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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$75 MILLION TO

THE KINGDOM OF ESWATINI

FOR THE

ESWATINI ECONOMIC RECOVERY DEVELOPMENT POLICY LOAN II

April 14, 2022

Macroeconomics, Trade and Investment Global Practice
Eastern and Southern Africa Region

(Eswatini)

The Kingdom of Eswatini

GOVERNMENT FISCAL YEAR

April 1 – March 31

CURRENCY EQUIVALENTS

Exchange Rate Effective as of February 28, 2022

Currency Unit = Eswatini Emalangeni (E)

US$1.00 = E15.15

US$1.00 = SDR 0.582520

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	LDP	Letter of Development Policy
BoP	Balance of Payments	MNO	Mobile Network Operators
CAR	Capital Adequacy Ratio	MSME	Micro, Small and Medium Enterprises
COVID-19	Coronavirus Disease of 2019	MTDS	Medium-Term Debt Management Strategy
CBE	Central Bank of Eswatini	MTEF	Medium-Term Expenditure Framework
CPF	Country Partnership Framework	MoF	Ministry of Finance
CPS	Country Partnership Strategy	MoH	Ministry of Health
DE4A	World Bank Digital Economy for Africa	NCSSA	National Clearing and Settlement Systems Act
DPL	Development Policy Loan	NPL	Non-Performing Loan
DSA	Debt Sustainability Analysis	NPS	National Payment System
E	Emalangeni	PA	Prior Action
EEA	Eswatini Environmental Authority	PD	Program Document
e-GP	e-Government Procurement	PER	Public Expenditure Review
EPTC	Eswatini Posts and Telecommunications Corporation	PFM	Public Financial Management
ESPPRA	Eswatini Public Procurement Regulatory Agency	PPP	Purchasing Power Parity
ESSCOM	Eswatini Communications Commission	PSIA	Poverty and Social Impact Analysis
FMIS	Financial Management Information Systems	RoE	Return on Equity
FSRA	Financial Services Regulatory Authority	SACU	Southern African Customs Union
FY	Financial Year	SCD	Systematic Country Diagnostic

GDP	Gross Domestic Product	SDR	Special Drawing Rights
GFN	Gross Financing Needs	SEA	Swaziland Environmental Authority
GFSM	Government Finance Statistics Manual	SME	Small and Medium Enterprise
GNP	Gross National Product	SOE	State-Owned Enterprise
IBRD	International Bank for Reconstruction and Development	SSA	Sub-Saharan Africa
ICT	Information and communication technologies	US$	United States Dollar
IDA	International Development Association	VAT	Value Added Tax
IFC	International Finance Corporation	WBG	World Bank Group
IMF	International Monetary Fund	y/y	Year-on-Year
ITU	International Telecommunication Union		

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THE KINGDOM OF ESWATINI

ESWATINI ECONOMIC RECOVERY DEVELOPMENT POLICY LOAN II

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P175317	Yes	2nd in a series of 2

Proposed Development Objective(s)

The development objectives of the second programmatic series DPO are to: (1) help protect lives and support firms to protect workers; (2) contribute towards securing the country's future economic potential by strengthening transparency and budget management; and (3) improve competitiveness and open up the digital economy.

Organizations

Borrower: MINISTRY OF FINANCE

Implementing Agency: Ministry of Planning and Economic Development

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**75.00**

DETAILS

International Bank for Reconstruction and Development (IBRD) International Bank for Reconstruction and Development (IBRD) International Bank for Reconstruction and Development (IBRD) International Bank for Reconstruction and Development (IBRD) ~~International Bank for Reconstruction and Development (IBRD)~~	75.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

High

Results

Indicator Name	Baseline	Target
Results indicator **#1a:** Number of COVID-19 tests conducted by the designated in-country laboratory (disaggregated by results) (Number) Results indicator **#1b:** Percentage of children under the age of 12 months who received the third dose of DTP vaccine	22,032 (August 2020) 90% (2019)	400,000 (June 2023) 90%[1] (June 2023)
Results indicator **#2**: Number of beneficiaries that have been enrolled on the Unemployment Benefit/Insurance Fund	Number of beneficiaries 0 (July 2020)	Number of beneficiaries 96,874, (June 2023)
Results indicator **#3**: Number of credit reports issued by the credit bureau per year (thousand)	166 (2020-2021)	175 (June 2023)
Results indicator **#4**: Reduced stock of arrears	26% of expenditure arrears in total government expenditure (May 2020)	Below 15% expenditure arrears in total government expenditure (June 2023)
Results indicator **#5**: Reduction of transfers to SOEs as a percentage of total revenue	23% of total revenue (2020)	19% of total revenue (June 2023)
Results indicator **#6**: Percentage of tenders awarded in line with the regulations in all agencies and procured electronically in 10 selected pilot agencies	0% (2019)	100% (June 2023)
Results indicator **#7**: 3G/4G/LTE coverage (percentage of population)	35% (2021)	50% (June 2023)
Results indicator **#8**: Increase in the value of mobile money balance (percentage of GDP)	0.2% (2018)	0.6% (June 2023)
Results indicator **#9a:** Number of days to obtain trade license Results indicator **#9b:** Cases lodged at the Commercial bench as a percentage of overall High Court cases	Number of days to obtain trade license - 5.3 days (2020) Cases lodged at the Commercial bench 0% (2020)	Reduction of days by 4.3 days, time to obtain trade license - 1 day (June 2023) Cases lodged at the Commercial bench 5% (June 2023)

[1] The target remains at 90 percent, given that maintaining this level is a great achievement given the health challenges emanating from the COVID-19 pandemic.

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE KINGDOM OF ESWATINI

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document (PD) presents the US$75 million Economic Recovery Development Policy Loan (DPL) II to the Kingdom of Eswatini.** This is the second in a programmatic series of two operations to support the Government of Eswatini's economic reform program. The proposed operation supports the Government's post-COVID-19[2] economic recovery program and its efforts to implement critical structural reforms to address binding constraints to the country's development. More importantly, the proposed program will help improve the lives of the poor and vulnerable and support policy and institutional actions that will benefit the people of Eswatini. The proposed program is anchored in the World Bank Group Country Partnership Strategy (CPS) for the Kingdom of Eswatini for 2015–18 (report number 89210-SZ), and the Systematic Country Diagnostic (SCD), which was completed in 2020. The CPS was initially extended by the Performance and Learning Review (report number 126205-SZ) to 2020. Preparation of the new Country Partnership Framework (CPF) was delayed due to the COVID-19 pandemic. A new CPF for the period FY 2023–2027 is currently under preparation.

2. **Eswatini is enduring major socio-economic challenges which have been exacerbated by the COVID-19 pandemic and, more recently, the war in Ukraine.** The pandemic has created a severe shock to an already struggling economy. Eswatini has notably high levels of poverty and inequality compared with other lower middle-income countries as well as developing countries more generally. The national poverty rate stood at 58.9 percent in 2017 with an estimated 28.8 percent of the population living in extreme poverty (US$1.90/person/day at the 2011 purchasing power parity (PPP)) – about twice as high as other countries at its level of income. Its level of deprivation is much closer to countries with gross domestic product (GDP) per capita (at PPP) about half of Eswatini's, such as Kenya, Lesotho, and Zimbabwe. Eswatini's score on the World Bank's Human Capital Index (0.37) is also quite low for countries at its level of income. In addition, with a Gini coefficient of 54.6 in 2016, Eswatini has a very high rate of income inequality, although it is about the same as other countries in Southern Africa. Over the past decade, poverty levels, jobs, and the incomes of average Eswatini citizens have stagnated, while public finances have deteriorated. The 2021 Integrated Labour Force Survey shows that the unemployment rate increased from 23 percent in 2016 to 33.3 percent in 2021. Following the onset of the pandemic, in 2020, the economy contracted by 1.9 percent—the first deep recession since 1976—followed by a recovery in 2021 with 3.1 percent growth. As part of its efforts to address poverty and vulnerability, the Eswatini government administers a mix of social insurance programs, social assistance programs, and social welfare services. Taking all five main programs together, 54.6 percent of the extreme poor and 50.8 percent of the moderate poor are covered. But the programs could benefit from systems strengthening and better targeting. Moreover, Eswatini will be one of the countries in Africa most affected by the war in Ukraine with a significant terms of trade shock from higher oil and food prices.

3. **Slow growth and job creation over a long period and the evolving political aspirations have led to political unrest.** In June 2021, protests erupted in Eswatini, making visible again one of the major long-standing arenas of contestation: political power and governance. The economic downturn induced by COVID-19 in an already stagnating economy (contrasted against the wealth of political and economic elites) remains a key challenge. In recent years, political demands and grievances have formed an important backdrop to the various episodes of protests in the country including, but not limited to, the large-scale 2011 and 2021 protests. Amidst

[2] Coronavirus Disease 2019 (COVID-19).

significant social and economic challenges, a growing segment of the population has come to see the political system as an "impediment to addressing the country's development challenges".[3] Private investment has been low, constrained by, among other factors, heavy state involvement in the economy, a generally weak business environment, and lack of transparency due to governance challenges (further exposed by the political unrest that happened in 2021).

4. **Since November 2021 there have not been any major protests, and the Government has called for a National Dialogue (Sibaya) to discuss the issues**. The political unrest has resulted in loss of life and economic damages. It has also added pressure on the Government to address the structural challenges revealed by the COVID-19 pandemic. In response to the unrest, a Sibaya National Dialogue is scheduled to take place in 2022. As an additional commitment towards unity, social cohesion, and country's resilience, the Government has set aside, in the current 2022/23 national budget, E22 million (US$1.5 million equivalent) for the Sibaya National Dialogue. Subsequently, the Prime Minister announced (on March 30, 2022) that a technical committee has been set up to prepare for the dialogue. The committee is tasked to ensure that the dialogue is conducted in line with the relevant constitutional frameworks. The constitutional frameworks promote and encourage dialogue and resolution of issues under Sibaya.[4]

5. **The operation will help strengthen modern institutions that are lacking in the country**. While helping the economy to recover, the proposed operation will also help move the country towards modern systems of governance through important reforms such as health system strengthening, greater transparency and accountability, and creating jobs and promoting growth, for example, through improving the telecom sector. The reforms supported by the operation are aligned with the 2020 SCD which recommends five pathways to poverty reduction and shared prosperity: (1) strengthening macroeconomic management; (2) diversifying the economy; (3) strengthening human capital and inclusive delivery of public services; (4) improving resilience to natural disasters and economic shocks; and (5) achieving transparency and effectiveness of policymaking while committing to policy implementation.

6. **The reforms supported by this operation promote the strengthening and deepening of support to the livelihoods of the poor and vulnerable.** The first DPL (P174447 in the amount of US$40 million approved in 2020) supported measures to stabilize employment in firms and provided additional liquidity to SMEs; for example, the Unpaid Layoff Relief Fund benefited 23,099 employees, disbursing almost E25 million, covering over 90 percent of people who lost jobs because of the COVID-19 pandemic. The first DPL (DPL I) also supported strengthening of the health system to better respond to the threat posed by the COVID-19 pandemic through health services delivery, with 140,000 tests for the COVID-19 virus, while trying to maintain essential health services such as immunization of children. The second DPL (DPL II) will deepen and advance reforms initiated under DPL I. The Cabinet has approved the Social Security Policy; one of the most important reforms through this policy is the inclusion of informal sector workers. The informal sector, the bedrock of several households, did not have sources of income during the lockdown, which restricted trading. With the introduction of this reform, households reliant on the informal sector will be able to access funds during covariate shocks. The Health Bill underway, which

[3] Institute for Peace and Security Studies Addis Ababa University (2021) Kingdom of Eswatini Conflict Insights

[4] The Sibaya Dialogue, which is a traditional meeting of the nation known as the "People's Parliament", is the ultimate constitutionally recognized consultative national decision-making forum of all EmaSwati. Section 232 of the constitution refers clearly to Sibaya and stipulates that the people through Sibaya constitutes the highest policy and advisory council (Libandla) of the Nation.

delineates decision making to regions and prohibits denial of emergency services, will improve access of health services to the poor.

7. **Since early 2020, the Government has made a strong effort to respond to the pandemic, while embarking on critical reforms to address fundamental economic challenges.** Already before the COVID-19 crisis hit, the Government had made a start on important reforms to stabilize the economy and open up the digital sector. The Government introduced a fiscal consolidation program and started to contain recurrent expenditures, while deferring capital projects. Since the start of the COVID-19 crisis, the Government has deepened critical reforms (improving competitiveness and opening up the digital economy), which are at the core of this operation. In 2020, the Government approved a medium-term Fiscal Adjustment Plan to rein in public debt, while also protecting the most vulnerable. The plan, which focuses on expenditure containment and boosting revenue, will be implemented over the next three years starting in FY21/22, and forms part of the Government's medium-term recovery strategy.

