new NDP will integrate climate change into development planning given Eswatini's increasing vulnerability to the phenomenon, often with dire socio-economic consequences. The Government's reform agenda articulated in the Strategic Roadmap for Economic Recovery (2019-2022) focusing on (i) ease of doing business, (ii) fiscal consolidation and arrears clearance, (iii) infrastructure, investment and innovation, (iv) building a culture of excellence, and (v) safeguarding social safety nets, also remain relevant. The Government identified key sectors and low hanging fruits to stimulate economic recovery, and these include agriculture, manufacturing and agro-processing, mining and energy, education and ICT and tourism. With the emergence of the COVID-19 pandemic, the Government is redoubling efforts to ensure a well-resourced and capacitated health sector able to withstand pandemics. The post-COVID-19 Economic Recovery Plan consolidated requisite key reform measures, which, if implemented, can propel the economy to quickly transition from the effects of the pandemic to rapid, sustained recovery and growth. This will be done through implementation of public and largely private sector projects that can generate employment and have strong positive multiplier effects in the entire economy.

Recent Socio-Economic Developments

For nearly two decades, Eswatini has endured stagnant growth (around 2%), which is insufficient to uplift its people from the jaws of endemic poverty, persistent unemployment and yawning levels of inequality. The weak growth has been induced by low productivity in key employment generating sectors of agriculture and manufacturing, largely due to persistent droughts, declining investment levels, a weak external sector, waning competitiveness and declining as well as volatile Southern Africa Customs Union (SACU) receipts, which severely eroded fiscal space. The ensuing fiscal and cash flow challenges seriously constrained aggregate demand, thereby curbing services sector growth and triggered ripple and vicious cycle of negative economic effects across key sectors of the economy. Since 2016/17, fiscal deficits have been persistent, public debt rapidly escalated, inflation increased albeit temporarily, domestic arrears were growing, thereby choking private sector activity. As private sector companies contracted by the Government struggled with their loan repayments, bank assets quality was somewhat impacted through increase in non-performing loans. Structural challenges including old and deteriorating infrastructure stock, a rigid business regulatory climate, and a weak institutional environment exacerbated the unstable economic conditions.

The outbreak of the COVID-19 pandemic in 2020 put tremendous pressure on the economy and the social fabric of the Kingdom of Eswatini. Since March 2020, when the first case of the virus was detected, Eswatini has experienced four waves of infections and deaths that differed in intensity. As of 20 June 2022, Eswatini had recorded a total of 73,013 confirmed cases, including 1,415 deaths. Vaccination commenced in March 2021 and as of 21 June 2022, 31.2% of the population (1.2 million) had been vaccinated, a rather low rate despite the widespread availability of vaccines after initial supply bottlenecks. Eswatini has a high HIV/AIDS prevalence rate (27.2%), which increases vulnerability to COVID-19. There is also a growing number of people suffering from non-communicable diseases (NCDs), which has seriously strained the capacity of the health delivery system, and thus added to the existing human and financial constraints.

On the economic front, COVID-19 pushed the economy to contract for the first time in 2020 (-1.9%) in nearly half a century. The COVID-19 containment measures constrained economic activity from both the demand and supply side. However, in 2021, Eswatini realised an economic rebound (5.9%), which is, however, transitory given the low base effects compared to 2020. The growth recovery in 2021 was largely propelled by manufacturing growth (13.4%), which benefitted from uptick in business activity and rebound in external demand following upliftment of lockdown measures. Construction activity growth was boosted by the reopening of the economy which facilitated resumption of projects implementation. The agriculture and forestry subsector recorded a 4.9% expansion, thanks to strong forestry activities growth (31.6%) and animal production (2.8%) that benefited from abundant rains. Conversely, crop production, in particular sugarcane and sugar processing, was negatively impacted by excessive rains (January 2021 Tropical Cyclone Eloise) as well as a prolonged strike that reduced the harvest. Growth in the services sector (2.2%) remained tepid as contact-facing activities such as tourism, accommodation and hospitality, and entertainment remained constrained by COVID-19 related restrictions. Although the June-July 2021 civil unrest weighed down robust growth, Government's Reconstruction Fund, initially capitalised by SZL1 billion (USD68 million), partly mitigated the damage. Uncertainty remains around the 2022 growth forecasts as the country's level of economic activity will depend on second round effects of COVID-19 and political developments. Emerging challenges on global trade and supply value chain disruptions, partly due to recurring COVID-19 waves in China are expected to weigh negatively on export-oriented manufacturing outputs. Additional risks emanate from the Russian-Ukraine conflict, which is expected to negatively impact the economy through increases in prices of energy, food imports and agricultural inputs, particularly fertilizer and agro-chemicals. These price increases are expected to feed into higher food production costs and, thus, weigh down on growth and the external balance.

