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AFRICAN DEVELOPMENT BANK



PROJECT APPRAISAL REPORT MKHONDVO NGWAVUMA WATER AUGMENTATION PROGRAM PHASE 1B (MNWAP-1B)

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KINGDOM OF ESWATINI

MKHONDVO NGWAVUMA WATER AUGMENTATION PROGRAM-PHASE 1B (MNWAP-1B)

APPRAISAL REPORT

RDGE/PESD DEPARTMENTS

December 2022

CURRENCY EQUIVALENTS

Exchange rate effective 31 October 2022

Currency Unit	Equivalent
1 Unit of Account	1.42 USD
1 Unit of Account	23.02 SZL
1 United States Dollar	17.98 SZL
1 United States Dollar	17.98 ZAR

FISCAL YEAR

1 April - 31 March

WEIGHTS AND MEASURES

1 Metric ton	2,204.62 Pounds (lbs)
1 Kilogramme (kg)	2.20462 lbs
1 Meter (m)	3.28 Feet (ft)
1 Millimetre (mm)	0.03937 Inch (“)
1 Kilometre (km)	0.62 Mile
1 Hectare (ha)	2.471 Acres

ABBREVIATION AND ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
CRFA	Country Resilience and Fragility Assessment
CSP	Country Strategy Paper
EIRR	Economic Internal Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESCON	Environmental and Social Compliance Note
ESWADE	Eswatini Soil, Water and Agriculture Development Enterprise
EU	European Union
FAO	Food and Agriculture Organization
FC	Foreign Currency
FIRR	Financial Internal Rate of Return
GHG	Green House Gases
IFAD	International Fund for Agricultural Development
LC	Local Currency
MNWAP-HAD	MNWAP Holistic Approach Development
NPV	Net Present Value
OCB	Open Competitive Bidding
PAR	Project Appraisal Report
PCN	Project Concept Note
PCR	Project Completion Report
PIU	Project Implementation Unit
PLW	People Living with Disabilities
RAP	Resettlement Action Plan
SEAH	Sexual Exploitation and Harassment
SDG	Sustainable Development Goals
UA	Unit of Account
UNDP	United Nations Development Program
WASH	Water Hygiene and Sanitation
WFP	World Food Program

PROJECT INFORMATION SHEET

CLIENT INFORMATION

Project Name	Mkhondvo Ngwavuma Water Augmentation Program – Phase 1B (MNWAP-1B)
Sector	Agriculture / Rural Development
Borrower Recipient	Kingdom of Eswatini
Project Instrument	ADB Loan
Executing Agency	Eswatini Water and Agriculture Development Enterprise (ESWADE)

COUNTRY AND STRATEGIC CONTEXT

Country Strategy Paper Period:	CSP 2020-2024
Country Strategy Paper Priorities supported by Project:	Pillar I: Scaling up infrastructure investments to foster economic diversification. Pillar II: Strengthening economic governance to improve the investment climate.
Government Program (PRSP, NDP or equivalent):	The project is prioritized under the Post COVID-19 Economic Recovery Plan, the Eswatini National Development Plan (NDP, 2019-22) and the Strategic Roadmap for Economic Recovery (2019-22)
Project classification:	<u>Relevant High-5 Priority Areas and Sub-themes:</u> <ul style="list-style-type: none"> • Feed Africa – investment in infrastructure and agricultural productivity • Improve quality of life for Africans – access to clean water • Industrialise Africa – Micro, Small and Medium Enterprise support
	<u>United Nations Sustainable Development Goals (SDGs):</u> <ol style="list-style-type: none"> SDG 2: Zero Hunger SDG 6: Clean Water and SDG 8 Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.
	N/A. ADB Country
Country Performance and Institutional Assessment:	NA
Projects at Risk in the country portfolio:	0

PROJECT CATEGORISATION

Environmental and Social Risk Categorization	Category 1, validated and confirmed on 28 March 2022
Does the project involve involuntary resettlement?	Yes
Climate Safeguards Categorization:	Category 2
Fragility Lens Assessment:	Yes
Gender Marker System Categorization:	Category 2

ADF/ADB KEY FINANCING INFORMATION

Loan currency South African Rand (ZAR)
 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

Source	Amount (millions)		Financing Instrument
	UA	ZAR	
African Development Bank	93.56	2,084.29	ADB Loan
Government Counterpart Contribution:	83.73	1,865.21	Cash
Total Project Cost:	177.29	3,949.50	

PROJECT DEVELOPMENT OBJECTIVE AND COMPONENTS

Project Development Objective:	To increase agricultural production by providing a reliable supply of water for irrigation, contributing to increased income generating opportunities among target beneficiaries.
Project Components:	Infrastructure Construction – ZAR3,026m
	Potable Water Supply – ZAR39m
	Farm Development and E&S Management – ZAR545m
	General Project Management – ZAR339m

PROJECT PROCESSING SCHEDULE TO BOARD APPROVAL

PCN Approval:	28 October 2022
Appraisal Mission:	22 August 2022 – 2 September 2022
Planned Board Presentation:	16 December 2022
Effectiveness:	May 2023
Project Implementation Period:	1 September 2023 – 31 December 2030
Planned Mid-term Review:	September 2027
Project Closing Date:	30 June 2031

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1. STRATEGIC CONTEXT

A. Country Context, Strategy and Objectives

1. Eswatini is a small country which covers an area of 17,364 km² and has a population of 1.1 million. Classified as a lower-middle-income country with a GDP per capita of US\$ 4,741 (2021), Eswatini's characteristics are akin to that of a low-income country. The underlying development challenges are high poverty levels, unemployment, inequality, which have been worsened by COVID-19. In the 2017 Household and Income Expenditure Survey, 58.9% of the population live below the national poverty line, down from 63% in 2010 and is most pronounced in rural areas (at 70.2%) than urban areas (19.6%) and highest Shiselweni (71.5%) and Lubombo (67.3%) regions. The country has a Gini index score of 54.6 on inequality (51.5 in 2009). Unemployment, which declined from 28.2% in 2013 to 22.2% in 2019 climbed to 33.3% (youth 58.2%) due to company closures brought about by COVID-19. Eswatini has been stuck in low growth trap over the past decade which has worsened the development challenges. Shocks that have negatively impacted the economy in recent years include weak growth of the South African economy, the emergency of the COVID-19 pandemic, 2021 Tropical Cyclone Eloise, civil unrest experienced in 2021, and the Russia-Ukraine conflict which has heightened food and energy challenges.
2. The Mkhondvo – Ngwavuma Water Augmentation Program (MNWAP) is, thus, a strategic development aimed at the attainment of the country's economic development goals by empowering subsistence farmers on Swazi Nation Land (SNL) to convert into commercial irrigated agriculture through the provision of water infrastructure and capacity building. MNWAP will be implemented over three phases, where the first part of Phase I (MNWAP-1A) was approved for financing by the Bank in December 2021 and the second part of Phase I (MNWAP-1B) is presented in this appraisal report. The Program will help reduce the impact of climate change as well as job creation leading to economic development. MNWAP is consistent with the Governments' priorities as detailed in the National Development Plan (NDP 2019-2022) and the draft new NDP (2023-2027). The NDP promotes the diversification of agricultural production whilst intensifying production of high value crops. Agricultural development is also identified as a priority sector for growth in the Strategic Roadmap for Economic Recovery (2019-2022) and Post COVID-19 Economic Recovery Plan. More specifically, MNWAP aligns with Eswatini's National Agricultural Investment Plan (SNAIP) which aims to increase the country's agricultural productivity and the sector's contribution to economic development. To realise these objectives, the Government of the Kingdom of Eswatini recognises the criticality of water resources and irrigation infrastructure for agriculture development, especially in the face of climate change where dependency on rainfall alone is no longer sustainable. Under Programme 1 of SNAIP (Sustainable Natural Resource Management), key outcomes include the reduction of rainfed agriculture dependence.
3. The MNWAP-1B project aligns with the Country Strategy Paper (2020-2024) Priority Area 1: *Scaling-Up Infrastructure Investments to Foster Economic Diversification*. One of the focus sectors under this priority area is agriculture - where the Bank will provide a mix of debt facilities and technical assistance to support the development of agribusiness hubs and commercial horticulture value chains that will boost productivity, diversification, supply of value added agro-based products for the local