8. **DPL I supported this reform process and results are starting to be seen.** For example, government arrears to the private sector have been a perennial challenge distorting public financial and private sector activity. The Government not only stopped incurring new arrears, but substantially reduced the stock of arrears in 2021 by about 6 percent of GDP year-on-year (y/y). New procurement regulations make the procurement process more transparent and competitive, and the digital payments with mobile money balance increased from 0.3 percent of GDP in 2019 to 0.5 percent in 2020.

9. **DPL II is now supporting the deepening of these key reforms.** These reforms are intended to stabilize the country's fiscal position, improve competitiveness and support economic recovery, while at the same time supporting policy responses to strengthen the health system and mitigate the impact of the COVID-19 pandemic on the poor and vulnerable. This second programmatic operation has the same three pillars as the first operation, which will ensure continuity:

- ***Protecting Lives and Livelihoods.*** The first pillar consists of strengthening and modernizing the health system to increase life expectancy, while placing a strong emphasis on providing targeted support to firms so that they can survive and maintain jobs.
- ***Strengthening Transparency and Public Financial Management.*** The second pillar supports inclusive and sustainable economic recovery by addressing key structural bottlenecks, including measures to prevent the recurrence of arrears, enhancing debt and fiscal sustainability, and reforming procurement processes.
- ***Opening Up of the Economy and Improving Competitiveness.*** The third pillar focuses on facilitating digital transformation, and improving competition and the business-enabling environment.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

Real sector

10. **Despite the continued COVID-19 pandemic and the June 2021 political unrest, the economy rebounded to 3.1 percent in 2021 from a contraction of 1.9 in 2020 (Table 1).** The third and fourth COVID-19 wave containment measures were not as restrictive as those of earlier waves, allowing firms to ramp up production in

2021Q4. Economic growth was supported by a strong performance in the manufacturing sector due to improved demand from key export markets following the easing of lockdown measures in key destination markets in the region. Construction also improved as the supply of construction material recovered. The vaccination campaign, which reached about 25.3 percent of the population at end December 2021, helped to contain the spread of the virus and eased uncertainties on both demand and supply prospects. Though the June-July political unrest resulted in the destruction of physical assets, theft of inventory, and constrained operational hours, its impact on production was partly mitigated as firms accessed a Reconstruction Fund set up by the government to cushion businesses from damages of the political unrest. In nominal value terms, the loss to potential output (overall GDP) is estimated at 1.7 percent of GDP (Ministry of Economic Planning and Development, 2021; Central Bank of Eswatini, 2021).

11. **In 2020, the COVID-19 pandemic pushed Eswatini into its first deep recession since 1976.** The Government's COVID-19 containment measures constrained economic activity from both the demand and supply side. The Government imposed severe mobility restrictions including a temporary closure of businesses involving person-to-person contact. This resulted in the secondary sector contracting by 9.8 percent, while the contraction in the tertiary sector (transport and accommodation) was counter-balanced by growth in health and communications. A modest recovery in economic activity in the second half of 2020 boosted domestic demand and helped to counteract an initially projected 3.1 percent contraction, leading to a more moderate 1.9 percent contraction. The economic contraction pushed many people into poverty. Eswatini's economy has been trapped in a low growth path reflecting climatic vulnerabilities, structural weaknesses and fragile fiscal position. The Government's fiscal challenges led to the accumulation of domestic expenditure arrears that severely impaired economic activity. As a result, many construction-related activities were delayed or deferred.

12. **Inflationary pressures weakened in 2021.** Year-on-year inflation in 2021 averaged 3.7 percent, lower than 3.9 percent in 2020. Rental prices—controlled by the Government—have not increased since April 2021, dampening the effect of an electricity tariff increase implemented in April 2021. Furthermore, the Government increased electricity prices by a smaller margin than earlier anticipated. The relaxed lockdown restrictions led to an increase in economic activity that eased supply disruptions that characterized 2020. Although local currency depreciation and increase in oil prices led to an increase in prices, this did not result in higher inflation in 2021. Year-on-year inflation started to increase in December 2021 (to 3.5 percent from 3 percent in November 2021) after declining for three consecutive months from September 2021. Inflation increased further in January 2022 to 3.6 percent, prompting the Central Bank to increase the repo rate (for the first time since July 2020) in January 2022, from 3.75 percent to 4.0 percent. In contrast, inflation increased significantly in 2020, partly due to COVID-19-induced supply chain disruptions. Annual inflation increased from 2.6 percent in 2019 to 3.9 percent in 2020.

Table 1: Selected economic and financial indicators, 2018–24

	2018	2019	2020 est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Percentage changes; unless otherwise indicated							
National account and prices							
Real GDP (% growth)	2.4	2.6	-1.9	3.1	2.0	1.8	1.8
GDP deflator	2.8	2.5	2.6	2.5	0.8	4.6	5.4
Consumer prices (annual average)	4.8	2.6	3.9	3.7	4.7	4.3	4.4
Fiscal (% of GDP)							
Revenue	25.1	27.3	28.6	24.5	24.0	25.1	25.4

	2018	2019	2020 est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Expenditure	32.0	33.5	34.0	29.7	29.2	25.6	24.3
Overall Fiscal Balance/1	-6.9	-6.1	-5.4	-5.1	-5.2	-0.6	1.1
Primary Fiscal Balance	-5.6	-4.9	-3.2	-3.3	-3.5	1.5	3.1
Public Debt, gross	33.9	39.6	42.1	42.8	45.6	44.3	42.0
External Public Debt	10.3	13.6	15.6	16.1	18.4	18.2	17.4
Money and credit (% change)							
M2	4.1	1.8	15.4	0.3	13.5	6.5	7.3
Credit to the private sector	5.1	4.6	3.3	4.8	5.5	6.7	7.5
External sector (% of GDP unless otherwise indicated)							
Exports	39.4	44.1	43.3	44.1	46.1	43.8	42.3
Imports	38.8	38.4	37.3	41.4	44.2	40.4	38.6
Current account balance	1.3	4.3	6.7	0.5	-2.1	0.0	0.6
Gross international reserves (months of imports)	2.7	2.6	3.0	3.1	2.9	3.0	3.0
Exchange rate (local currency per US$)	13.2	14.5	16.5	14.8			

1/Fiscal balance with policy measures

Source: World Bank staff estimates based on Ministry of Finance (MoF), Eswatini Central Bank (ECB) and International Monetary Fund (IMF) data.

Fiscal developments

13. **The fiscal deficit is projected to decline (year-on-year) in FY2021/22 mainly due to underspending on capital expenditure, amid revenue shortfalls.** The fiscal deficit is now projected to reach 5.1 percent of GDP, lower than the 6.5 percent of GDP initially projected in the original budget and slightly lower than the 5.4 percent of GDP in 2020 (Table 2). The underspending on capital expenditure reflects low disbursements due to delays in the procurement process on foreign financed projects. It also reflects commitment to the fiscal adjustment plan that aims to limit the accumulation of expenditure arrears (see Box 1). At the same time, revenue collections declined mainly due to the pandemic and subsequent economic challenges.

14. **Revenues declined in 2021.** COVID-19 containment measures and political unrest limited economic activity in 2021, affecting domestic revenue generation. Southern African Customs Union (SACU) revenues declined (year-on-year) by 3.8 percent of GDP in 2021, showing the volatility of SACU revenue in response to low economic growth and imports across SACU countries. Furthermore, delays in implementing anticipated revenue measures (see Box 2) constrained growth in revenues. The delays in the implementation of revenue measures resulted in a decline in domestic revenue collection from the initially planned adjustment of 1.8 percent of GDP to only 0.6 percent of GDP as of end-September 2021. The authorities deferred increasing taxes to cushion people from economic hardships emanating from the pandemic.

15. **Government expenditures are below the original budget and remained within the fiscal adjustment plan in 2021/22.** The authorities responded to the COVID-19 pandemic in 2020–21 and the political unrest in mid-2021 with supplementary budgets that maintained the approved budget, while responding to the shocks through budget re-allocation. Recurrent spending declined as the COVID-19 pandemic resulted in lower expenditure on goods and services. The political unrest damaged and destroyed property and livelihoods, forcing the Government to set up an E500 million (US$35 million) Reconstruction Fund (through budget re-allocation).

The Reconstruction Fund aimed to cushion private businesses whose properties were destroyed during the political unrest. Recurrent expenditure trends are broadly in line with budget executions save for capital spending that has been affected by low foreign loans and grants disbursements. Total expenditure is estimated at below the budget in 2021/22, reflecting lower than anticipated drawdown on capital programmes. The capital expenditure outturn stood at 20 percent of the original budget as of December 2021, while recurrent expenditure stood at 70 percent of the original budget. The Government is committed to implementing its three-year Fiscal Adjustment Plan on the expenditure side through: wage containment implemented through a hiring freeze, early voluntary retirement and alternative service delivery (outsourcing); a reduction in transfers to state-owned enterprises implemented through state-owned reforms; and the containment of expenditure on goods and services, and a reduction in capital spending**.**

16. **The fiscal deficit is financed through a combination of domestic sources and development partner support.** Net domestic financing increased from the budgeted 0.9 percent of GDP to 2.4 percent of GDP drawing on government deposits, and greater issuance of treasury bills and bonds than earlier anticipated. However, compared to last year, net domestic financing was lower, reflecting a shallow domestic financial market. Foreign financing was lower than budgeted due to low disbursement on both grants and loans of foreign financed projects. Slow progress on large foreign financed projects led to reductions in capital expenditure and corresponding foreign financing, leaving the government to rely more on domestic sources. Foreign financing declined from the budgeted 5.7 percent of GDP to 3.8 percent of GDP. The proposed World Bank DPL operation (US$75 million, or 1.6 percent of GDP), together with African Development Bank (AfDB) budget support (US$36 million, or 0.7 percent of GDP) will help in closing the financing gap. The Special Drawing Rights (SDR) allocation provided by the IMF has been placed in the reserves and provides a cushion in case of further emergencies. In 2020, higher SACU revenues and access to external finance from the World Bank and the IMF helped in financing the fiscal deficit in 2020 and contributed to a decrease in domestic expenditure arrears in 2021. Arrears declined significantly from E5.1 billion (7.2 percent of GDP) in March 2020 to E4.1 billion (4.6 percent of GDP) in December 2021.

17. **Public debt increased further in 2021 reflecting an increase in both domestic and foreign borrowing.** Public debt is estimated to increase to about 43 percent of GDP in 2021. While domestic debt has maintained its dominance as a share of GDP since 2016, external debt is increasing as the Government accessed more foreign financing from IMF and World Bank in 2020. However, public debt started to increase significantly in 2016 due to fiscal challenges triggered after the Government awarded high civil servant wages above inflation levels, resulting in a higher fiscal deficit.