The country has struggled with persistent fiscal deficits since 2016/17, which largely emanated from weak revenue performance exacerbated by volatile Southern Africa Customs Union (SACU) receipts and, more recently, the COVID-19 pandemic. The fiscal deficit has, however, been on a gradual decline, from 8.5% of GDP in 2019/20 to 6.7% in 2020/21 and 4.1% in 2021/22, with the decline mainly attributed to Government's fiscal consolidation efforts that have reigned in public expenditure. However, the fiscal deficit, largely financed through domestic and external borrowing, is expected to slightly increase to 4.9% of GDP in 2022/23, due to the expected fall in SACU revenues in the medium term. Public debt slightly increased from 39.3% of GDP in 2020/21 to 42.5% in 2021/22 but is projected to recede to 41.1% in 2022/23 and remain sustainable in the medium term. Domestic debt accounted for 60.3% of total debt as at end 2021 and the remainder is external. As part of its arrears clearance program, the Government reduced its domestic arrears from 8.2% of GDP in 2020 to less than 2% of GDP in 2021. The current account surplus declined to around 2.4% of GDP in 2021, from 6.7% of GDP in 2020, due to weaknesses in the secondary income account attributable to volatile SACU inflows. Domestic arrears growth has largely been contained and the remaining old balance (SZL 3.7 billion (USD246 m)/7.3% of GDP) as at end March 2022 is expected be settled through netting-off . Noteworthy are new arrears that have accumulated to SZL1.5 billion (USD100m), which the Government is committed to clear soon. Despite challenges, Government remains committed to fiscal sustainability and curbing buildup of domestic arrears.

Monetary authorities maintained an accommodative monetary policy to support growth and economic recovery. The Central Bank of Eswatini (CBE) reduced the discount rate from 6.5% in March 2020, further slashed it to 3.75% in July 2020, before slightly increasing it to 4% and 4.5% January and May 2022, respectively to curb inflation concerns. Inflation averaged 3.8% over 2020-21 but is expected to pick up in the short-term due to mounting inflationary pressures, including from elevated global energy, food and agricultural input prices induced by supply constraints in the wake of the Russian-Ukraine conflict. International reserves were maintained at 3.6 months of import cover in 2021, from 3.2 in 2020, buoyed by increased Special Drawing Rights (SDR) allocation. Gross official reserves climbed from 2.6 months of imports cover in 2019 to 3.5 over 2020-2021 owing to an uptick in SACU receipts in 2020, budgetary inflows from IFIs and improvement in the trade balance. Reserves stood at 3.4 months of import cover as at end May 2022, boosted by IFIs budget support loans. Increased import demand and rising global prices due to the Russian-Ukrainian war, coupled with pressures on the secondary income account owing to decline in SACU inflows is expected to weigh down on the reserves position in the near to medium term. Non-Performing Loans (NPLs) have held steady, but gradually increased from 5.6% of total gross loans in June 2021 to 7.4% in March 2022, a reflection of the residual effects of COVID-19 and the civil unrest on business operations which limited their capacity to timely repay bank loans.

Transmission of the Russian-Ukrainian War Effects on Eswatini

Eswatini, like other countries will not be spared from the negative effects of the Russian-Ukraine conflict. The effects of the Russia-Ukraine war will largely be channeled to Eswatini through increases in global inflation of energy and food as well as constraints on the supply of key agricultural inputs which will negatively affect food production. The rise in global inflation will filter through the economy and push domestic prices upwards, which will affect public spending. Inflation in Eswatini, which has been moderate in recent years, is forecasted to reach 4.5% in 2022 (from initial forecasts of around 4% before the war). Eswatini is import dependent on fuel and other agro-inputs and imports food to supplement insufficient local production. Without mitigation measures, Eswatini's farm input subsidy program, which benefits many vulnerable small holder farmers and financed by the Government will suffer from fertilizer shortages, high agricultural inputs and fuel costs, which will affect agricultural production, and exacerbate food security challenges and poverty. The fiscal deficit is expected to remain elevated (4.9% of GDP) and to close the financing gap, the Government needs to borrow, which will inevitably increase the country's indebtedness. Elevated inflation risks will prompt monetary authorities to raise interest rates, and thus lead to higher debt interest payments, which further compounds the fiscal challenges. On the external front, the global inflation will hit our current account and international reserves position as the country battles with increased imports costs, further eroding our hitherto positive but declining current account surplus.