and external market. MNWAP-1 will develop 4,600ha under irrigation. The MNWAP program aligns with the AfDB's Ten Year Strategy (2013-2022) aimed at promoting inclusive and green growth. It also aligns with the Bank's High-5 priorities, especially the "Feed Africa", Industrialise Africa and the "Improve the Quality of Life for the People of Africa". Finally, the Project is aligned to the Bank's Feed Africa Strategy for Agricultural Transformation in Africa (2016 – 2025), which prioritizes wide dissemination of productivity enhancing technologies and identifies several enablers, including increased investment into enabling infrastructure as well as inclusivity, sustainability and effective nutrition.

4. Upon consultation with the Bank, Eswatini adopted the vision of MNWAP as a holistic development approach that cuts across several sectors but centered around agricultural and agro-industrial development. In addition to agriculture, a special agro-processing zone (SAPZ) for oil and textile production will be set up in the program area. MNWAP will also cover aspects of transportation, energy, urban development, education, health, eco-tourism and other necessary services for the evolving population centers in the program area using PPP approach. The program is transformative in nature and will elevate an entire region to commercial agribusiness for the benefit not only to Eswatini, but also spillover to South Africa, Mozambique, and the rest of the SADC region. The Government of Eswatini approached the Bank with a request to support the implementation of the MNWAP Holistic Approach Development (MNWAP-HAD) as a lead financier. Currently, RDGS is compiling an interdisciplinary team to lead this operation.

B. Sector and Institutional Context

5. Agriculture is the mainstay of Eswatini's economy contributing about 9% to the country's real GDP. The sector is strongly linked to the export-oriented manufacturing sector and sustains livelihoods of around 70% of the country's population and employs about 13.5% of the labour force. In 2022, the output of the sector is dominated by animal production (51.2%), growing of crops (25.8%), and forestry (18.2%). Sugarcane, maize, cotton, citrus and other horticulture including vegetables, banana are the main crops under production in the domestic economy.
6. In recent years, rainfed agriculture has suffered from low productivity due to frequent climate change induced droughts and floods, inadequate drought mitigating infrastructure such as dams and irrigation and lack of access to finance. The country's agriculture sector has predominantly been driven by the sugar sub-sector which is, however, susceptible to changes in global commodity prices and demand.
7. Eswatini has a dual land tenure system comprising privately owned land - Title Deed Land (TDL) and SNL, typically for subsistence farming. TDL is freely tradable, and the country's Constitution has entrenched rights to property as every person has a right to own property either alone or in association with others. SNL is held in trust by Ingwenyama (King) on behalf of the nation and is administered by traditional chiefs. SNL comprises about 60% of the land in the country and is allocated to households for both residential and agriculture purposes through the traditional kuKhonta system. Landowners on SNL have a land use right and cannot sell nor use it for collateral purposes. The land is inherited by the family lineage and when disputes arise, they are settled through traditional structures from chiefdom level up to Royal council levels.

8. The project will benefit from synergies with IFAD's smallholder market-led project (SMLP) currently being implemented in the project area by the same executing agency who will implement MNWAP - ESWADE. The IFAD program creates chiefdom development plans and increases production of targeted crops such as legumes, vegetables, honey and goats. The chiefdom development plans will be beneficial to MNWAP and ensure that the negative impacts of the project are mitigated as irrigation projects normally displace livestock (4 out of the 8 targeted chiefdoms have already been assisted by IFAD with development plans).
9. Rain-fed agriculture in the selected areas for MNWAP (Lowveld/Shiselweni/Lubombo) performs poorly because the area receives the lowest amount of annual rainfall and experiences the highest mean temperatures compared to the other Agriculture Ecological Zones ("AEZs") of the country, thus making it vulnerable to drought. The lowveld of Eswatini has good arable soils, but water is the limiting factor for agricultural development. MNWAP was considered after the damaging effects of the 2015/16 El Nino induced drought on rural population livelihoods, especially in the southern Lowveld of Eswatini that includes the population living in the Ngwavuma River Basin, which is currently not developed, therefore people living in that area experience high levels of poverty, yet they have ample suitable land to develop and generate income. It aims to mitigate the impacts of drought in the project area by providing a reliable irrigation infrastructure for the efficient storage and management of water. In the long run, the increased productivity from irrigated production will contribute towards poverty eradication by supporting the participation of the rural communities in sustainable agricultural production.

C. Rationale for Bank's Involvement

10. The Bank is a natural partner because: (i) the project is aligned to three of the High 5s, (ii) the Bank provided MIC TAF grant for the detailed designs of MNWAP Phase 1; (iii) MNWAP-1B is part of Phase 1 and the Bank is funding the first dam construction (MNWAP-1A) under implementation, and (iv) the Bank also has experience on the other large scale irrigation projects in the country from the Komati Downstream Development Project (KDDP) to the Lower Usuthu Smallholder Irrigation Phase I and II (LUSIP I and II), which were funded by AfDB.
11. In 2018, The Government of Eswatini approached the Bank for a MIC TAF grant to:
 - a. *Undertake detail design studies and elaborate tender documents for the Mpakeni dam and its associated downstream conveyance and distribution system supplying water to the St Philips, Mconcwane, Maloma areas for the development of an irrigated area (Phase 1), and*
 - b. *Update, expand and validate the previous pre-feasibility study of the proposed options for the transfer of water from the Mkondvo River to the Ngawuma River and recommend the most feasible option. This will be followed by detailed designs of the chosen option and an expansion on the irrigation development over a large potential area within the command area of the system (Phase 2 & 3).*

D. Development Partners Coordination

12. In general, MNWAP program will complement and benefit from the efforts of other Development Partners (DPs) supporting agriculture in Eswatini including EU, IFAD, WFP, FAO, UNDP and others. FAO is assisting government with inputs into the

Eswatini National Agriculture Investment Plan (ENAIP) by funding the value chain planning to facilitate sector development plans that will inform areas of intervention by the Government and the private sector to improve competitiveness. The cotton value chain plans for the country have been completed and the Bank has benefited from the use of these plans in assessing MNWAP-1B. FAO is also facilitating the establishment of the Agriculture Development Fund (ADF) to improve access to finance for the sector. The Government has allocated USD3 million from the Bank funded Emergency Food Production Program loan facility to capitalise the ADF whose objective is to improve 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). IFAD is supporting the Smallholder Market-led Project (SMLP) in thirty-seven (37) chiefdoms including the MNWAP project areas (Shiselweni and Mahamba regions). The project will benefit from these plans as four (4) out of the eight (8) chiefdoms in the project area already have development plans and ESWADE is the executing agency for the SMLP.

13. These measures by the DPs will complement the assistance provided to the project beneficiaries and contribute to the development of sustainable farming enterprises. The project was presented to the DPs at various stages to ensure alignment and seek co-financiers.