Table 2: Selected fiscal indicators, 2018–24 (percent of GDP)

	2018	2019	2020 est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total revenue and grants	25.1	27.3	28.6	24.5	24.0	25.1	25.4
Taxes	24.3	26.5	28.3	24.3	23.5	24.6	24.8
Direct taxes	8.4	8.8	8.4	8.5	8.6	8.7	8.9
Indirect taxes	6.0	6.6	6.6	6.5	6.9	7.0	7.1
Trade taxes	9.4	9.7	12.6	8.8	7.4	8.3	8.2
of which SACU	9.3	9.7	12.6	8.8	7.4	8.3	8.2
Other tax revenue	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Other revenue	0.5	1.3	0.6	0.4	0.5	0.5	0.5

	2018	2019	2020 est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Grants	0.7	0.8	0.4	0.2	0.5	0.5	0.6
Total expenditure	32.0	33.5	34.0	29.7	29.2	25.6	24.3
Compensation of employees	13.4	12.9	12.4	11.1	10.8	9.1	8.7
o/w Wages and salaries	11.8	11.0	10.5	9.7	8.8	7.3	6.7
Goods and services	4.8	5.7	4.5	3.8	3.4	3.2	3.1
Interest payments	1.3	1.3	2.2	1.8	1.7	2.1	2.0
Domestic	1.0	0.8	1.8	1.5	1.3	1.3	1.2
Foreign	0.3	0.4	0.4	0.3	0.4	0.8	0.8
Other expenses	7.0	6.6	7.6	7.7	6.4	5.5	5.5
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	5.4	4.4	6.1	5.0	4.5	3.8	3.9
Social benefits	0.8	0.9	0.7	0.9	0.8	0.8	0.7
Other	0.7	1.2	0.8	1.6	1.0	0.8	0.7
Net acquisition of nonfinancial assets	5.3	7.0	7.3	5.2	6.8	5.8	5.0
Overall Balance/1	-6.9	-6.1	-5.4	-5.1	-5.2	-0.6	1.1
Financing	6.9	6.1	5.4	5.1	5.2	0.6	-1.1
Domestic	5.5	2.5	3.0	2.1	2.5	1.1	-0.5
External	2.1	4.6	5.8	3.8	3.6	2.6	2.4
of which: IMF's Rapid Financing Instrument	0.0	0.0	2.9	0.0	0.0	-0.5	-0.9
World Bank	0.0	0.0	1.0	1.6	0.0	0.0	0.0
AfDB	0.0	0.0	0.0	0.7	0.0	0.0	0.0
Amortization of foreign loans	-0.7	-1.0	-0.8	-0.8	-0.7	-0.5	-1.4
Clearance of arrears	0.0	0.0	-2.7	0.0	-0.2	-2.6	-1.6
Unidentified financing/financing gap (-)/surplus (+)	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Memorandum items:							
Gross public Debt/2	33.9	39.6	42.1	42.8	45.6	44.3	42.0
Domestic	23.6	26.1	26.5	26.6	27.2	26.0	24.6
External	10.3	13.6	15.6	16.1	18.4	18.2	17.4
Unpaid invoices (stock of arrears)/3	6.4	7.2	4.7	4.6	4.2	1.6	0.0

1 Deficit after fiscal adjustment only for projected (base case)

2 Gross public debt including arrears

3 Arrears clearance plan-no increase in arrears

Source: World Bank estimates based on MoF and IMF data.

Monetary and financial sector developments

18. The Central Bank of Eswatini (CBE) has continued with its accommodative monetary policy since the start of the COVID-19 pandemic. Since July 2020, the discount/repo rate has been kept at 3.75 percent for eight consecutive CBE monetary policy meetings. The CBE kept the discount rate again on November 19, 2021. Overall, the current discount rate is 43 percent lower than its level (6.5 percent) at the end of 2019. This follows four consecutive cuts since the beginning of the COVID-19 pandemic, including two cuts of 100 basis points each in

March and April 2020, a 50-basis-point cut in May 2020, and finally a 25-basis-point cut in July 2020, leaving the repo rate at 3.75 percent. The CBE increased the repo rate in January 2022, responding to inflationary pressures. Credit to the private sector (across all sectors) increased by 1.5 percent year-on-year, dominated by credit to businesses (manufacturing) and households (mortgages).

19. While the banking sector remained resilient, capitalized and liquid, non-performing loans (NPLs) have increased since July 2021. NPLs increased from 5.6 percent in March 2021 to 6.5 percent in November 2021. The rise in NPLs since July 2021 was partly a result of the occurrence of riots that caused damage to property, looting of goods, closure of businesses and ultimate loss of incomes in June 2021. In 2020, in response to the pandemic, the CBE reduced the liquidity requirement for commercial banks and the reserve requirement, and encouraged banks to consider loan restructuring and repayment holidays. This contributed to declining NPLs, which fell from 9.3 percent in April 2020 to 5.4 percent in December 2020. NPLs had remained largely stable before the political riots, at 5.6 percent at end-June 2021. The capital adequacy ratio (CAR) is well above the minimum statutory requirement of 8 percent, at 17 percent in December 2020. Profitability declined, showing a negative impact of the pandemic, with the after-tax return on equity (RoE) declining to 10.4 percent as of December 2020, down from 16.9 percent in December 2019. The banking sector is highly concentrated, with the three foreign owned (South African) banks accounting for 90 percent of the total market share by asset holdings, with the remaining 10 percent of the market shared between the two locally owned banks.

External developments

20. The current account surplus declined significantly in 2021, reflecting lower surpluses in the trade balance and the decline in SACU revenues. Eswatini has recorded current account surpluses since the 2010/11 fiscal crisis, mainly due to higher secondary income/transfers from SACU revenue receipts. As SACU revenues declined in 2021, the current account surplus declined to 0.5 percent of GDP from 6.7 percent (US$265.7 million) in 2020 (Table 3). Though the trade balance remained in surplus, it too declined, reflecting higher growth in imports than in exports. Eswatini's main exports are sugar, other edibles and textiles, and imports are dominated by fuel and textile imports. South Africa remains the largest trading partner of Eswatini, accounting for 64 percent of its exports and about 74 percent of its imports. Secondary income declined significantly mimicking the decline in SACU revenues. Despite the decline in the current account surplus, the gross official reserves remained high, partly due to the inflow of IMF SDRs that boosted reserves, to remain at 3.1 months of imports in 2021. In 2020, the current account surplus increased significantly to 6.7 percent of GDP due to higher SACU revenues. SACU revenues increased by 32 percent in 2020, leading to a higher secondary income surplus. Though both exports and imports declined, the trade balance remained in surplus in 2020.

21. The local currency depreciated during the last quarter of 2021. The detection of a new COVID-19 variant–Omicron—in late November in South Africa led to a less accommodative global monetary policy, contributing to the depreciation of the Eswatini emalangeni, reflecting the same trend as the South African rand, to which the local currency is pegged. However, on a year-on-year basis, the emalangeni appreciated by about 10 percent in 2021, reflecting the appreciation of the South Africa rand.

Table 3: Balance of payments - financing requirements/sources, 2018–24 (US$ million)

	2018	2019	2020 est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Current account	63	194.4	265.7	24.6	-99.5	2.2	31.8
Trade balance	29	259	238	128	88	170	194
Exports, free on board(f.o.b.)	1839	1984	1722	2064	2142	2166	2218
Imports, f.o.b	1809	1725	1484	1936	2054	1996	2024
Services (net)	-185	-115	-127	-150	-149	-146	-152
Income (net)	-320	-453	-399	-497	-501	-500	-530
Transfers	539	503	554	544	463	479	519
Official transfers	465	429	476	465	389	399	430
Other transfers	74	74	78	80	74	80	90
Capital and financial account 1/	-61	-134	-273	10	-36	42	65
Capital account	-2	-1	1	1	1	1	1
Financial account 2/	58	133	274	-9	36	-41	-64
Foreign direct investment	-47	-108	-55	-51	-9	-16	-20
Portfolio investment	-86	86	55	59	-56	-74	-68
Financial derivatives	7	1	0	10	10	10	10
Other investment	184	154	274	-27	92	39	14
Medium and long-term	275	174	235	-30	101	49	22
Of which:							
Public sector (net)	-57	-103	-58	-33	-64	-75	-72
Short-term	-91	-20	39	2	-10	-9	-9
Errors and omissions	-58	-69	-38	0	0	0	0
Overall balance 3/	-56	-8	-45	35	-135	44	97
Financing	56	8	45	-35	135	-44	-97
Change in international reserves (- = increase)	56	8	-104	-35	24	-18	-39
IMF RFI (net)							
Disbursement			109	0	0	0	0
Amortization			0	0	0	-14	-56
World Bank			40.0	0.0	75.0	0.0	0.0
AfDB			0.0	0.0	36.0	0.0	0.0

1/ Capital account minus financial account balance.

2/ Positive sign indicates net outflows in the financial account and its components.

3/ Negative numbers for overall balance indicate a balance of payment needs.

Source: CBE and IMF.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

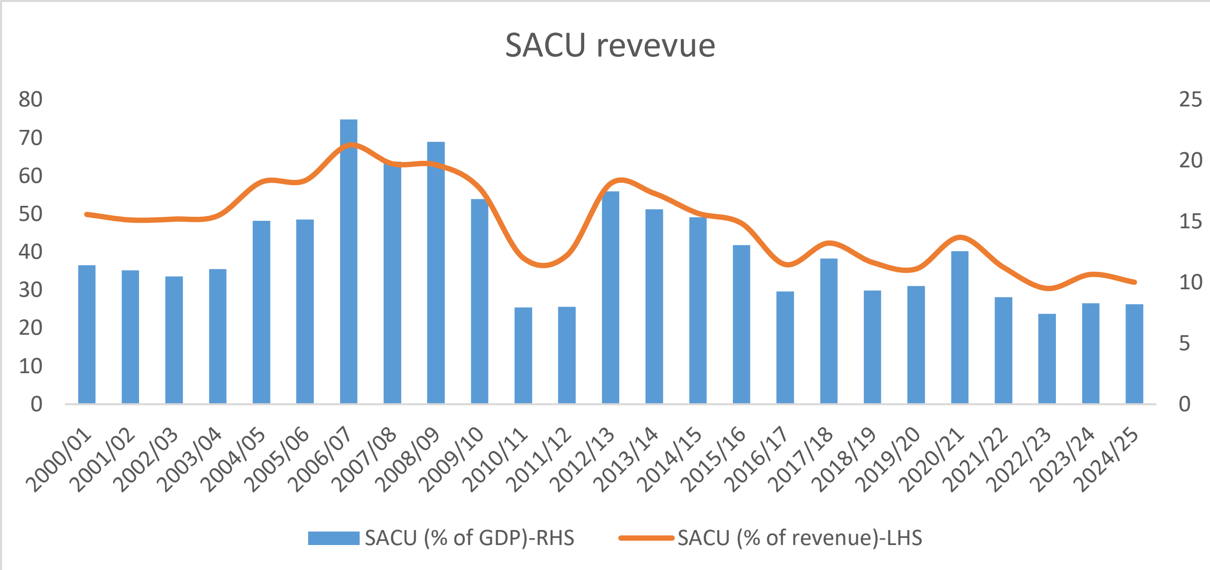
Macroeconomic outlook

22. Economic growth is projected to continue recovering in 2022. Real GDP growth is projected at 2 percent in 2022 and 1.8 percent in 2023, reflecting the implementation of the government's three-year fiscal adjustment program that will dampen growth of sectors linked to government operations, such as construction and public administration. Economic growth will be supported by growth in agriculture and continued recovery in manufacturing and wholesale and retail trade. The disruptions faced in 2020 and 2021 arising from a combination of restrictive measures in the fight against the COVID-19 pandemic, as well as political unrest, are expected to subside in 2022. The continuation of the vaccination program (at 29.2 percent of the total population as at end March 2022) is expected to strengthen certainty on demand and supply chains. Furthermore, the implementation of the post-COVID-19 Economic Recovery Plan and the continued support provided through the Reconstruction Fund is expected to support growth in 2022. Growth in 2022 is projected to be lower by 0.2 percent of GDP relative to projections made before the war in Ukraine. The second-round effects of the pandemic are anticipated to manifest through a reduction in SACU revenues. SACU revenues are projected to fall further in 2022 and remain depressed in the medium term (see Box 1), while fiscal consolidation measures will constrain demand and dampen strong growth prospects in the medium term.

Box 1: SACU revenues – dependency and volatility

Eswatini relies heavily on SACU revenues, shaping fiscal developments. SACU receipts have been very volatile and further complicated by rigid government expenditure, leading to persistent fiscal deficits in the recent past. SACU revenues consist of external trade and excise duties on imported goods, as well as a development component derived from excise taxes. The revenues depend mainly on South Africa's projected customs and excise revenues and are shared across countries based on a formula that considers a country's level of imports and GDP levels. The formula includes an adjustment mechanism where any over/underpayment from past forecasting errors is recouped two years later. These revenues tend to be quite volatile because: (i) imports are more volatile than GDP; (ii) custom receipts are affected by exchange rate developments; and (iii) the adjustment mechanism tends to exacerbate the procyclicality of revenues (e.g., during bad times SACU revenues are lower due to reduced customs and excise receipts and, making matters worse, this is usually accompanied by the repayment of past over-receipts as the downturn was most likely unanticipated and thus past receipts were too elevated). Though Eswatini will implement the Fiscal Adjustment Plan, specifically resulting in major savings on the expenditure side, the fall in SACU revenues in 2022 will result in the fiscal deficit remaining elevated at 4.3 percent of GDP and will lead to a current account deficit in 2022 - the first time since 2010. The fall in SACU revenues in 2022 will surpass that of the 2010/11 fiscal crisis with SACU revenues projected at 7.4 percent of GDP, lower than the 8 percent of GDP recorded in 2010 and down from 13 percent in 2020. The fall in SACU receipts reflects a two-year lag, implying that the low economic performance in financial year 2020 caused by the COVID-19 pandemic will influence SACU receipts in 2022. Going forward, SACU receipts will recover but remain below historical averages.

Figure B1: SACU revenue trends



Source: Ministry of Finance.
Note: RHS (Right Hand Side); LHS (Left Hand Side).