Strategies for Medium to Long Term Recovery and Growth

Despite the country's recent economic challenges and social unrest, which were partly fuelled by the COVID-19 pandemic, the Government remains committed to achieving its goal of attaining economic recovery underpinned by sound macroeconomic management, which is critical to address the country development challenges. Government will adhere to prudent fiscal policy management and ensure the that the fiscal budget is fully financed. Eswatini is committed to promote policies that deliver higher and sustainable economic growth level of at least 2.5% per annum on average in the short term and 5% thereafter. This is articulated in the above-mentioned economic blueprints, namely the NDS (1997-2022), NDP (2019-2022), Strategic Roadmap for Economic Recovery (2019-2022) and the Post COVID-19 Economic Recovery Plan, which are all being reviewed and updated to extend beyond 2022.

i. National Dialogue

Following the civil unrest that engulfed the country in 2021, Government committed to an inclusive national political dialogue beginning 2022 aimed at promoting national reconciliation and preventing conflict escalation. The Government is committed to restoring social cohesion through concrete initiatives that include the planned national dialogue to be convened by His Majesty, through Sibaya process. This was confirmed by the His Majesty the King during the opening of the Fourth Session of the 11th Parliament of the Kingdom of Eswatini on 4 February 2022. The Sibaya Dialogue, known as People's Parliament, is the ultimate consultative national decision-making forum for all Emaswati, as articulated in Section 232 of the Constitution. A dedicated Secretariat for the National Dialogue is now in place within the Ministry of Justice and the Sibaya Dialogue is scheduled to take place in 2022 with exact dates to be communicated in due course. As additional commitment towards the national cohesion and unity process, Government has set aside SZL 22 million (USD1.5 million) for the Sibaya- Dialogue. To ensure an inclusive process, further nationwide consultations with all stakeholders and sections of Eswatini society will also be undertaken to gather views on the way forward regarding current challenges.

ii. Enhancing food Security and agriculture productivity

Agriculture is the backbone of the Eswatini economy, and the sector is priority for growth as articulated in the NDS, NDP, Strategic Roadmap for Economic Recovery (2019-2022) and Post COVID-19 Economic Recovery Plan. At sector level, Government formulated various policies for the agriculture sector aimed at creating an enabling environment within the sector and these include the Swaziland (Eswatini) National Agricultural Investment Plan (SNAIP) 2015-2025 and the Comprehensive Africa Agriculture Development Programme (CAADP). The SNAIP aims to, among others, increase the country's agricultural productivity and the sector's contribution to economic development as well as diversification of agricultural production and overall consumption. To guarantee food security, Government seeks to bolster and expand the Input Subsidy Programme to increase maize production. The country has capacity to improve local production for import substitution and building a base for exports. The new Eswatini Agriculture Investment Plan (EAIP) will focus on strengthening agriculture value chains, especially staple foods which will absorb a large number of rural smallholder producers, through organizing smallholder producers as shareholders into farming companies and organizing the farmers into commodity/industry associations in order to benefit from economies of scale of commercial farming. The EAIP will also look at the entire value chain from supply to processing. To support agricultural production across the country and mitigate against the vicissitudes of climate, Government is facilitating formation of irrigation schemes, green houses, as well as supporting construction of scoop dams as well as small and medium sized earth dams to support agriculture.