2. PROJECT DESCRIPTION

A. Project Development Objective

14. The objective of the Mkhondvo-Ngwavuma Water Augmentation Program (MNWAP) is to increase agricultural production by providing a reliable supply of water for irrigation, contributing to increased income generating opportunities among target beneficiaries. Additionally, the project lays the ground for agro-industrial development through sustainable cotton production for garment and oil production.
15. The integrated development will cut across several sectors but centered around agricultural and agro-industrial development. At full implementation of MNWAP-HAD (including phases 2 and 3), 30,000 ha of industrial crops will be established, with a special agro-processing zone and parallel development in transport, energy and urban development. MNWAP-HAD targets employment of about 100,000 direct jobs (out of which 30,000 are smallholder families) and many more indirect work opportunities - alleviating poverty by supporting the participation of the rural communities in sustainable agricultural production.
16. Phase 1 (part A & B) of the project entails the construction of the Mpakeni Dam (approved in 2021) and the downstream development of 4,600 hectares of cotton that will be processed for a vertically integrated textile industry (raw cotton to garments and oil).

B. Theory of Change

17. The lowveld region is characterised by frequent droughts, dependence on rainfed agriculture and limited access to potable water, contributing to low agricultural productivity, low incomes and high unemployment rate especially for women and youth. The project entails the construction of water and conveyance infrastructure to convey water from the Mpakeni dam to the project irrigation command areas and

capacitation of the local farmers resulting in increased access to water for households and agricultural production, with a focus on the development of the cotton value chain. Irrigated farming and farmers with higher skills will increase productivity and area under production enabling sufficient output for agro processing, attracting private sector investment and the establishment of the cotton ginnery for the vertically integrated processing of cotton to garments and oil. Direct job opportunities will be created along the cotton value chain and household income will increase reducing the unemployment rate. Over time, poverty will be reduced in the program area, there will be more private sector development and there will be better socio-economic outcomes due to access to clean, safe water and sanitation.

18. The above outcomes assume that: (i) Government enters an agreement/commitment with the private sector company to set up the cotton ginnery for vertically integrated processing of cotton; (ii) the cotton value chain will continue to be more profitable than alternatives; and (iii) ESWADE and the cotton ginner will provide extension services to ensure adequate quality and quantities to supply the cotton ginnery.

C. Project Components

19. The Mkhondove Ngwavuma Water Augmentation Program Phase 1B (MNWAP-1B) contains the following components:

Component 1: Infrastructure Development

Component 2: Potable Water Supply Development

Component 3: Farm Development and E&S Management

Component 4: Project Management

Component 1: Infrastructure Development

20. Infrastructure construction covers the main/bulk conveyance, secondary distribution and infield irrigation with the following sub-components:
 - a) *Main Conveyance*. The main conveyance is the construction of the thirty-eight (38) km long pipeline from the Mpakeni Dam to the irrigation command areas at St Philips;
 - b) *Secondary Conveyance/Distribution System*. The secondary conveyance starts from the off-takes on the main conveyance to the various irrigation areas including Maloma, Mconcwane/Mcathuvane and St Philips. It also covers the main farm roads as well as the drainage system; and
 - c) *Infield Irrigation Infrastructure*. This will be farmer led and only the conceptual designs for the infield irrigation system have been prepared based on an area of 4,000 ha comprising the best soils (S1 to S3) in the area. The remaining 600 ha is already developed and currently under sugarcane but suffering of water shortage.

Component 2: Potable Water Supply Development

21. The project aims to provide potable water supply to the affected households along the main conveyance system.

Component 3: Farm Development and E&S Management

22. There are two aspects to this component: (a) Capacitation of Farmers. This involves training and organising subsistence farmers on SNL to transition to commercial farmers using water availed through the project; and (b) Social and Environment Management Plan and Resettlement Action Plan implementation. There are several mitigation measures outlined in the ESIA/SEMP and RAP for Component 1B which must be implemented. These include issues of servitude as well as the relocation of public infrastructure.

Component 4: Project Management

23. This covers:
- a) *Construction supervision*: the supervision of the construction of the main conveyance system, secondary distribution, and infield irrigation; and
 - b) *Project Management*: the general operating costs of implementing the project which will be incurred by ESWADE.

D. Project Cost and Financing Arrangements

24. The total MNWAP-1B project cost is ZAR3,949.5 million as indicated on table 1 below. The cost estimates were revised in August 2022 and the planned costs include a provision of about 5% of total costs, for physical and price contingency and 15% for price contingency. AfDB will provide a loan of ZAR2,084.29 million and will partially fund the main conveyance system. The balance of the project cost (ZAR1,865.21 million) will be funded from government resources. However, a number of donors including DBSA, EIB/EU and BADEA expressed interest to finance the project. The Government is currently analyzing the comparative advantage of different sources of funding to invite for financing.

Table 1: Estimated Cost of the Project by Component

Components	ZAR million			% of Total Programme Cost
	Foreign Cost	Local Cost	Total	
Component 1. Infrastructure Development	2,522.22	0	2,522.22	63.9
Component 2. Potable Water Supply Development	0	32.44	32.44	0.8
Component 3. Farm Development and E&S Management	0	454.09	454.09	11.5
Component 4. Project Management	0	282.50	282.50	7.2
Total Base Cost	2,522.21	769.03	3,291.25	83.3
Physical contingencies (5%)	126.11	38.45	164.56	4.2
Price contingencies (15%)	378.33	115.35	493.69	12.5
Total Project Cost	3,026.66	922.84	3,949.50	100.0

Table 2: Project Sources of Financing

Sources of financing	Costs (ZAR million)	Costs (ZAR million)	% of Total Programme Cost
African Development Bank (ADB)	2,084.29	2,084.29	52.77
Government of Eswatini	1,865.21	1,865.21	47.23
Total Project Cost	3,949.50	3,949.50	100.0

Table 3: Project Cost by Categories of Expenditure

Category	ZAR million			% of Base Total Cost	% of Total Programme cost
	Foreign Cost	Local Cost	Total		
Works	2,522.22	32.44	25,54.66	77.6	64.6
Services	0	621.59	621.59	18.9	15.7
Operating Costs	0	115.00	115.00	3.5	3.0
Total Base Cost	2,522.22	769.03	3291.25	100	83.3
Physical contingencies	126.11	38.45	164.56		4.2
Price contingencies	378.33	115.35	493.68		12.5
Total Project Cost	3026.66	922.83	3949.49		100

Table 4: Project Expenditure Schedule

Component	(ZAR million)						
	2022	2023	2024	2025	2026	2027	Total
Component 1. Infrastructure Development	0.00	449.42	565.44	666.03	629.12	212.21	2522.22
Component 2. Portable Water Supply Development	0.00	0.96	1.93	1.93	13.81	13.81	32.44
Component 3. Farm Development and E&S Management	103.99	110.99	110.62	110.00	18.49	-	454.09
Component 4. Project Management	47.08	47.08	47.09	47.08	47.08	47.09	282.50
Total Base Cost	151.07	608.45	725.08	825.04	708.50	273.11	3291.25
Physical contingencies	7.55	30.42	36.25	41.25	35.43	13.66	164.56
Price contingencies	22.66	91.27	108.76	123.76	106.28	40.97	493.69
Total Programme Cost	181.28	730.14	870.10	990.05	850.20	327.73	3949.50

E. Project's Target Area and Population Beneficiaries and other Stakeholders

25. The water available for Phase 1 can irrigate project development areas of 4600 hectares. The project development areas for the 4608 hectares are: 1,390ha Swazi Nation Land (SNL) at Sigwe/Maloma and Mconcwane/Mcathuvane; and 3,298ha Title Deed Land (TDL) at St Philips of which 608ha is already developed with sugarcane

with water from LUSIP II. All the project areas are in the Shiselweni and Lubombo regions. The project area is characterised by the co-existence of Title Deed Land (TDL) in the St. Phillips area (70%) and SNL in the rest of the areas (30%). The TDL at St Phillips are either owned by the Ingwenyama Trust, Tibiyo TakaNgwane (Government Parastatal) and individual private farms. Private/ Commercial farm owners will participate in the project through the following options: (i) Outright Sale to the project, (ii) Long-Term Lease for the project to recuperate the investment costs, (iii) Individual participation in project development, with full cost of water infrastructure paid by the farmer; and (iv) Partnership Model where commercial farmers enter into a joint venture with the local communities in the project, ceding their farm to a farmer company to access the privileges of the water infrastructure similar to other companies developed by local communities. The government is committed to ensure that majority of the farmland in phase 1B is allocated to smallholder farmer companies. The Cotton Offtake Investor has also requested for up to 2000 ha of land for private sector anchor farms. Detailed soil surveys are available and ESIA studies have been completed. ESWADE estimates a minimum allocation of 1.5 ha per household for land allocated to smallholders, following the practice from LUSIP project.