23. **Inflation is expected to rise in 2022, driven by higher oil and food prices (reflecting the impact of the Russia-Ukraine war, and continued supply shocks due to the COVID-19 pandemic)**. Inflation is projected to average 4.7 percent in 2022 and remain moderate at 4.3 percent in 2023. In addition, the combination of the pandemic and political unrest created supply constraints may result in upward price adjustments in 2022.

24. **The ongoing expenditure consolidation will contain the deficit in 2022/23 and then lead to a fall in the deficit as SACU revenues recover.** The fiscal deficit will slightly increase to 5.2 percent of GDP in 2022/23. The fiscal balance will turn into a surplus of 1.1 percent in 2024/25, as authorities implement the fiscal adjustment plan (see Box 2). The proposed measures include increasing marginal tax rates for individual and company tax, broadening the tax base for value-added tax (VAT) by moving some items from exempt and or zero rating to the standard rate, and also increasing the tax rate for fuel tax, alcohol and tobacco. Expenditure adjustment is as mentioned above and in Box 2, and includes public wage containment, reduction in current expenditure (while protecting social spending) and transfers to state-owned enterprises (SOEs). However, uncertainties over potential further political unrest and the evolution of the COVID-19 pandemic may continue to keep government expenditure high. The expected disbursements by the World Bank and the AfDB will help to close the financing gap and keep domestic expenditure arrears low in the medium term.

Box 2: The medium-term fiscal strategy 21/22 – 23/24

The authorities remain committed to implementing the Fiscal Adjustment Plan which has been developed and is being implemented with the support of the IMF. The consolidation plan aims to restore debt sustainability, while protecting the most vulnerable through a combination of spending and revenue measures. The plan is centered around four pillars: (i) reducing public wage spending, through gradual employment reduction, voluntary early retirement, outsourcing and below inflation salary adjustments; (ii) rationalizing transfers and expenditure of state-owned entities; (iii) reducing operational expenditures and improving the targeting of the main social assistance programs; and (iv) increasing domestic revenue through rate increases of some major taxes and base broadening measures, while suspending plans to introduce reforms that would reduce corporate income revenue. Authorities also approved a strategy to liquidate past arrears through the standard budget process, and the authorities have taken actions to control the main sources of arrears and avoid new ones, including by phasing out special accounting treatments (trading accounts) for some extra-budgetary entities that have been responsible for significant spending overruns in the past. The implementation of these reforms has been disturbed by the continued COVID-19 pandemic and political unrest, but authorities are committed to achieving the set objective by 2023.

The original plan approved by the Cabinet in 2020 has been adjusted to respond to economic conditions. Initially, the fiscal consolidation was 6.5 percent of GDP to be implemented over three years (2021-2023) starting in 2021. The consolidation was supposed to start with a 1.7 percent adjustment in 2021, to be followed by a 2.3 percent adjustment in 2022 and finally a 2.5 percent of GDP in 2023. Due to delays in implementation, due to the persistent pandemic, the Government has revised the adjustment to be 4.8 percent of GDP over the next three-year period (instead of the 6.5 percent of GDP initially planned). The revision is mainly due to delays in implementing the revenue measures. The 2021/22 half year budget review shows that all the propositions on the revenue measures have not been reviewed, as the Finance Bill (Amendment) has not been concluded resulting in no changes to fees such as motor vehicle licenses, the road transportation fees, the financial and accounting (police) fees, Broadcasting Information Services fees and National Library Services rates. The delays in the implementation of revenue measures resulted in a decline in domestic revenue collection from the initially planned adjustment of 1.8 percent of GDP to only 0.6 percent of GDP as at end September 2021 (see Table B2). Expenditure trends are broadly in line with mid-year expectations, and the outturn is expected to be below the budget estimates.

Despite the two shocks—the continuing COVID-19 pandemic and the political unrest—the authorities preserved the 2021 original overall budget spending ceiling by issuing a supplementary budget. This supplementary budget only reallocates spending, helped by containment of wage and operating expenditure, and lower capital outlays. Furthermore, by 2023, the fiscal balance will turn into a surplus, showing commitment to fiscal adjustment (Table 2). A successful implementation of the authorities' fiscal adjustment plans will first stabilize the public debt ratio at a sustainable level and then place it on a moderately declining path over the medium term.

Table B1: Expenditure measures

Expenditure Policy Measures								
(E'Million)								
Expenditure item	*2021/22 Original*	***2021/22 Amended***	*2022/23 Original*	**2022/23 Amended**	*2023/24 Original*	**2023/24 Amended**	*Total original*	**Total Amended**
Wages	*230*	***109***	*295*	**116**	*378*	**577**	*903*	**802**
Goods & Services	*123*	***128***	*245*	**245**	*478*	**478**	*846*	**851**
Transfers	*95*	***80.1***	*300*	**288**	*420*	**420**	*815*	**788**
Capex	*0*	**0**	*541*	**548**	*541*	**549**	*1082*	**1097**
Total Annual cuts	*448*	***317***	*1381*	***1196***	*1817*	***2024***	*3646*	**3537**
Total Cumulative cuts	*448*	***317***	*1829*	**1513**	*3646*	**3537**	*3646*	**3537**
Cumulative cuts (% of GDP)	*0.6%*	***0.4%***	*2.3%*	***1.9%***	*4.3%*	***4.2%***	*4.3%*	**4.2%**

Source: MoF.

Table B2: Revenue measures

Revenue Policy Options								
E'Million	*2021/22 Original*	**2021/22 Amended**	*2022/23 Original*	**2022/23 Amended**	*2023/24 Original*	**2023/24 Amended**	*Total Original*	**Total Amended**
Company Tax (a combination of measures)	*181*	**0**	*0*	**134**	*0*	**0**	*181*	**134**
Personal Income tax	*140*	**0**	*0*	**0**	*0*	**37**	*140*	**37**
Value Added Tax (Standard rate some goods/Increase tax rate)	*237*	**0**	*346*	**84**	*100*	**0**	*683*	**84**
Fuel Tax (Increase rate of tax by 30c)	*102*	**0**	*104*	**107**	*106*	**0**	*312*	**107**
Carbon tax	*78*	**0**	*0*	**0**	*0*	**74**	*78*	**74**
Other (Non-tax revenue)	*0*	**0**	*51*	**48**	*73*	**0**	*124*	**48**
Total Annual Adj.	*738*	**0**	*501*	**373**	*279*	***110***	*1518*	**483**
Cumulative Adj.	*738*	**0**	*1239*	**373**	*1518*	**483**	*1518*	**483**
Cumulative Adj. (% of GDP)	*1.0%*	**0.0%**	*1.6%*	***0.5%***	*1.8%*	***0.6%***	*1.8%*	**0.6%**

Source: MoF.
Note: **The 2020 fiscal outturn turned out to be better than anticipated**. Fiscal deficit is estimated at 5.7 percent of GDP lower than 8.7 percent earlier anticipated, reflecting reduced spending due to lockdowns and higher SACU revenues (Table 2). The economic contraction was much lower at 1.9 percent than earlier projection of 3.5 percent (Table 1).

25. **Fiscal financing needs in the medium term will be met through a combination of domestic and external financing.** In response to the COVID-19 shock, Eswatini has started to rely more on International Financial Institutions financing to reduce the pressure on domestic sources of finance. The financing gap is expected to be closed through both domestic sources (issuing of treasury bills, government bonds and suppliers' bonds) and external sources, mainly project loans. The authorities also intend to raise financing from the Johannesburg Stock Exchange bond listing which will help to close the financing gap in 2022. From 2024, fiscal balance will turn into a surplus.

26. **The current account balance is projected to turn into a deficit in 2022—the first time since the 2010/11 fiscal crisis—partly reflecting declining SACU revenues and higher oil and food imports.** The current account will turn into a deficit of 2.1 percent of GDP before turning into a surplus from 2023 onward. SACU revenues are

projected to decline by 1.5 percent of GDP in 2022. Though the secondary income account will remain in surplus, it will decline as SACU inflows fall. Historically, Eswatini has always posted a current account surplus, driven by SACU transfers and high exports emanating from key export products such as sugar, miscellaneous edibles and textile products. However, exports are projected to increase following the rollout of vaccines in key export markets, while the implementation of fiscal adjustments will contain import growth. The services deficit is projected to increase, as the country remains a net importer of services. Gross international reserves are projected at 2.9 imports cover, slightly below the three-month international benchmark in 2022, reflecting the impact of higher oil and food imports due to the Russia-Ukraine war. The planned fiscal consolidation and recovery of SACU revenue will strengthen the external position in the medium term.

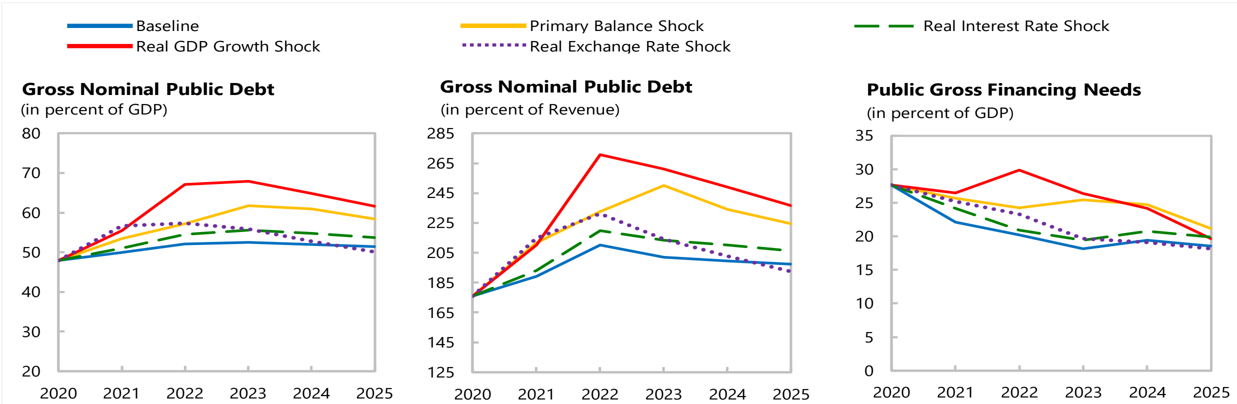
27. The vulnerability of the current account position to developments in South Africa will remain high. Eswatini remains highly dependent on South Africa, not only in terms of its trade balance (two-thirds of its trade is with South Africa), but also on the income balance (through SACU revenue transfers). Foreign financing, including from this DPL II and the AfDB operation (combined at about 2.3 percent of GDP), is expected to finance the external financing gap (Table 3). These inflows, together with the SDRs allocation, are expected to moderate the fall in international reserves.

Debt Sustainability

28. Although public debt has been increasing since 2016, it has remained low relative to other countries in the region. The pandemic has increased borrowing needs, particularly external borrowing, given the shallow domestic financial markets. Before the pandemic, external debt was relatively flat and lower (almost half) than domestic debt as a percentage of GDP. Since the start of the pandemic, public debt (as a percentage of GDP) has increased (y/y) by 2.5 percent of GDP to 42.1 percent of GDP in 2020, has remained elevated in 2021 and is projected to reach a peak in 2022. It will start to decline from 2023, reflecting a declining fiscal deficit. However, failure to implement the fiscal adjustment will result in high public debt.

29. Continued successful implementation of the authorities' Fiscal Adjustment Plan is likely to stabilize the public debt ratio at a sustainable level and thereafter lead debt to moderately decline over the medium term. Debt sustainability risks emanate from a higher-than-projected primary deficit in the outlook, lower growth, and a failure to contain domestic arrears. The maturity and composition of public debt carry significant rollover and liquidity risks, as well as exchange rate vulnerabilities. The recent increase in central government debt and the high gross financing needs (GFN) raise both sustainability and liquidity concerns. Stress analysis suggests that debt levels and GFN are particularly sensitive to GDP growth shocks (Figure 1). Combining GDP and primary balance shocks with macroeconomic shocks would cause public debt to exceed 90 percent of GDP and breach the debt level stress threshold. Sensitivity tests suggest that Eswatini's external debt is particularly sensitive to current account shocks.

Figure 1. Selected public and external debt indicators under alternative scenarios



Source: IMF July, 2020 DSA.