iii. Macroeconomic and Fiscal Stability

Government recognises the importance and urgency of macroeconomic and fiscal stability for the economy to sustainably grow, more so with the impact of COVID-19 and the other identified challenges on the economy. It is imperative for the country to improve on PFM and adherence of the PFM Act 2017 while ensuring clearance and non-accumulation of domestic arrears to enhance private sector participation and employment creation. The country adopted a detailed medium term fiscal adjustment plan to stabilise public debt and bolster external buffers. The Government's Fiscal Adjustment Plan (2020-2023) was initially set at 6.5% of GDP but was reduced to 4.8% of GDP due to delays and alterations to various policy measures particularly revenue reforms. The fiscal consolidation plan is centred around the following pillars: (i) Wage bill containment - to contain the public wage spending by continuing with policies of hiring freeze, suspension of promotion, stay on cost-of-living adjustment increase and lower than inflation salary adjustments. These measures are expected to see the wage bill growth declining to 3.2% over 2019-23. The wage bill, which currently stands at 8.9% of GDP, remains high; (ii) commissioning of an external review of the extra budgetary sector to rationalise spending and implement reforms to reduce transfers to SOEs; (iii) continue to pursue new ways to reduce operational expenditures (including capital program) and improve the targeting of social assistance programs; (iv) revenue enhancements measures – broadening the tax base, increasing tax rates such as personal income and value added tax as well as strengthening tax administration. The Government is on course to establish a SACU stabilization Fund aimed at creating buffers against SACU revenues volatility. To further raise long-term capital, Eswatini plans to issue rand denominated sovereign bonds on the Johannesburg Stock Exchange, an option deemed to be of low risk to debt distress given Rand parity with the Lilangeni.

iv. Improving the business environment for enhanced private sector participation

The Government recognises the importance of private sector in promoting inclusive and sustainable growth. The private sector is regarded a critical component of the Post COVID-19 Economic Recovery Plan. Government seeks to empower the private sector to drive the necessary productive economic activities and lift the economy from the slump. As the crisis abates, Government will scale up implementation of structural reforms to facilitate private investment, and support more inclusive and sustainable growth. The Government is on course to establish an electronic One-Stop-Shop that will enable a number of services (company registration, trading licenses, works premises and registration for utilities to be done online. This is expected to improve doing business. Provision of adequate economic infrastructure remains key in resuscitating economic activity. Hence, the Government is constructing factory shells countrywide that are set to generate 6,000 additional jobs and is also reviewing the micro, small, and medium-sized enterprise policy to further promote local and external investment. The creation of special economic zones to attract more foreign investors will also be prioritised. Improving competitiveness forms part of our focus in the medium term through reviewing the business regulatory framework.

v. State Owned Enterprise (SOE) Reform

In line with the fiscal consolidation plan Government is also keen to ensure that the country's State-Owned Enterprises (SOEs) are well positioned to contribute to job creation, the delivery of essential services (agriculture, electricity, water, education, health), inclusive growth and poverty alleviation. Eswatini's SOEs, are now huge burden on the economy and on the fiscus. The study commissioned by Government, through the Eswatini Economic Policy Analysis and Research Centre (ESEPARC) to streamline public enterprises was completed in 2021. The report recommended reduction of State-Owned Entities (SOEs) from 49 to 30 and the Government has started advocacy for the implementation of the recommendation. Among these measures is reducing the exposure to extra budgetary entities through implementation of ongoing efforts to streamline SOEs, including SOEs in agriculture. Government also seeks to reduce its footprint in the economy and allow the private sector to play a more dominant role.

vi. Public procurement reform

The Government has been making efforts to strengthen the procurement management function for major spending ministries, starting with initial institutional capacity-building activities and implementation of the legal framework including the operationalization of Public Procurement Regulations in 2021. The country developed an e-Government Procurement strategy and developed a national supplier data base and an e-Quotation System aimed at improving transparency, efficiency and a reduction in costs. Following the issuance of the public procurement regulations , a review and appeal structure were established to adjudicate on public procurement issues. Government is committed to implementation of institutional reforms, technical and financial capacity building initiatives as well as regulatory reforms to bring the public procurement system to the required standards.

Conclusion

The Bank's support to the Kingdom of Eswatini and the African continent more generally, is more critical at this time. The proposed budget support will go a long way in supporting Government's efforts to ensure food security, preserve livelihoods as well as sustain Eswatini's structural reform program to ensure long term prosperity. The Bank has partnered the Government of the Kingdom of Eswatini on the critical economic development efforts through providing support to key areas of agriculture, transport, water and sanitation, public finance management, private sector finance, technical and most recent general budget support. As such, the support being solicited for will provide urgent solutions and will help mitigate the negative impacts of the war and assist the Government to address obtaining socio-economic challenges, particularly in the area of food security and agriculture development. To ensure accountability, the Government will intensify reforms to strengthen governance, transparency, accountability and step-up anti-corruption fight.

We thus look forward to the Bank's continued support in assisting the country meeting its overall development objectives.

Yours Sincerely,

Hon. Neal Rijkenberg, MP
Minister of Finance
Government of the Kingdom of Eswatini