26. Stakeholder engagements were held with the traditional authorities, private landowners and ministries in different locations. In the process 280 females and 279 males participated in the consultations. Additionally, direct consultations with the 38 households (Project Affected Persons - PAP) for ARAP development were conducted. The key issues in the consultations included the type of impacts and how PAP will be mitigated and provision of water to communities along the pipeline route. Further engagements with the Civil Society Organisations will continue to be held as additional land is allocated to ensure maximum participation of stakeholders.

F. Bank Group Experience and Lessons Reflected in Design

27. Bank operations in Eswatini and previous project completion reports are highlighted follows: (i) Participatory approach: It is imperative for a supply led irrigation to integrate the distribution of water and associated land use within the expressed needs and preferences of the local community and to recognise and ensure that the project addresses population needs for those households not benefiting from access to irrigated land; (ii) an exit strategy for the project and its management team that is based on empowering community and giving them more responsibilities in operations and maintenance; (iii) acknowledge the important roles played by the traditional chiefs in land allocation as chiefs are custodians of lands under the SNL; and (iv) make sufficient provision for the loan approval process. These lessons learnt have guided both the Bank and the Government in project design and will continue to guide the implementation process of the project.
28. MNWAP-1B preparation process involved extensive consultations with both traditional and private farmers in the project area. Project design was also based on professional review of the value chain in the country and experience of Komati and LUSIP projects in selection of cash crops that not only improve farmers 'income but also selected industrial crops that lead to huge number of sustainable jobs in value chain. At full operation of the cotton mill, 20,000 permanent jobs are expected to be created.

29. The project will also be implemented by ESWADE that led three Bank financed projects to successful completion. Success was witnessed by the continuous operations of Komati Project after 17 years of completion and LUSIP I after 10 years of completion. The ESWADE capacity built over 20 years of operations of Bank and other Donor financed projects provides sustainability and best practice to lead the entire MNWAP Program implementation.

3. PROJECT FEASIBILITY

A. Financial and Economic Analysis

30. The Financial Internal Rate of Return (FIRR) and Economic Internal Rate of Return (EIRR) analysis of the Mkhondo Ngwavuma Water Augmentation Program Phase 1 B (MNWAP-1B) indicates that it is viable both financially and economically. The results of the key economic and financial figures summarized in Table 5 presents an FIRR of 5.2% and an NPV of ZAR 1,987, 486,635 using a discount rate of 3%. The EIRR computed is 7.4 which is above the cost of capital.

Table 5: Key economic and financial figures

FIRR, (base case)	5.2%
EIRR (base case)	7.3%
NPV, (Discount Rate)	ZAR 1,987, 486,635 (3%)

31. Analysis of the gross margins of selected crops concern maize (without the project on 1,000 ha) and cotton and dry beans (with the project) on 4,600.8 ha seasonally show accrual of positive revenue to farm enterprises. Total project cost amounting to ZAR 3.95 billion invested over 7 years was computed together with Operation and Maintenance (O&M) and constituted the cost stream. Benefits streams from the cotton and dry bean enterprises and the cost stream and the consequent cash flows were discounted at 3% for a 30-year period.
32. The determination of the economic benefits took into consideration mainly the direct agricultural benefits and not the full multiplier effects, thus the textile and garment segment of the cotton value chain were not included. In the case of beans, the proportion of each of the two types of beans was put into consideration in the computations. Thus, the economic value of cotton was ZAR 170,839,636 with that of beans at ZAR 115,036,410 respectively per season. The assumptions also considered an open economy and exchange rate stability. The benefit stream, costs and the discounted cash flows were analysed for NPV and EIRR yielding 7.3%. Sensitivity analysis of EIRR, NPV and B/C ratios comprising increases (10%, 20% and 30%) for benefits and costs were computed. It shows that the project is sensitive economically to benefit and cost increments.

Additional Positive Effects

33. In addition to financial benefits from revenue accrual of the selected crop enterprises and employment creation at the various stages of the value chains; potential non-

financial benefits include improved food and nutrition security, enhanced access to safe drinking water and improved health for both direct and indirect beneficiaries.

34. Specifically, the cotton has the potential to contribute 40,000 Mt of seed cotton which could be crushed into oil with a multiplier effect of creating 1,400 jobs directly from the two plants and an additional 20,000 jobs in the garment industry. The dry beans have the potential to contribute significantly to food self-sufficiency with 10,854 Mt of highly nutrient rich food to the domestic market as well as to improvement of soil fertility through nitrogen fixation.
35. The project and its consequent phases also lay the ground for the MNWAP-HAD which is expected to create 50,000 sustainable jobs topping the 30,000 jobs in farming and 20,000 jobs in the cotton ginnery totaling 100,000 jobs for MNWAP-HAD in all sectors including but not limited to transportation, tourism and urban development.

B. Environmental and Social Safeguards

Environmental

36. Categorization: The Project has been categorised as 1 and validated on 28th March 2022. Project activities will have adverse impacts some of which maybe and irreversible on the environment and the community. The project includes construction of a large infrastructure for irrigation involving construction of Mpakeni dam and irrigation canals that will irrigate approximately 4600ha. According to the Bank's Integrated Safeguards System and the Environmental and Social Assessment procedures all large infrastructure irrigation projects of more than 2000ha are Category 1 projects requiring an ESIA study; and according to the Eswatini Environmental Management Act of 2002 and the Environmental Audit, Assessment and Review Regulations (2000) the project is categorised as 3 (an equivalent to the Bank's Category 1). Based on the Bank's ISS requirements and the national regulations in Eswatini the Project required ESA documents are an ESIA with detailed ESMP and an ARAP. The Borrower has prepared an ESIA and ARAP using consultants which were reviewed by Environmental and Social Safeguards Officers of the Bank and cleared on 1st August 2022 for disclosure in country on 16th of August 2022. The Bank was authorised to disclose on 16th August 2022 and the ESIA and ARAP were disclosed on 17th August 2022.
37. The project's activities during the construction phase that will generate adverse environmental and social impacts include: (i) land requirement for the main and secondary conveyance and the infield irrigation infrastructures; (ii) Project excavation and construction works and transportation of construction materials and waste from sites to final disposal sites; Sourcing of water for domestic and construction purposes; (iii) Operation of fuel storage dep(iv) Influx of population for employment. The major anticipated adverse impacts are impacts on biological diversity; (ii) vegetation clearance and fragmentation; (iii) resettlement and livelihoods loss impacts, (iv) Increased pressure on an already disturbed ecosystem as a result of climate change, livestock grazing, land conversions to agricultural developments (v).Impacts of soil erosion, soil compaction and soil contamination.(vi) Deterioration of water quality and possible alteration of stream flows when constructing pipeline across rivers, resulting in adverse impacts on aquatic lifeforms.(vii). Impacts of dust from movement of

construction vehicles and excavations, (viii). Impacts of construction on public safety and adverse visual impacts on surrounding landscape due to alterations caused by excavations (ix) GBV and SEAH impacts. An Abbreviated Resettlement Action Plan (ARAP) and Environmental and Social Management Plan (ESMP) have been developed to mitigate the adverse impacts of the project.