30. The Government has been improving its debt management. The Government prepared a Medium-Term Debt Management Strategy (MTDS) in April 2019, as required by the 2017 Public Finance Management (PFM) Act. It was further reviewed in 2021 with the MTDS covering the period 2021–25. The Government has intensified debt management and established an operational Debt Management Unit under the Ministry of Finance (MoF), which is an important improvement. The MoF conducted its own first ever Debt Sustainability Analysis (DSA) in August 2019 followed by another DSA in May 2021. Furthermore, the authorities updated the debt policy in 2018, which was approved by the Cabinet. The authorities publish a monthly debt profile on the CBE website, but are yet to fully staff the Debt Management Unit in line with the 2017 PFM Act.

31. The macroeconomic outlook is subject to four major risks. First, as a small open economy, Eswatini is vulnerable to a prolonged COVID-19 pandemic and Russia-Ukraine war, through its impact on trade, tourism and remittances, especially from its main economic partner, South Africa. This could slow down economic recovery in the medium term. The second risk is the impact of the expected decline in SACU revenues on fiscal accounts. The COVID-19 crisis and its associated decline in trade in the SACU region will affect SACU revenues most severely in 2022. Implementation of the fiscal adjustment will boost domestic revenue, circumventing the sharp decline in SACU revenues. Third, although public debt is currently low, failure to fully implement the Government's Fiscal Adjustment Plan, or delays in its implementation, would result in a high fiscal deficit, with public debt approaching or exceeding the debt risk threshold and exacerbating financing needs. Fourth is the recurrence of political unrest. The political unrest that occurred in 2021 exposed the challenges that the Government faces. Without a comprehensive solution to the underlying causes of the unrest, the risk of future unrest will continue to linger and create uncertainty for medium-term private investment. In addition, a recurrence of the political unrest will undermine the ongoing fiscal adjustment.

32. The macroeconomic policy framework underlying this operation is assessed to be adequate. The Government has demonstrated a commitment to continuing to address the fiscal imbalances that have become evident over the past several years, even in the face of the COVID-19 pandemic and political unrest. The three-year Fiscal Adjustment Plan seeks to restore debt sustainability while protecting the most vulnerable population. As a result, the fiscal balance is projected to turn into surplus in the medium term. Important measures are being taken in this DPL series to support growth, including reforms in the SOE sector, and supporting the business environment and digital transformation.

2.3. IMF RELATIONS

33. **In response to the COVID-19 crisis, the IMF Board approved SDRs worth US$650 billion to its members, of which Eswatini has received US$107 million (SDR75.2 million) on July 29, 2020.** These funds helped in addressing the negative impact of the COVID-19 crisis. The IMF is closely engaged with the Government, especially on the implementation of the Fiscal Adjustment Plan incorporated in the Medium-Term Fiscal Framework. The Government has, however, not requested a program with the IMF. The latest Eswatini Article IV discussion took place in November 2019 (concluded on January 31, 2021) and recognized the significant macroeconomic gains in 2019. The next 2022 Article IV discussion is expected in September 2022. The IMF and the World Bank have closely coordinated on the macroeconomic framework.

3. GOVERNMENT PROGRAM

34. **The Government has initiated structural reforms that support inclusive and sustainable economic recovery.** The Government has articulated these structural reforms in its Strategic Roadmap for Economic Recovery (2019–22) launched in May 2019, well before the pandemic. The roadmap identifies five key economic sectors—education and ICT, agriculture, manufacturing and agro-processing, mining and energy, and tourism—based on their ability to deliver high impacts on growth, job creation and revenue mobilization, while focusing on five cross-cutting priority themes to drive the recovery plan. Implementing these reforms should ease the regulatory environment, reduce business costs, support fiscal consolidation, clear domestic arrears, and eliminate structural rigidities. The Government has also introduced a National Development Plan FY19/20 to FY21/22 that is focused on economic recovery underpinned by sound macroeconomic management, fiscal stability and economic growth.

35. **The COVID-19 pandemic has served as a trigger for the Government to implement deeper structural reforms through two major plans, one for fiscal adjustment and the other for post-COVID-19 economic recovery.** First, through the Fiscal Adjustment Plan (FY20/21 to FY23/24) approved in June 2020, the Government has shown its commitment to addressing structural fiscal reforms to contain the fiscal challenges, while also promoting private sector activities. Second, amid the COVID-19 pandemic, the Government has also developed a E30 billion (US$1.7 billion) Post-COVID-19 Economic Recovery Plan that is anchored in macroeconomic stability, fiscal consolidation and private sector-led growth. These plans support inclusive and sustainable economic recovery by addressing key structural bottlenecks, particularly through clearing domestic expenditure arrears and enhancing debt transparency. The Government has further demonstrated its commitment to structural reform to clear domestic expenditure arrears by adopting and publishing a transparent domestic expenditure arrears clearance strategy.

36. **In addition to structural reforms, the Government has acted swiftly in response to the COVID-19 crisis to mitigate its impact on health and the economy.** The emergency relief response includes two main elements: first, measures to protect lives by strengthening the health sector; and second, monetary and fiscal policy measures aimed at easing the financial impact of the crisis on businesses and households to help sustain employment and incomes.

37. **The Government's two supplementary budgets have reallocated fiscal resources in response to the COVID-19 pandemic**. The supplementary budgets involve redirecting low-priority recurrent spending to the fight

against the pandemic, and reallocating a portion of the capital budget toward refurbishing existing hospitals and completing new hospitals. In mid-April, the Government also announced the provision of a COVID-19 SMEs E90 million Tax Relief Fund to businesses with a turnover of E8 million or less, mainly small and medium enterprises (SMEs). This relief was directed to businesses that have continually supported the development of the country by complying with their tax obligations. Following the political unrest, the Government also approved a supplementary budget and established the E500 million (US$33 million) Reconstruction Fund to repair damage estimated at about E3 billion incurred during the political protests in June 2021. The Reconstruction Fund is funded through a supplementary budget by reallocation of the approved FY21/22 national budget.

38. **The CBE responded to the COVID-19 pandemic by announcing various measures aimed at cushioning the pandemic's impact on firms and households**. As stated above, these measures include: (i) cutting the discount rate; (ii) reducing the reserve requirement ratio; (iii) reducing the liquidity requirement for commercial banks; (iv) encouraging banks to consider loan restructuring and repayment holidays; (v) increasing the mobile money individual daily and monthly transaction limits; and (vi) removing all charges when using mobile payments and offering a 50 percent discount on charges when transferring money from a bank account to a mobile wallet.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

39. **The proposed operation will be the second of a programmatic series of two operations that support the implementation of the Government's priority reforms.** These reforms are intended to stabilize the country's fiscal position, improve competitiveness and support economic recovery, while at the same time supporting policy responses to strengthen the health system, and mitigate the impact of the COVID-19 pandemic on the poor and vulnerable. Given that the COVID-19 pandemic has exacerbated the ongoing social unrest, providing relief from the pandemic's impacts is a high priority. The loan's development objectives relate to three priority reform areas:

- ***Protecting Lives and Livelihoods.*** The first pillar consists of strengthening and modernizing the health systems to improve coverage and quality of health services, while placing a strong emphasis on providing targeted support to firms so that they can survive and maintain jobs.
- ***Strengthening Transparency and Public Financial Management.*** The second pillar supports inclusive and sustainable economic recovery by addressing key structural bottlenecks, particularly through clearing domestic expenditure arrears and measures to prevent their recurrence, enhancing debt and fiscal sustainability, and reforming procurement processes.
- ***Opening Up of the Economy and Improving Competitiveness.*** The third pillar focuses on facilitating digital transformation, and improving competition and the business-enabling environment.

40. **This proposed DPL II deepens support to existing components of the reform program supported by DPL I.** The substance of the proposed DPL II loan remains consistent with the program design presented under DPL I and its Prior Actions link directly to the indicative triggers established under the first operation. Two Prior Actions have been strengthened, with the SOE reforms going beyond the original trigger of identifying SOEs for restructuring, and the social security legislation going beyond the legal establishment of unemployment insurance fund. Two triggers were modified for reasons outside the Government's control: (i) the Moveable Assets Security Interests Bill has not yet been passed in South Africa, and the South African banks that dominate

Eswatini's financial sector are unwilling to implement it until the South African legislation is passed; and (ii) for setting up a modern electronic case management system across all levels of the judiciary (PA9), the foreign vendor was unable to supply the software on time, but actions on the Government's side have been completed. However, the timeline for the planned unbundling of Eswatini Posts and Telecommunications Corporation (EPTC) was too ambitious.

41. **The unbundling of EPTC to establish a legally separated telecommunications infrastructure and retail service operators will take longer than initially expected**. The actual unbundling will be completed outside the timeframe of this operation. Hence this was replaced with an alternative trigger that still fosters competition in the telecom sector (passing the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines). The authorities remain committed to the unbundling agenda and the Cabinet has approved, as part of Eswatini's roadmap for streamlining public entities and creating effective regulators, the 2021 SOE roadmap which recommends unbundling of the EPTC. The World Bank will continue supporting this reform through the World Bank Digital Economy for Africa (DE4A) initiative which supports the implementation of the African Union's Digital Transformation Strategy which objective is to ensure that every African individual, business, and government is digitally enabled by 2030.

42. **The DPL-supported reform program is on track. Several results have been achieved under DPL I (Box 3).**

Box 3: Results already seen from DPO I

1. *Protecting Lives and Livelihoods.*

- **Under this pillar, the WBG supported Eswatini's response to the COVID-19 crisis.** The first Prior Action (PA1) under DPL I supported the strengthening of the health system to better respond to the threat posed by the COVID-19 pandemic, while trying to maintain essential health services. The Government has conducted over 140,000 COVID-19 tests since the beginning of the pandemic, and thus achieved the target set in the operation. Although the COVID-19 pandemic has been affecting the delivery of essential health services, including child immunization, the Government expects the coverage of DTP3 vaccine for children to recover back to 90 percent or even more by December 2022.
- **DPL I has provided support to safeguarding livelihoods.** DPL I supported measures to stabilize employment in firms (PA2) and provided additional liquidity to SMEs (PA3). The employment contingency (PA2) measures have been implemented successfully. The E25 million Unpaid Layoff Relief Fund was depleted, and the committee is working to close business, with 195 employers having made applications. The Unpaid Layoff Relief Fund benefited 23,099 employees out of 25,106 employees who experienced unemployment and loss of earnings during the pandemic. The textile and apparel subsectors suffered most, with over 16,000 workers laid off. On providing liquidity to firms (PA3), the COVID-19 SMEs E90 million Tax Relief Fund was targeted to SMEs with a turnover of up to E8 million in 2019 and that had complied with their tax obligations. There were 1,859 SMEs that qualified in 2019. Fifty-five taxpayers have benefited, with refunds amounting to over E794,000 being paid out as at the end of April 2021. The main challenge was that most of the SMEs (56) could not qualify due to non-compliance of tax obligations in 2019.

2. *Strengthening Transparency and Public Financial Management.*

- **DPL I supported measures to contribute to fiscal sustainability by limiting the recurrence of, and clearing, domestic expenditure arrears. The goal is to enhance budget management (PA4).** As a result, the authorities adopted a transparent domestic expenditure arrears clearance strategy leading to a decline in arrears. Subsequently, domestic expenditure arrears declined significantly from E5.1 billion in March 2020 to E1.6 billion in March 2021.
- **DPL I also supported measures to improve debt transparency through the publication of an Annual Debt Bulletin Report (PA5).** The Annual Debt Bulletin Report was published in 2020 and authorities are preparing the second publication. The publication of the public debt bulletin has shown the Government's commitment to transparency, accountability and access to information by the general public. This has allowed the public to have more scrutiny on

the debt dynamics and prompted the Government to continue working on debt management such as the Medium-Term Debt Strategy and debt sustainability analysis.

- **The last Prior Action under this pillar focused on strengthening the procurement regulatory legal framework for improved efficiency and transparency (PA6).** Subsequently, procurement regulations were approved by Parliament (in October 2020) followed by the MoF's publication of new Procurement Regulations in the Gazette. In line with the new regulations, the Eswatini Public Procurement Regulatory Agency (ESPPRA) has started to work on priority areas, such as capacity development and the professionalization of the procurement function, the development of standard bidding documents, and the implementation of an e-Procurement program.

3. *Opening Up of the Economy and Improving Competitiveness.*

- **The first Prior Action under this pillar focused on promoting digital transformation.** This includes measures to facilitate greater use of electronic communications, and transactions to promote e-government and e-commerce by supporting the submission of the Electronic Communications and Transactions Bill to Parliament (PA7). The Electronic Communications and Transactions Bill has gone through Parliament in 2020 and has been passed into law. The Bill is a significant piece of legislation that establishes the legal foundations for the use of electronic communications, electronic transactions and electronic signatures in the public sector, and improves the enabling environment for e-commerce. The passing of the law will enable the economy to increase the use of electronic transactions and will expand the Government's ability to digitize its public services, leading to efficiency gains through automating manual tasks and processes.
- **The operation supported measures to promote contactless payments (PA8), improve the resilience of social protection, and speed up digital transformation in light of the COVID-19 pandemic.** The CBE increased the limits for individual, daily and monthly bank and mobile money electronic payments. It also increased the limit for mobile money wallets (from E4,000 to E10,000). Given this promotion of digital payments, there was a significant increase in mobile money balances from 0.3 percent of GDP in 2019 to 0.5 percent in 2020, surpassing the target for this indicator in the DPL.
- **The last Prior Action supported measures to improve the business-enabling environment through lower trade-licensing fees and reduced time to issue trade licenses (PA9).** This was to complement strides made over the past two years in some areas of business regulation, particularly in starting a business, obtaining construction permits, securing electricity and registering property. As a result, the increase of trade-licensing fees was reversed through a Legal Notice 190 gazetted in July 2020. The Trading Licenses Order Amendment Bill was gazetted on July 31, 2020. The Bill's revision to section 7 abolishes the advertisement period of 3 days and a hearing previously required as a part of the application process, and establishes an 1-day service standard (compared with 5.3 days previously reported by the enterprise survey) to issue a trade license, thus saving over 7 days for the entrepreneurs. The reversal of 20-1400 percent increases of business reregistration and reversal of 60 percent increase of business licensing fees provided significant financial savings for entrepreneurs looking to establish a company in Eswatini.

43. DPL II will help deepen these key reforms. The first pillar (Protecting Lives and Livelihoods) consists of measures to protect the most vulnerable populations by strengthening and modernizing the health system. Furthermore, the operation supports a social security policy that will facilitate the establishment of a fully-fledged Unemployment Benefit/Insurance Fund, as well as measures to leverage sustainable private financing, particularly to MSMEs. The second pillar (Strengthening Transparency and Public Financial Management) supports inclusive and sustainable economic recovery by addressing key structural bottlenecks. Specifically, the operation supports a strategy to clear domestic expenditure arrears by establishing a single Government Account. To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published a SOE restructuring framework—including the list of SOEs subject to restructuring—in line with good international practices of regulatory governance, transparency and fiscal responsibility. The introduction of e-Government Procurement (e-GP) will improve efficiency and transparency. The third pillar (Opening Up of the Economy and Improving Competitiveness) includes policy actions to facilitate greater use of electronic communications and transactions, as well as mobile payments, to enable Eswatini's digital transformation and facilitate business start-ups by accelerating the enforcement of contracts. A summary of the Prior Actions of the operational series is presented in Table 4, showing changes that occurred to the DPL II indicative triggers, if any.

Table 4. Prior Actions of the Programmatic DPL Series

Prior Action for DPL I	**Indicative Trigger for DPL II**	**Prior Action for DPL II**	**Comment**
Pillar I – RELIEF: Protecting Lives and Livelihoods			
Reform objective #1: Health system strengthening			
To strengthen the COVID-19 health response, the Borrower, through its Ministry of Health, has developed the National Contingency Plan for Novel Corona Virus, which establishes measures for controlling COVID-19 and slowing down the transmission of COVID-19.	To strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted the Health Bill to Parliament.	To strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted to Parliament the Health Bill, which aims at establishing the legal foundations for strengthening the national health capacity system and its performance for effective health service delivery.	The wording of the prior action was strengthened.
Reform objective #2: Employment contingency			
To protect workers against the negative economic impact of COVID-19, the Borrower, through its Ministry of Labour and Social Security, has issued employment contingency measures, which provide for a contribution of E25 million for financing compensatory relief to employees who have suffered loss of earnings as a result of being temporarily laid off without pay during the COVID-19 national emergency.	To help establish employment contingency mechanisms, the Borrower, through its Ministry of Labour and Social Security, has established a fully-fledged Unemployment Benefit/Insurance Fund.	To promote an unemployment insurance system, the Borrower through its Cabinet, has adopted the National Social Security Policy which aims at setting forth the institutional foundations for the establishment and the use of an unemployment benefit fund.	The social security legislation goes beyond unemployment insurance to strengthen Eswatini's social security more broadly. The new prior action is more comprehensive than the original trigger.

Reform objective #3: Sustainable private financing			
To provide liquidity to firms, the Borrower, through its Ministry of Finance and Revenue Authority, has approved the COVID-19 SMEs E90 million tax relief fund guidelines, which regulates the provision of a refund of up to 100 percent of business tax paid in the tax year 2019, effected on a month-by-month basis at 25 percent for each month completed during the COVID-19 national emergency.	To leverage private financing to MSMEs, the Borrower, has enacted enabling legislation that facilitates: (i) the registration and perfection of security interests over moveable assets based on a modern electronic registry; and (ii) the collection and distribution of positive credit reference information.	To leverage sustainable private financing to MSMEs, the Borrower has amended the Consumer Credit Act to improve the credit information sharing system, by *inter alia*: (a) requiring credit providers to obtain at least one report from a credit bureau to assess a borrower's debt repayment history in order to grant any form of credit; and (b) enabling credit bureaus to provide credit scoring and to use several sources of data in order to facilitate the collection and distribution of credit reference information.	Part (i) of the original trigger removed. South Africa does not have yet this framework in place, making it difficult for South African banks (that dominate Eswatini's financial sector) to comply. Part (ii) split now into (a) and (b) now reflects all measures supported under the amendments to the Credit Consumer Act that strengthen credit information sharing, and not only the distribution of positive credit information.
Prior Action for DPL I	**Indicative Trigger for DPL II**	**Prior Action for DPL II**	**Comment**
Pillar II – RESTRUCTURING: Strengthening Transparency and Public Financial Management			
Reform objective #4: Budget management			
To contribute to fiscal sustainability, the Borrower, through its Ministry of Finance, has adopted a transparent domestic expenditure arrears clearance strategy, including the list of verified arrears.	To sustainably reduce expenditure arrears, the Borrower, through its Cabinet, has established a Treasury Single Account.	To sustainably reduce expenditure arrears, the Borrower, through its Cabinet, has approved and submitted to Parliament the PFM Regulations, which require the creation of a single Government Account.	No change
Reform objective #5: Debt transparency			
To enhance debt transparency, the Borrower, through its Ministry of Finance, has adopted and published for the first time an annual debt bulletin report for 2019, which contains information on loan details, debt service profile, interest and exchange rate fluctuations, and	To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published the list of SOEs subject to streamlining and restructuring (merge) to manage transfers below	To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published the SOE Restructuring Framework, which targets to: (a) reduce the number of SOEs	Goes beyond restructuring of SOEs also including the overall SOE governance and oversight framework—which is necessary to achieve fiscal

risk indicators.	20 percent of revenues.	from 49 to below 35 through separation of regulatory and commercial activities, closing some of the SOEs, privatization; and (b) improve operational performance and accountability of remaining SOEs.	sustainability. The reformulated Prior Action reflects this broader need.
Reform objective #6: Procurement reform			
To strengthen the procurement regulatory legal framework for improving transparency, accountability and promoting open competition, the Borrower, through its Cabinet, has submitted to Parliament, the Public Procurement Regulations, which aim to promote competitive bidding.	To facilitate transparency, accountability and efficiency in procurement, the Borrower, through its Ministry of Finance, has approved and launched the implementation of the e-Government Procurement (e-GP) program.	To facilitate transparency, accountability and efficiency in public procurement, the Borrower, through its Cabinet, has adopted a strategy for the implementation of an e-Government Procurement (e-GP) program.	Wording of the prior action was clarified.
Prior Action for DPL I	**Indicative Trigger for DPL II**	**Prior Action for DPL II**	**Change**
Pillar III – RESILIENT RECOVERY: Opening Up of the Economy and Improving Competitiveness			
Reform objective #7: Digital transformation			
To promote e-Government and e-Commerce, the Borrower, through its Cabinet, has submitted to Parliament the Electronic Communications and Transactions Bill, which aims to establish the legal foundations for the use of electronic means and strengthen online consumer protection.	To implement Section 53 of the 2013 Electronic Communications Act and to promote competition and private investment in the telecommunications market, the Borrower has unbundled the EPTC to establish legally separated telecommunications infrastructure and retail service operators.	To promote competition and private investment in the telecommunications sector, the Borrower, through its Minister of Information, Communications and Technology, has adopted the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines, which aims at creating an efficient and competitive mobile telecommunications environment, promoting telecommunications investment, and reducing duplication of	The initial trigger on unbundling of the EPTC was not achieved on time in order for the operation to meet its planned board date but the process is ongoing.

		infrastructure.	
Reform objective #8: Digital and contactless payments			
To promote digital payments, the Borrower's central bank has issued circulars, which: (i) increase the mobile money daily and monthly transaction limits for mobile money service providers; and (ii) encourage banks to waive all charges relating to transfers between bank accounts and mobile money wallets.	To enable digital financial services to support the digital economy, the Borrower has enacted a National Payment Systems Law aimed at promoting innovative digital financial services and strengthening the CBE role as regulator in maintaining safety and efficiency in the payment system.	To support digital economy developments, the Borrower, through its Cabinet, has approved and submitted to Parliament the National Payment Systems Bill, which aims at establishing the legal foundations for enabling digital and innovative financial services and strengthening the institutional framework to promote efficiency and ensure safety in the payment system.	Strengthened prior action. .
Reform objective #9: Business enabling environment			
To facilitate the ease of business start-up, the Borrower: (i) has amended the Finance Act, which reverses the increase of trade license fees; and (ii) through its Cabinet has approved the Trading Licenses Order Amendment Bill, which aims to reduce the time to issue trade licenses.	To accelerate enforcement of contracts, the Borrower, through its Ministry of Justice: (i) has established a specialized bench for commercial disputes and issued the applicable Rules and Bench Book; (ii) set up a modern electronic case management system across all levels of the judiciary; and (iii) has completed the establishment of Small Claims Courts.	To strengthen judicial enforcement of commercial contracts, the Borrower: (a) through its Chief Justice, has issued Practice Directive 1/2021 dated October 6, 2021, establishing a specialized Commercial Court with jurisdiction to hear and determine commercial disputes; (b) through its Chief Justice, has issued the Small Claims Court Rules.	The foreign contractor has not been able to provide the software, so part (ii) of the trigger was dropped (setting up a modern electronic case management system across all levels of the judiciary). IFC colleagues feel this is still a strong action which they fully support.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

44. **The policy actions supported by this DPL series are grouped under three pillars and include nine Prior Actions for the first DPL (DPL I) and nine Prior Actions for the second DPL (DPL II).** The objective of this section is to describe the Prior Actions supported by DPL II, describe reform progress to date, and outline reform challenges ahead.

Pillar 1. RELIEF: Protecting Lives and Livelihoods

Health System Strengthening.

45. The proposed DPL II supports the following Prior Action:

Prior Action #1: Health System Strengthening. To strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted to Parliament the Health Bill, which aims at establishing the legal foundations for strengthening the national health capacity system and its performance for effective health service delivery.	**Results Indicator #1a:** Number of COVID-19 tests conducted by the designated in-country laboratory (disaggregated by results) (number)	22,032 (August 2020)	400,000 (June 2023)
	Results Indicator #1b: Percentage of children under the age of 12 months who received the third dose of DTP vaccine	90% (2019)	90%[5] (June 2023)

46. Eswatini's health system performance is hampered by outdated legislation, and weak regulatory, accountability and management structures. The sector is overcentralized and there is limited capacity to institutionalize quality, particularly at the regional (Regional Health Management Teams) and facility levels.

47. The Health Bill (Prior Action #1) is central to creating an enabling legislative framework for health sector modernization, and strengthening system capacity and performance to support effective and efficient delivery of quality health service. The Bill is expected to: (i) strengthen the health system and its performance for effective health service delivery; (ii) improve access to essential, affordable, and quality health services for Eswatini people; and (iii) protect public health within the country through measures directed at preventing, detecting and responding to diseases. The Bill is also designed to provide for the establishment of: (i) regulatory, administrative, and technical offices, units and committees (including those at the regional and community level) for the purpose of improving the capacity and strengths of the public health system; and (ii) an independent Eswatini Health and Human Research Review Board. Finally, the Bill will provide for rights and responsibilities of health-care providers, health establishment and users, including responsibilities of not denying a person emergency medical treatment, and providing users with accurate and relevant information to allow them to make informed decisions.