38. The anticipated positive impacts of the project include (i). Employment creation during construction; (ii). Improved participation in commercial agricultural development; (iii). Improvement of skills in irrigation management (iv). Emergence of economic benefits nationally and locally from the project activities.
39. The mitigation measures for each major risk and adverse significant impacts are reflected in the Environmental and Social Management Plan (ESMP) and the ARAP. The cost for implementation and monitoring of the ESMP (including the ARAP) is estimated at ZAR 544,908,000.0.
40. ESWADE, the Executing Agency has adequate project E & S specialists located in the Environment Department which has an Environmental Manager, 2 Environmental Officers, 1 Resettlement Officer and a Social Facilitation Manager. These specialists will be responsible for implementation, monitoring and monthly reporting on ESMP and ARAP during MWAP 1B. There is also collaboration with Eswatini Environmental Authority that ensures compliance with the national regulations.

Involuntary Resettlement

41. The Number of people affected by the involuntary resettlement is 38 households with a total number of 131 people. The households affected are 11 female headed and 27 male headed. The lost assets include 1 shelter, crops for 19 PAPs, 3988.8 ha farmland, and 21 fruit trees. No social infrastructure will be lost, but 17 livelihoods will be at risk. The ARAP cost is ZAR/ZAR 259,532,139.00. The resources for ARAP will be provided through counterpart funding by the Government of Eswatini. The ARAP will be implemented by the Executing Agency, ESWADE.
42. *Stakeholder Engagement and Public Consultations:* Engagements for the development of the ESIA and ARAP were conducted across various locations in the project area on diverse dates between September 2021 and March 2022. Further consultations with directly impacted persons and asset verification and identification were conducted on diverse dates in June 2022. A total of 559 PAPs were consulted comprising 280 females and 279 males. A total of 12 Focus Group Discussions were conducted and 3 Non-Governmental Organisations were consulted. Some key issues raised by stakeholders included: (i). ESWADE should contact affected communities directly and make them aware of the availability of the ESIA reports for review. Announcements about the availability of the reports should not be restricted to local newspapers, but the final ESIA report should be made available at community level so that the Chiefdom representatives communicate the information to the community members; (ii). Where agricultural fields are affected, will the project compensate just for the affected portions in each field or for the whole field? (iii). How will potentially affected homesteads know that the project will impact on them? (iv). What measures has ESWADE put in place to ensure that those community households who are not benefiting directly from the project are still allowed to join farmers' Associations so that they also do benefit.

43. *Grievance Redress Mechanism*: The ESIA and ARAP provide a grievance mechanism that will be used during implementation. GRM describes the process of receiving and managing complaints raised by impacted stakeholders.
44. *E &S compliance and reporting*. As a Category 1 project, the Executing Agency will be required to submit: (i) a monthly E & S report; (ii) an annual E&S Audit Report; and (iii) a RAP and Livelihood Restoration Plan implementation reports. These reporting requirements will be included in the legal covenants.

Climate Change and Green Growth

45. *Vulnerability and resilience*: Using the Bank Climate Safeguard System (CSS), the development of water conveyances infrastructure from the Mpakeni Dam and the downstream irrigation system area to be developed, is moderately exposed to climate hydro-meteorological risks such as drought; flooding; soil erosion and land degradation. The operation is therefore classified as a category 2 project. The project will contribute to building livelihood resilience while the irrigation infrastructure will mitigate the risk of climate change. Meanwhile, to enhance the resilience of the irrigation infrastructure and cropping system sustainability, the project will promote a climate-smart inter-cropping system. This includes water-efficient irrigation technology and climate drought-resilient crop varieties with less water requirement demand during their growing period to mitigate future water risks (See climate resilience action plan in climate technical annex).
46. *Carbon footprint and mitigation potential*: The project under a conservative cropping system scenario will contribute to 6048 tons of CO₂eq. This will be mainly driven by the associated land use change of 4600 hectares. Thus, in the long term, the project will promote renewable based irrigation technologies, especially for commercial users/large-scale farmers to offset the project's carbon footprint
47. *Alignment and climate finance*: The project will build Eswatini agriculture and food system resilience to drought extreme (developed of climate-smart irrigation system) and enhance livelihood resilience including WASH sector resilience (through the provision of portable water to mitigate WASH climate-related risks). It is aligned with Eswatini updated Nationally Determined Contribution (NDC,2021) adaption priority area (building the resilience of the WASH and agriculture sectors). To enhance the project's contributions to climate finance and the Bank Climate Change and Green Growth Policy and Strategy 2021-2030, the project will mobilize the Global Environmental Facility 8 cycle Least Developed Countries Fund (LDCF) resource for co-financing targeting climate change priorities areas and December submission.

C. Other Cross-cutting Priorities

Poverty reduction, Inclusiveness and Job Creation

48. The project will reduce poverty in the national and local economy through increased agricultural production, creation of employment during the construction and operation of the irrigation of the scheme, provision of goods and services. The project will bring positive impacts and ensure inclusiveness by ensuring social inclusion in benefits that will accrue from the project such as employment by including the different vulnerable groups such as the poor, women and youth. Though livelihoods will be impacted, a

Livelihood Restoration Plan will be implemented, and this will also ensure that the vulnerable groups also benefit.

Opportunities for Building Resilience

49. Eswatini's overarching development challenge is to sustainably grow an inclusive economy that is resilient to shocks and positioned to drive the country towards socio-economic development. Food and water insecurity often triggered by exogenous shocks that elevate fragility and vulnerability risks, especially for vulnerable communities. Climate change, biodiversity loss and environmental degradation also undermine livelihoods that depend on the availability of and usage of land and water resources. Food insecurity challenges have emerged from underinvestment in agriculture and rural water infrastructure, inefficient food markets, population displacement or extreme weather. The Bank's proposed MNWAP project will enhance the resilience in the agriculture sector through the provision of reliable supply of water for irrigation. The project will improve participation of the rural communities in sustainable agricultural production. Rural community participation through modern water infrastructure and the cotton plant to be established that will create employment opportunities for the youth and women through secondary industries, can help relieve long-term pressures on the fiscus, such as the need to provide social protection and support to the private sector which widen fiscal gaps.

Gender Equality and Women's Empowerment Promotion

50. The interventions supported by this project will positively influence efforts towards reducing gender inequality and women poverty. The project supports interventions that will contribute to the policy reforms on land ownership, this operation will positively influence efforts towards implementation of gender equality policy. The sectoral focus of agriculture will directly benefit women who are very active in the sector in Eswatini. Interventions as, development of agribusiness hubs, commercial horticulture, that will boost productivity and diversification, will contribute to economic empowerment of women and in the growth of SMEs in which women can be active. In addition, these interventions will also play significant role to reduce food insecurity in households. The operation is classified as Category II on the Bank's Gender Marker System.
51. Impact on poor and vulnerable groups: interventions under this project will help poverty eradication, job creation and skills development by supporting the participation of the rural communities in sustainable agricultural production, construction activities and different types of training activities. Ongoing interventions include sensitization and social awareness on GBV and SEAH for girls, youth and communities that are likely to produce positive impacts to reduce country HIV rates. The Government intends to apply for a MIC Grant from the Bank to undertake a MNWAP Women Enterprise Development Project.