48. The Bill has three key elements that will help improve access to essential, affordable and quality health services and medicines, leading to universal health coverage. First, it delineates clear lines of accountability for the delivery of health services within the Ministry of Health (MoH). The Bill also establishes: the directorate of health regulatory services that will determine and manage quality standards, license health establishments and ensure that they deliver services that adhere to approved standards; and the ongoing inspection of health establishments for adherence to quality standards to protect and promote the health and safety of users. Finally,

[5] Maintaining the 90 percent baseline will be a notable achievement given the health challenges emanating from the COVID-19 pandemic. Furthermore, while achieving a higher immunization target may be possible it must be noted that the World Health Organization recommends at least 90 percent coverage as it provides enough immunity among children; hence the same target as the baseline.

the Bill creates a framework for the Minister of Health to allow government health facilities to transition to (semi) autonomous status. This will help to improve decision-making at the local level and allow health facility managers to address shortages of commodities and maintenance problems without relying on the MoH headquarters, as is currently the case.

49. The Bill will improve access of the poor to health services. The Bill prohibits the denial of emergency health-care services by either public or private health establishment. This will improve access, particularly to the poor who may be denied access to care in case of emergency due to not having health insurance. The Bill also allows the MoH to enter into agreements with private health practitioners and facilities (including non-governmental organizations) for the delivery of services to the public, potentially improving access to services, especially among the poor and underserved who live in areas far from public facilities. In addition, the improved decision-making at the local level under the framework created by the Bill will help health facility managers use resources available to the public health facilities according to their needs, thereby increasing access to quality care to the poor, who mostly rely on government health services. Finally, the Bill delineates decision making to regions. This decentralization of services and decision making to regional hubs, will bring services closer and shorten the chain of approval for people to access services, especially in cases of emergency.

50. Status: The Health Bill was approved by the Cabinet with the condition of removing health service commissions due to concern over the rising number of commissions in the country and their impact on the wage bill. The Prior Action was submitted to Parliament on February 23, 2022.

51. Expected results: The Health Bill will ensure effective and efficient delivery of quality essential health services, including child immunization. While the DTP3 coverage was lower than 90 percent in 2020 (83 percent) due mainly to the COVID-19 pandemic and response measures, the health bill will support the improved access to essential, affordable and quality health, and 90 percent of children under the age of 12 months are expected to receive the third dose of DTP vaccine by 2023.

Employment Contingency.

52. The proposed DPL II supports the following Prior Action:

Prior Action #2: Employment Contingency. To promote an unemployment insurance system, the Borrower through its Cabinet, has adopted the National Social Security Policy which aims at setting forth the institutional foundations for the establishment and the use of an unemployment benefit fund.	**Results indicator #2** Number of beneficiaries that have been enrolled on the Unemployment Benefit/Insurance Fund	Number of beneficiaries 0 (July 2020)	Number of beneficiaries 96,874 (June 2023)

53. The global COVID-19 pandemic and related lockdowns have had a profoundly negative impact on Eswatini's businesses and their employees, with more than 19,000 employees affected by layoffs so far. These impacts come through supply, demand, financing, and uncertainty channels. A recent survey found that up to 97 percent of micro, small, and medium enterprises (MSMEs) do not have any form of insurance or safety net to absorb a shock. When the COVID-19 pandemic first hit, Eswatini only had a draft version of an unemployment protection scheme. There are no provisions for workers in the case of insolvency of a company. Mechanisms to facilitate access to employment services and active labor market interventions are limited. The COVID-19 pandemic has highlighted the necessity of, and opportunities for, improving the resilience of social protection infrastructure, and expediting the establishment of a framework for protecting people throughout their lifecycle through the National Social Security Policy. Motivated by the distressing and protracted pandemic, the Ministry of Labor and Social Security began a dual process of seeking approval for the policy and establishing the foundations of the Unemployment Benefit/Insurance Fund, which will not only cater to the private sector for job retention but will also be extended to the informal sector.

54. To promote an unemployment insurance system, the Borrower through its Cabinet, has adopted the National Social Security Policy, which aims at setting forth the institutional foundations for the establishment and the use of an unemployment benefit fund (Prior Action #2). Unemployment protection measures have positive impacts on poverty and formalization, and help vulnerable people to access decent and productive employment. The policy adopts a lifecycle approach and is aligned to the broader social protection system. It aims to establish a comprehensive and inclusive social security framework that covers the nine lifecycle stages to protect against loss of income and help people cope with important life risks. It will provide social security coverage in cases of sickness, maternity, employment injury, and unemployment, in addition to the conversion of savings into long-term old age (pensions) benefits, and improvement of survivors and disability (invalidity) cover. One of the most important reforms through this policy is the inclusion of the informal sector workers who, with the introduction of this reform, will be able to access funds during future shocks. The unpaid layoffs that occurred because of the pandemic have led the Government to expedite the approval of the policy and the implementation plan to establish an unemployment insurance fund to mitigate the impact of future crises or pandemics.

55. Status: The National Social Security policy paper was approved by the Cabinet.

56. Expected results: The Prior Action will pave the way to fully establish the Unemployment Benefit/Insurance Fund and other risk protection measures that create greater resilience of workers and lay the foundations for a more rapid post-crisis recovery. 96,874 beneficiaries in the Unemployment Benefit/Insurance Fund by June 2023. One hundred companies and 235,000 workers are expected to benefit from employment contingency measures once the Fund is established. The governance risks posed from the establishing of a new fund are dealt with in the National Social Security Strategy. The Strategy will establish the Social Security Organization with an independent board to oversee the setting-up, fiduciary responsibilities, legislature, and monitoring and evaluation of the social security fund. The forthcoming legal framework for social security will define specific social security accountability and regulatory oversight functions and regulations to be executed by the Financial Services Regulation Authority (FSRA) (notably aspects of the investment of funds). Furthermore, resource mobilization for the new fund will occur according to Article 71 of Convention No. 102 (payment of benefits and administration properly managed) to establish a well-functioning fund. The fiscal space will be created through the Social Security Investment and Financing Strategy, which will be used to mobilize resources. Contribution rates will be benchmarked with regional and international practices and standards, and should be set at such levels that they neither hamper economic competitiveness nor harm workers of modest means.

Sustainable Private Financing.

57. The proposed DPL II supports the following Prior Action:

Prior Action #3: Enabling Sustainable Private Financing. To leverage sustainable private financing to MSMEs, the Borrower has amended the Consumer Credit Act to improve the credit information sharing system, by *inter alia*: (a) requiring credit providers to obtain at least one report from a credit bureau to assess a borrower's debt repayment history in order to grant any form of credit; and (b) enabling credit bureaus to provide credit scoring and to use several sources of data in order to facilitate the collection and distribution of credit reference information.	**Results indicator #3:** Number of credit reports issued by the credit bureau per year (thousand)	166 (2020–21)	175 (June 2023)

58. Credit to the private sector was stagnant during the 2010s (at around 20 percent of GDP) and limited to a small share of the population. Formal credit has also suffered from the COVID-19 pandemic (real credit declined for most of 2020). MSMEs in Eswatini are particularly affected by difficulties in accessing finance. In 2017, IFC estimated that the SME financing gap in Eswatini was 45 percent of GDP, much higher than the average gap in Sub-Saharan Africa (SSA). Female-led MSMEs seem to be particularly constrained, with only 14 percent reporting having access to a bank loan or line of credit, much lower than the 32 percent of male-led MSMEs[6] possible reflecting the lower volume of real property owned by women as opposed to men. To strengthen economic recovery, Eswatini will need to ensure that credit re-starts flowing to businesses for investments. However, there are structural barriers to accessing formal credit, including weak credit and financial reporting. Poor data quality and the limited use of credit bureau services limit the effectiveness of the credit reporting system, even though the depth of credit information in Eswatini is higher than the SSA average.

59. The operation supports the enactment of amendments to the Credit Consumer Act to strengthen the credit information sharing system, among others by requiring credit providers to consult a borrower's credit history from a credit bureau, and by enabling the collection and sharing of positive credit reference information (Prior Action #3). The proposed reforms aim to allow borrowers in Eswatini, particularly SMEs, to leverage their credit history to access finance. When credit information is shared, the cost of financial intermediation falls and financial services become accessible to a greater number of borrowers[7]. The authorities have also considered introducing reforms to promote secured transactions using movable collateral but consider that similar reforms should first be introduced in South Africa, given the close links between both financial systems. The authorities have therefore revised the policy action under DPL II and focused on improving the credit reporting system, considering that credit reporting enables firms to establish "reputational collateral" based on credit histories, thus reducing the need for physical collateral. In addition, the authorities have

[6] Swaziland Enterprise Survey (2016).

[7] Using credit bureau data can improve the quality of credit analysis by financial institutions (Powell et. al, 2004). This helps lenders and investors have greater confidence in their ability to evaluate and price risk. Basing credit decisions on objective information can improve the availability of credit to the poor and increase entrepreneurs' opportunities for success (Brown et al. 2009). Reducing information asymmetry addresses a market failure, and therefore many regulators require financial institutions (banks and non-banks) to consult a credit bureau.

introduced other measures to help improve MSME access to finance, such as the recent amendments to the Small-Scale Enterprise Loan Guarantee Scheme that aim to expand its outreach.

60. **Status:** The Consumer Credit Act Amendment Bill incorporates World Bank comments and was promulgated in November 2021.

61. **Expected results:** The reform will lead to a stronger credit reporting system in Eswatini, helping firms prove their creditworthiness and thereby improve their access to finance. The credit bureau is expected to start providing higher-value credit information to credit providers and to receive a higher number of enquiries from credit providers. Ultimately, the credit bureau is expected to issue more credit reports, reflecting improved conditions in the credit information sharing system.

Pillar 2. RESTRUCTURING: Strengthening Transparency and Public Financial Management

Budget Management.

62. The proposed DPL II supports the following Prior Action:

Prior Action #4: Budget Management. To sustainably reduce expenditure arrears, the Borrower, through its Cabinet, has approved and submitted to Parliament the PFM Regulations, which require the creation of a single Government Account.	**Results Indicator #4:** Reduced stock of arrears	26 percent of expenditure arrears in total government expenditure (E5.1 billion) (May 2020)	Below 15 percent expenditure arrears in total government expenditure (estimated E3 billion) (June 2023)

63. **Eswatini is grappling with persistent macro-fiscal challenges that adversely affect private sector activity and economic growth**. Although the fiscal deficit declined in 2019, financing constraints led the Government to continue financing the deficit through the accumulation of domestic expenditure arrears, a drawdown on reserves, and domestic borrowing. This in turn has reduced the Government's ability to provide quality goods and services, reduced the availability and increased the cost of credit for the private sector (crowding out private sector activity), and the accumulation of arrears has limited the expansion of firms' activities, as they now find it difficult to service their loans. Domestic expenditure arrears rose to 8.1 percent of GDP at end-2019, up from 7.1 percent of GDP reported in 2018. The Government has committed to clearing these arrears, partly by implementing its Fiscal Adjustment Plan.

64. **The PFM Regulations, which require the creation of a single Government Account(Prior Action #4) will help ensure sustainability of fiscal discipline**. The single Government Account is an essential tool for consolidating and managing government cash resources, thereby minimizing borrowing costs. The single Government Account will strengthen the Treasury's oversight of the Government's cash resources. It will also help to operationalize the control of commitments against budget allocations and, subsequently, payments against commitments registered by the Treasury. This reform, coupled with sound fiscal policy, is expected to

bring expenditure arrears under control. Implementation of the Fiscal Adjustment Plan will help to reduce the unfinanced fiscal gap in the medium term, ultimately leading to a reduction in the size and growth of arrears in the medium term.

65. **Status:** The cabinet has approved the Public Finance Management regulations that require establishment of the single Government Account as mandated in the Public Finance Management Act. The Treasury has initiated the process of establishing the Account. Specifically, the Treasury has compiled a list of existing government bank accounts, finalized the single Government Account structure, and is conducting stakeholder sensitization, including engagement with the CBE.

66. **Expected results:** The Prior Action taken to clear domestic arrears and limit their recurrence contributes to fiscal sustainability in a structural and strategic manner. The percentage of expenditure arrears in total government expenditure is expected to decrease to 15 percent by 2023. The Prior Action is completed.

Debt Transparency.