4. IMPLEMENTATION

A. Institutional and Implementation Arrangements

52. The Project will be implemented by the Eswatini Water and Agricultural Development Enterprise (ESWADE), a government company established in 1999 with the purpose to assist farmers on communal land to convert from subsistence agriculture to

commercial agriculture through the provision of water, skills, and other necessary support systems. ESWADE facilitated the planning and implementation of number of successful Bank financed projects. ESWADE is headed by a Chief Executive Officer and reports to the Minister of Agriculture through its Board of Directors. ESWADE has acquired great experience in project implementation using Bank rules and procedures and currently has good project management capacity.

53. To ensure integrated development, the government has set up a MNWAP Program Steering Committee (chaired by Chief Economist MoEPD), responsible for the strategic direction and coordination. The PSC comprised representatives from the Ministry of Agriculture, Ministry of Finance, Ministry of Economic Planning, Ministry of Housing and Urban Development, Ministry of Tinkhundla (Local Government), Ministry of Commerce, Industry and Trade, Ministry of Natural Resources and Ministry of Public Works and Transport. This PSC will also exercise oversight over the implementation by ESWADE and all related agencies/departments.
54. An off taker is expected to invest in a cotton ginnery and related industries at a cost of approximately ZAR3.5 billion in the project area to ensure that there are off takers for the anchor crop (cotton). It is anticipated that an “operator” with the necessary skills and equipment would be engaged to grow and harvest the cotton and dry beans on part of the project area to ensure adequate supply of the seed cotton. ESWADE will assist the farmer beneficiary communities to establish farmer companies who will own the cotton and dry beans farming business. The operator will be responsible for providing the necessary transfer of skills, expertise and cotton harvesting and haulage machinery to the farmer companies representing the communal small-scale farmers to ensure that the required cotton is supplied to the ginnery as well as achieving the two crops per season. Community members will be shareholders in the farmer companies and also provide labour in the farming operation. *The agriculture value chain analysis study recommends a transparent pricing model to the farmers that ensures the maximum benefit linked to the world cotton price be paid to farmers. This will create trust in the supply chain and incentivise farmers to produce cotton.*

B. Procurement

55. *Procurement Arrangements:* All procurement of goods, works and the acquisition of consulting services and non-consultancy services, financed by the Bank for the project, will be carried out in accordance with the “Procurement Policy for Bank Group Funded Operations”, dated October 2015 and following the provisions stated in the Financing Agreement. Specifically, Procurement will be carried out as follows:
 - i. BPS: The BPS shall not be used for any goods, works or consulting services contracts financed by the Bank except for miscellaneous operational costs.
 - ii. Bank Procurement Policy and Methodology (BPM): Bank Standard Procurement Methods and Procedures (PMPs), using the relevant Standard or Model Solicitation Documents (SDs) shall apply.
56. *Procurement Risks and Capacity Assessment (PRCA):* The assessment of procurement risks for country, sector, project level and of procurement capacity at the Executing Agency level were undertaken for the project and the output has informed the decisions on the procurement regimes (BPS and Bank) being used for specific transactions or

groups of similar transactions under the project. The appropriate risks mitigation measures have been included in the procurement PRCA action plan proposed in Technical Annex 4-5.

57. Review Procedures: All procurements under Bank PMPs shall be subject to prior review by the Bank.
58. Advance Contracting: The Bank recommended Advance Contracting to accelerate implementation of the Project. There is a need to expedite early contracting of Works and the acquisition of Consulting Services prior to the approval of the Project by the Bank's Board of Directors for rapid project implementation. The Borrower will undertake such Advance Contracting at their own risk, and any concurrence by the Bank with the procedures, documentation, or proposal for award(s) does not commit the Bank to provide financing of the project. The Borrower has commenced steps for the advance contracting as they have submitted the draft request and procurement plan. This will facilitate the Bank's approval of the official request.

C. Financial Management, Disbursement and Audit

59. An assessment of the Eswatini Water and Agricultural Development Limited Enterprise Limited (ESWADE) was carried out by the Bank to establish whether it has the capacity to carry out the financial management (FM) of the above-named project. The financial management (FM) assessment was carried out in accordance with the Bank's FM Guidelines for Investment Operations 2019. The results of the assessment indicate that the Financial Management overall risk rating is Moderate. The assessment concluded that ESWADE has adequate FM capacity and the proposed financial management arrangements put in place meet the Bank's minimum requirements for project financial management and therefore adequate to provide, with reasonable assurance, accurate and timely information on the status of the project required by the Bank. ESWADE has adequate experience in implementing Bank financed projects including the LUSIP I and the ongoing LUSIP II and MNWAP-1A projects. ESWADE also has experience implementing other donor funded projects.
60. The overall FM for the project will be managed within the existing structure of ESWADE under the overall responsibility of the Chief Finance Officer (CFO) who heads the Finance Department. The Finance department has adequately qualified personnel and the team that is managing the Financial Management Systems for LUSIP II, which is winding down, will take on the finance functions for MNWAP-1A and 1B. The finance team comprises a Project Accountant, Finance Officer and Finance Clerk, the CFO will provide oversight. The existing financial management processes including budgeting, treasury management, accounting and financial reporting are adequate. The project will rely on the internal controls and will use existing financial management manuals. The financial management system at ESWADE is fully computerized (SAGE) and is sufficient to provide input for the reports that are required by the Bank. Transactions are processed through the financial management system; however, the reports are prepared using Excel. ESWADE has an Internal Audit function which reports directly to the Audit and Risk Sub-Committee of the Board. The department is undergoing restructuring and the recruitment of the Internal Audit Manager is in progress and will be concluded by the end of November 2022. The project will be included in the Internal Audit work programme for the institution. This

project will prepare an annual budget for the project based on approved annual work plans which will be reviewed and approved by the Steering Committee before it is submitted to the Bank for No Objection.

61. *Disbursements:* The Project will mainly use the Direct Payment method for financing all eligible Project activities. The other methods, namely, Special Account Reimbursement and Reimbursement Guarantee can be used where the need arises after consultation with Bank and obtaining prior approval. The Bank will issue a Disbursement Letter of which the content will be discussed and agreed during negotiations.
62. *Reporting and Audit:* In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit to the Bank quarterly Interim Financial Report (IFR) not later than forty-five (45) days after the end of each calendar quarter. The Project annual financial statements will be audited by an Independent Audit Firm recruited through a competitive process by ESWADE. The Audited financial statements (including the auditor's opinion) and management letter will be submitted to the Bank not later than six (6) months after the end of each fiscal year throughout the project implementation. The external audit cost will be borne by ESWADE.

D. Monitoring and Evaluation

63. The project will be monitored and evaluated using the data gathered by ESWADE's Monitoring and Evaluation (M&E) department which has monitored the other Bank funded projects including LUSIP. A MNWAP multi-disciplinary project team has been set up and will be in place until the end of the project and this will include monitoring and evaluation function. At the Government level, there's also MNWAP steering committee that monitors the progress on the planning and implementation of the program. The result management framework will also be tracked by the PSC.
64. Through ESWADE's M&E department, the Project will provide: (i) timely and accurate information on project implementation progress and constant feedback for decision making and addressing potential work plan deviations and problems during implementation; and (ii) the basis for assessing the achievements of the project as per the Results Based Logical Framework. The project will submit quarterly progress reports to the Bank and the Bank will undertake two supervision mission per year and prepare an Implementation Progress Report (IPR) for each supervision mission
65. A population census of the project area will be conducted profiling every household to confirm the baseline data.

E. Governance

66. Eswatini's governance indicators have remained unfavorable 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).
67. On the MNWAP-1B project, the risk to governance could relate to procurement and the engagement of private sector in the project. The procurement of works funded by

the Bank will follow the AfDB's Procurement Policy to mitigate this risk. The inter-ministerial technical and steering committees for MNWAP will also exercise oversight on the activities of MNWAP. A Public Private Partnerships framework will be included in the scope of the study for the holistic development of the program to guide the development of subsequent phases.

F. Sustainability

68. The Project has been designed in a participatory and consultative manner in order to enhance ownership by beneficiaries thus ensuring sustainability. The participatory approach adopted during planning will be extended throughout implementation. The project is priority for the Government of Eswatini and the executing agency, ESWADE will continue implementing the project after the Bank and other funders exit. ESWADE has implemented the other projects funded by the Bank and has a proven track record on delivery. The economic and financial analysis indicate viability and sustainability of the farming enterprises and the project.

G. Risk Management

69. The main risks to the project success include: (i) delays in the construction of the Mpakeni dam; (ii) Government failing to reach an agreement with the textile company; and (iii) complications in the acquisition of land by the government/ESWADE from the private farm owners. The conclusion of the agreement between government and the textile company and finalisation of the land acquisition will be conditions precedent to first disbursement. The risks and mitigation measures are elaborated in Volume II Technical Annex 4-2 (Risk Matrix).

H. Knowledge Building

70. MNWAP is designed based on lessons learnt from LUSIP and other projects that were implemented by ESWADE. Subsequent phases will also benefit from knowledge that will be generated and captured from the design and implementation of MNWAP-1B. The knowledge will be captured through the ESWADE monitoring and evaluation unit as they monitor the operations and also documented through the banks IPRs and PCR.

5. LEGAL INSTRUMENTS AND AUTHORITY

71. Legal Instrument

The financing instrument for the Project is an ADB Loan Agreement for an amount of ZAR 2,084,29,000.00 between the Kingdom of Eswatini (the "Borrower") and the African Development Bank (the "Bank") (the "Loan Agreement").

Conditions Associated with Bank's Intervention

A. Entry into Force. The Loan Agreement shall enter into force upon fulfillment by the Borrower of the provisions of Section 12.01 (*Entry into Force*) of the General Conditions.

B. Conditions Precedent to First Disbursement. Subject to the Entry into Force, the obligation of the Bank to make the first disbursement of the Loan shall be subject to the satisfaction of the following conditions by the Borrower:

- (i) submission of evidence of the execution and delivery of a project agreement between the Bank and the Executing Agency in form and substance satisfactory to the Bank;

- (ii) the execution and delivery of an agreement between the Borrower and the private sector investor to build and operate a factory for cotton processing up to garment production and the signing of offtake agreements with cotton producers in the Project area in form and substance satisfactory to the Bank;
- (iii) the execution and delivery of agreements between the Executing Agency and each of the private farm owners within the identified area for irrigation under the Project on their participation in the Project in form and substance satisfactory to the Bank; and
- (iv) submission of proof that the Borrower has deposited in a dedicated account in a bank acceptable to the Bank, the amount of Two Hundred Fifty-Nine Million Five Hundred Thirty-Two Thousand One Hundred and Thirty-Nine South African Rand (ZAR 259,532,139.00) equivalent in local currency required for financing implementation of the Abbreviated Resettlement Action Plan.

C. Conditions Precedent to Disbursement for Works. Subject to the Entry into Force of the Loan Agreement and the fulfillment of the Conditions Precedent to First Disbursement, the obligation of the Bank to disburse the Loan for works that involve resettlement shall be subject to the fulfillment by the Borrower of the following additional conditions:

- (i) Submission of a works and compensation schedule prepared in accordance with the Resettlement Action Plan (RAP) and the Bank's Safeguards Policies, in form and substance satisfactory to the Bank detailing: (i) each section of civil works under the Program, and (ii) the time frame for compensation and/or resettlement of all Project Affected Persons (PAPs) in respect of each section;
- (ii) Submission of satisfactory evidence that all Project Affected Persons (PAPs) in respect of works have been compensated and/or resettled in accordance with the Environmental and Social Management Plan (ESMP), the RAP, the agreed works and compensation schedule and the Bank's Safeguards Policies, prior to the commencement of such works in such sections of each lot and in any case before the PAPs' actual move and/or taking of land and related assets; or
- (iii) In lieu of paragraph (ii) above, submission of satisfactory evidence indicating that the resources allocated for the compensation and/or resettlement of PAPs have been deposited in a dedicated account in a bank acceptable to the Bank or remitted to a trusted third party acceptable to the Bank, where the Recipient can prove, to the satisfaction of the Bank that, compensation and /or resettlement of PAPs in accordance with paragraph above could not be undertaken fully or partially, because of the following reasons: (i) The identification of the PAPs by Recipient is not feasible or possible; (ii) Ongoing litigation involving the PAPs and/or affecting the compensation and/or resettlement exercise; or (iii) Any other reason beyond the control of the Recipient, as discussed and agreed with the Bank.

D. Undertakings.

- (i) The Borrower shall, and shall cause the Executing Agency, all its contractors, subcontractors and agents to: (i) carry out the Program in accordance with the ESMP, the RAP and/or the agreed works and compensation schedule, the Bank's Safeguards Policies and the applicable national legislation in a manner and in substance satisfactory to the Bank; (ii) prepare and submit to the Bank, quarterly reports on the implementation of the ESMP and the RAP including any deficiencies identified and the corrective measures thereto; and (iii) refrain from taking any action which would prevent or interfere with the implementation of the ESMP, the RAP, including any

amendment, suspension, waiver, and/or avoidance of any provision thereof, whether in whole or in part, without the prior written concurrence of the Bank;

- (ii) The Borrower shall not, and shall cause the Executing Agency and all its contractors, sub-contractors and agents not to commence implementation of any works on any section of a given lot under the Programme, unless all PAPs such lot have been compensated and/or resettled in accordance with the RAP and/or the agreed works and compensation schedule;
- (iii) The Borrower shall appoint or assign respective teams with qualification and terms of reference acceptable to the Bank to support the implementation, monitoring and reporting of the ESMP and RAP within the Executing Agency;
- (iv) The Borrower shall maintain at all times during implementation of the Project the PCU established under MNWAP-IA with mandate, staffing and resources satisfactory to the Bank; and
- (v) The Borrower shall maintain at all times during implementation of the Project the Project Steering Committee established under MNWAP-IA with mandate, membership and resources satisfactory to the Bank.

1. Compliance with Bank Policies

- ☒ This project complies with all applicable Bank policies.
- ☐ There are exceptions to Bank policies.

African Development Bank Group Independent Review Mechanism

72. Communities and individuals who believe that they are adversely affected by an African Development Bank Group (AfDB) supported project may submit complaints to existing project-level grievance redress mechanisms or the AfDB's Independent Review Mechanism (IRM). The IRM ensures project affected communities and individuals may submit their complaint to the AfDB's Independent Review Mechanism which determines whether harm occurred, or could occur, as a result of AfDB non-compliance with its policies and procedures. To submit a complaint or request further information please contact: IRM@afdb.org or, visit the IRM website www.irm.afdb.org. Complaints may be submitted at any time after concerns have been brought directly to the AfDB's attention, and Bank Management has been given an opportunity to respond before reaching out to the IRM.

6. RECOMMENDATION

73. Management recommends that the Board of Directors approve the proposed loan of ZAR 2,084,290,000.00 to the Kingdom of Eswatini for the purposes and subject to the conditions stipulated in this report.

7. RESULTS MANAGEMENT FRAMEWORK

RESULTS FRAMEWORK						
A		PROJECT INFORMATION				
PROJECT NAME AND SAP CODE: MNWAP-1B - P-SZ-A00-006			COUNTRY/REGION: ESWATINI			
PROJECT DEVELOPMENT OBJECTIVE: Increase agricultural production by providing a reliable supply of water for irrigation, contributing to increased income generating opportunities among target beneficiaries						
ALIGNMENT INDICATOR (S): (i) People benefiting from improvements in agriculture (ii) Land with improved water management						
B		RESULTS MATRIX				
RESULTS CHAIN AND INDICATOR DESCRIPTION		RMF/ADOA INDICATOR	UNIT OF MEASUREMENT	BASELINE (2022)	TARGET AT COMPLETION (2030)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1.1: Increased access to water for irrigation						
OUTCOME INDICATOR 1.1.1: Water available for agricultural production through improved water management		<input type="checkbox"/>	Cubic metres	0	35 million m³/a	ESWADE Reports
OUTCOME STATEMENT 1.2: Increased productivity and area under irrigation						
OUTCOME INDICATOR 1.2.1: Yield of target crops		<input type="checkbox"/>	Cotton Beans	700mt+617 mt	16,000 metric tonnes (Cotton) 8,000 metric tonnes (Dry Beans)	ESWADE Reports
OUTCOME INDICATOR 1.2.2: Crop cycles			#	0	2	ESWADE Reports
OUTCOME INDICATOR 1.2.3: Area under higher value crops			Hectares	0	4,000ha Cotton) 4,000ha (Dry Beans)	ESWADE Reports
OUTCOME STATEMENT 1.3: Establishment of cotton ginnery						
OUTCOME INDICATOR 1.3.1: New cotton ginnery plant		<input type="checkbox"/>	0/1	0	1 plant for 40,000 metric tones	ESWADE Reports/Cotton Board

I OUTCOME STATEMENT 1.4: Increased processing of cotton and beans					
OUTCOME INDICATOR 1.4.1: Cotton processed to lint	<input type="checkbox"/>	Tonnes	400 mt	16,000 metric tonnes	Cotton Board
OUTCOME INDICATOR 1.4.2: Lint processed to fabric	<input type="checkbox"/>	Tonnes	0	6,000 metric tonnes	Cotton Board
OUTCOME INDICATOR 1.4.3: Bean processed in the project area	<input type="checkbox"/>	Tonnes	0	8,000 metric tonnes	Cotton Board
I OUTPUT STATEMENT 1.2: Availability of water conveyance and irrigation infrastructure					
OUTPUT INDICATOR 2.1. Construction of 38km of water conveyance pipeline from Mpakeni Dam to irrigation command areas and infield irrigation infrastructure to supply 4600ha	<input type="checkbox"/>	0/1	0	1	ESWADE Reports
I OUTCOME STATEMENT 2.1: Increased access to potable water					
OUTCOME INDICATOR 2.1.1: Project affected households having access to water (50% Women headed households)	<input type="checkbox"/>	#	0	5,000 households	ESWADE Reports/RAP reports
I OUTPUT STATEMENT 2.1: Availability of potable water supply infrastructure					
OUTPUT INDICATOR 2.1.1: Construction of potable water supply infrastructure to supply 5000 households.	<input checked="" type="checkbox"/>	0/1	0	1	ESWADE Reports
OUTCOME STATEMENT 3.1: Increased job participation and improved life conditions					
OUTCOME INDICATOR 3.1.1: Direct jobs created	<input checked="" type="checkbox"/>	No	0	10,000 (50% Women)	Project Progress Report
OUTCOME INDICATOR 3.1.2: Indirect jobs created		No.	0	30,000 (60% Women)	Project Progress Report
I OUTPUT STATEMENT 3.1: Jobs created under the Project					
OUTPUT INDICATOR 3.1.1: Number of Smallholder farmers families		No	0	2,000 (40% Women headed families)	Project Progress Report
OUTPUT INDICATOR 3.1.2: Number of Labor in the project, services providers and new business owners in the area		No	0	6,000 (60% Women)	Ministry of Labor reports

OUTPUT STATEMENT 3.2: Remediation of project negative impact on project affected persons					
OUTPUT INDICATOR 3.2.1: Households compensated for involuntarily resettlement (45% Women headed households)	<input type="checkbox"/>	#	35	250 households	ESWADE Reports
OUTPUT INDICATOR 3.2.2: Households compensated for project impact (45% Women headed households)	<input type="checkbox"/>	#	0	3,000 households	ESWADE Reports
OUTCOME STATEMENT 3.3: Enhanced chieftdom development plan and economic participation					
OUTCOME INDICATOR 3.3.1: Availability of chieftdom development plan	<input type="checkbox"/>	#	1	8	ESWADE Reports
OUTPUT STATEMENT 3.1: Training and establishment of farmer companies					
OUTPUT INDICATOR 3.1.1: Farmers trained (50% women)	<input type="checkbox"/>	#	0	3,000	ESWADE Reports
OUTPUT INDICATOR 3.3.1: Farmer companies established (30% headed by women)	<input type="checkbox"/>	#	0	400	ESWADE Reports
OUTPUT STATEMENT 3.2: Implementation of SEMP and RAP					
OUTPUT INDICATOR 3.2.1: Availability of SEMP and RAP	<input type="checkbox"/>	0/1	0	1	ESWADE Reports

8. ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)



AFRICAN DEVELOPPEMENT BANK GROUP

A. Basic Information¹

Project Title: Mkhondvo-Ngwavuma Water Augmentation Program Phase 1B– (MNWAP 1B)		Project "SAP code" P-SZ-A00-006	
Country: Kingdom of Eswatini	Lending Instrument²: DI <input checked="" type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>		
Project Sector: Agriculture		Task Team Leader: Wael SOLIMAN	
Appraisal date: 22 nd August – 2 nd September 2022		Estimated Approval Date: 16 th December 2022	
Environmental Safeguards Officer: Evert JACOBS/Roberta MHANGO			
Social Safeguards Officer: Daniel Ouma OGOL			
Environmental and Social Category: 1	Date of categorization: 28 th March, 2022	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input type="checkbox"/>	
Is this project processed under rapid responses to crises and emergencies?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	

B. Disclosure and Compliance Monitoring

B.1 Mandatory disclosure

Environmental Assessment/Audit/System/Others (specify: Environmental and Social Impact Assessment, ESIA)	
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[16 th August 2022]
Date of receipt, by the Bank, of the authorization to disclose	[16 th August 2022]
Date of disclosure by the Bank	[17 th August 2022]
Resettlement Action Plan/Framework/Others (specify: Abbreviated Resettlement Action Plan, ARAP)	
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[16 th August 2022]
Date of receipt, by the Bank, of the authorization to disclose	[16 th August 2022]
Date of disclosure by the Bank	[17 th August 2022]
Vulnerable Peoples Plan/Framework	
Was the document disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
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 <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, <i>effectively mobilized and secured</i> ?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>



C. Clearance

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?

Yes ☒ No ☐

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.

<i>Prepared by:</i>	<i>Name</i>	<i>Signature</i>	<i>Date</i>
Environmental Safeguards Officer:	Roberta MHANGO/Evert JACOBS		21/11/2022
Social Safeguards Officer:	Daniel Ouma OGOL		21/11/2022
Task Team Leader:	Wael SOLIMAN		21/11/2022
<i>Submitted by:</i>			
Sector Director:	For Martin Fregene		21/11/2022
<i>Cleared by:</i>			
Director SNSC:	For Maman-Sani Issa		29/11/2029