67. The proposed DPL II supports the following Prior Action:

Prior Action #5: Debt Transparency. To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published the SOE Restructuring Framework, which targets to: (a) reduce the number of SOEs from 49 to below 35 through separation of regulatory and commercial activities, closing some of the SOEs, privatization; and (b) improve operational performance and accountability of remaining SOEs.	**Results indicator #5:** Reduction of transfers to SOEs as percent of total revenue	23% of total revenue (2020)	19% of total revenue (June 2023)

68. **A large SOE sector adds to the inflexibility of public expenditure, and contributes to a high fiscal deficit and subsequently high debt levels.** At present, it is difficult to reduce spending significantly in response to negative revenue shocks, partly because of too many SOEs in Eswatini. Currently, Eswatini has 49 public enterprises, a large number given the size of the country and its economic activities, with the number of SOEs increasing almost on an annual basis. More than 50 percent of these SOEs rely wholly on government support for their recurrent and capital budgets. Even the few that do have income-generating potential are, on average, performing below expectations and continuing to rely on the Government, as the revenue generated accounts for less than 15 percent of their total budget requirements. With the continual increase in the number of SOEs, it is becoming increasingly costly for the Government to fully support these entities. This also contributes to high public debt, given that the SOEs incur both explicit and implicit contingency liabilities. Preliminary analysis has identified that there are often overlapping mandates that create duplication, which becomes expensive for the Government to service.

69. **This operation supports actions to improve debt and fiscal sustainability by approving and publishing an SOE Restructuring Framework—that targets to reduce the number of SOEs from 49 to below 35 through separation of regulatory and commercial activities, closing some of the SOEs, privatization, and improving operational performance and accountability of remaining SOEs (Prior Action #5).** This Prior Action will enable the Government to deliver on the desired results in debt and fiscal sustainability, given the diverse roles that SOEs play in Eswatini—from commercial entities to regulators and government agencies.

70. **Status:** The SOE restructuring framework was approved by the Cabinet. The World Bank provided comments prior to Cabinet approval. The Prior Action has been completed.

71. **Expected results:** Pursuing policies to limit transfers to SOEs signals the commitment of the Government to control debt and ensure debt sustainability more firmly. The transfers to SOEs will decline from 23 percent of total revenue in 2020 to 19 percent in 2023.

Procurement Reform.

72. The proposed DPL II supports the following Prior Action:

Prior Action #6: Procurement Reform. To facilitate transparency, accountability and efficiency in procurement, the Borrower, through its Cabinet, has adopted a strategy for the implementation of an e-Government Procurement (e-GP) program.	**Results Indicator #6:** Percentage of tenders awarded in line with the regulations in all agencies and procured electronically in 10 selected pilot agencies	0% (2019)	100% (June 2023)

73. **Public procurement is key to the effectiveness and accountability of public expenditure management in many sectors** such as energy, transport, and the provision of health and education services. Eswatini spends around US$854 million (about 25 percent of GDP) on the purchase of services, works and supplies. Eswatini could see the budget deficit breach 10 percent of the country's GDP if reforms in public procurement practices are not implemented.

74. **The operation aims to improve transparency, accountability and efficiency through a modernization of public procurement strategy, including the use of e-GP system (Prior Action #6).** The adoption of e-GP is a program that transforms the public procurement system and provides the vehicle for the implementation of public procurement regulations, the approval of which was a Prior Action in DPL I. The introduction of e-GP will change the way of procuring public goods, works and services with a focus on increased transparency, accountability, efficiency, and sustainable value-for-money outcomes. In addition, e-GP will enable the collection and use of public procurement and contract data to inform short- and long-term public investment decisions. Adopting e-GP is based on a comprehensive program that, besides the electronic platform, includes the development of adequate management structures, legislation and regulations, standards, and capacity of the public sector on the demand side, as well as of the private sector on the supply side. The formal approval and launch of the e-GP implementation program is the result of a solid e-Procurement readiness assessment and implementation strategy approved by a high-level steering committee and technical committee to ensure government leadership and ownership as the most critical success factor of any public sector digital program implementation. The World Bank provided technical assistance to the readiness assessment and implementation strategy using a methodology suggested by the Multilateral Development Banks' Heads of Procurement working group.

75. **Status:** The e-GP strategy was approved by the Cabinet.

76. **Expected results**: The percentage of tenders awarded in line with the regulations in all procuring agencies and procured by using e-GP in 10 selected pilot agencies is expected to be 100 percent by June 2023.

Pillar 3. RESILIENT RECOVERY: Opening Up of the Economy and Improving Competitiveness

Digital Transformation.

77. The proposed DPL II supports the following Prior Action:

Prior Action #7: Digital Transformation. To promote competition and private investment in the telecommunications sector, the Borrower, through its Minister of Information, Communications and Technology, has adopted the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines, which aims at creating an efficient and competitive mobile telecommunications environment, promoting telecommunications investment, and reducing duplication of infrastructure.	**Results Indicator #7:** 3G/4G/LTE coverage (% of population)	35%[8] (2021)	50% (June 2023)

78. **Affordable and reliable digital services offer a lifeline during the COVID-19 pandemic and beyond.** Eswatini has an e-government portal (http://www.gov.sz), the objective of which is to: (i) provide better services and make the Government more people-centric, open, responsive and participative, thus rendering Eswatini an information society, as well as meeting the Sustainable Development Goals to secure an improved quality of life for the citizens of Eswatini through substantive poverty reduction; (ii) reduce compliance and transaction costs for businesses and individuals, provide better targeted public services, and improve government efficiency to transform Eswatini into an information economy; and (iii) achieve fiscal gains through more efficient and cost-effective public expenditure on service delivery, reduce corruption, and support information and technology systems. However, policies to ensure that digital services and opportunities are readily available throughout Eswatini society and the private sector need to be developed and adopted.

79. **The proposed Prior Action #7 on active infrastructure sharing and national roaming aims to increase competition in the broadband market and incentivize private investment in digital infrastructure**, thereby increasing competition, and improving the reach and quality of broadband services. Digital infrastructure in Eswatini is underdeveloped, mainly due to the lack of competition in the fixed broadband market, given that the incumbent operator, EPTC, has a monopoly and exclusivity in the first mile (international connectivity) and middle mile (national backbone) of the broadband value chain. The resulting high end-user internet prices tend to depress demand for broadband services, which in turn reduces incentives for private sector investment. Furthermore, the country has mainly relied on individual mobile network operators (MNOs) to build their own infrastructure or share facilities, encouraging passive infrastructure sharing among service providers. Expanding infrastructure sharing to include active equipment, such as intelligent networks and radio access networks among

[8] World Bank analysis and estimate in 2021. It is calculated with the number of unique mobile broadband capable subscribers (GSMA) divided by the total population (UN). The number of unique mobile broadband capable subscribers is estimated by dividing (i) number of mobile broadband capable SIM connections by (ii) SIMs per subscriber. Mobile broadband capable is based on unique SIM cards (or phone numbers, where SIM cards are not used) that have been registered on the mobile network in a device capable download speeds of 256 kb/s or greater (agnostic of the device type) at the end of the period. Connections differ from subscribers such that a unique subscriber can have multiple connections.

other active components of the network, would promote private investment, maximize the use of network facilities, reduce the duplication of network infrastructure, and promote the availability of quality, cost-effective and competitive telecommunication services.

80. Status: Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines 2021 were issued and came into effect on September 17, 2021, and were published on the commission's website (www.esccom.or.sz). The guidelines underwent a public consultative process that started in June 2020 in terms of Section 32 of the ESSCOM Act 2013, inviting comments from interested stakeholders and the general public on the draft guidelines. The Prior Action has been completed.

81. Expected results: Issuance of the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines 2021 is expected to lead to increased investment in a high-performance network for all citizens in Eswatini and improved internet access (unique mobile broadband subscriptions per 100 individuals) from 35 percent in 2021 to 50 percent by 2023.

Digital and Contactless Payments.

82. The proposed DPL II supports the following Prior Action:

Prior Action #8: Digital and Contactless payments. To support digital economy developments, the Borrower, through its Cabinet, has approved and submitted to Parliament the National Payment Systems Bill, which aims at establishing the legal foundations for enabling digital and innovative financial services and strengthening the institutional framework to promote efficiency and ensure safety in the payment system.	**Results indicator #8:** Increase in the value of mobile money balance (percentage of GDP)	0.2% (2018)	0.6% (June 2023)

83. The COVID-19 pandemic highlights the necessity of improving the resilience of social protection infrastructure and developing systems that can get "cash to people" in a crisis. Cash distribution and access are likely to experience large negative disruptions during a crisis. As cash is a vital component of national payments systems, especially in most emerging and developing economies, individuals relying on them, including many beneficiaries of social protection programs and recipients of remittances, could be heavily impacted. Digital payments can be leveraged to mitigate the impacts of a crisis. Electronic/digital payment mechanisms can improve delivery systems so that support can be mobilized more quickly and reach more people. Contactless and digital payment methods also require less physical interaction and are more secure.

84. Prior Action #8 proposes the approval by the Cabinet and submission to Parliament of the National Payment Systems Bill, aimed at promoting innovative digital financial services and strengthening the CBE's role as the regulator in maintaining the safety and efficiency of the payment system. Legal certainty in the provision of payment services is critical in containing risk, as well as ensuring trust and confidence in the financial system. As technology advances, the regulator also needs to ensure that it has adequate resources and legal powers to respond to such developments. The National Clearing and Settlement Systems Act (NCSSA), which is the main legislation governing payments in Eswatini, was enacted in 2011. As such, it was largely based on traditional means of payment provided by banks and with the CBE as the sole financial sector regulatory authority. This law has since been overtaken by technological developments that have seen the emergence of digital and innovative products, nonbank service providers, and an additional regulatory authority in the form of the Financial Services Regulatory Authority (FSRA). Enacting the National Payment Systems (NPS) Bill will address the legal gaps brought about by these technological developments, and ensure legal adequacy and effectiveness in supporting the rapidly evolving financial and payment landscape, regulating all players in the financial system and aligning legal provisions with international standards. The key elements of the Eswatini NPS Bill include: (i) the introduction of a licensing regime for service providers and systems; (ii) explicit provisions on supervision and oversight of providers; (iii) provisions on electronic money issuance; (iv) establishment of a National Payments Council; (v) legal definitions; and (vi) data protection.

85. Status: The NPS Bill was approved by the Board of Directors of the CBE and then submitted to the Attorney General's office in December 2021. The Bill was approved by the Cabinet on January 17, 2022.

86. Expected results: The value of the mobile money balance is expected to increase from 0.2 percent of GDP in 2018 to 0.6 percent of GDP by 2022, reflecting larger use of digital financial services.

Business Enabling Environment.

87. The proposed DPL II supports the following Prior Action:

Prior Action #9: Business-enabling environment. To strengthen judicial enforcement of commercial contracts, the Borrower: (a) through its Chief Justice, has issued Practice Directive 1/2021 dated October 6, 2021, establishing a specialized Commercial Court with jurisdiction to hear and determine commercial disputes; (b) through its Chief Justice, has issued the Small Claims Court Rules.	**Results indicator #9a:** Number of days to obtain trade license	Number of days to obtain trade license - 5.3 days (2020)	Reduction of days by 4.3 days, time to obtain trade license - 1 day (June 2023)
	Results indicator #9b: Cases lodged at the Commercial bench as a % of overall High Court cases	Cases lodged at the Commercial bench 0% (2020)	Cases lodged at the Commercial bench 5% (June 2023)

88. Firms in Eswatini face challenges in the area of commercial dispute resolution. Two factors explain this: first, the average time taken to resolve a dispute to enforcement; and, second, the absence of good practices in relation to the civil justice process. On average, it takes between six and nine months to set a trial date, while 43 percent of litigants reported that it takes over nine months from a hearing date to receiving a judgement.

89. Prior Action #9 proposes to accelerate the enforcement of contracts. Existing research suggests that, in the absence of efficient courts, firms undertake fewer investments and business transactions, as well as making informality more attractive. For example, a study of 27 economies found that the informal sector's share in overall economic activity decreases with better contract enforcement quality, determined by a country-wide measure of the rule of law, as well as by firms' perceptions of the fairness of courts. In contrast, improvements in court efficiency are associated with a lower share of the informal sector in overall economic activity and increased investor confidence. Improved creditors' rights only help to increase bank lending if contracts can be enforced by the courts, thereby increasing bank financing of firms for new investment. Prior Action #9 has supported the Chief Justice Practice Directive in establishing a Specialized bench for commercial disputes and a corresponding set of Commercial bench rules. The Prior Action also supported implementation of the Small Claims Courts. While the Small Claims Courts Act was passed in 2011, actual Small Claims Courts were only established in every region of Eswatini as a result of Prior Action #9.

90. **Status:** Completed. Due to supply chain failures, the second portion of the trigger was dropped ((ii) set up a modern electronic case management system across all levels of the judiciary). The WBG will, however, continue to support the reform.

91. **Expected results:** The proposed measures to improve the business-enabling environment are expected to reduce the number of days to obtain trade licenses by 4.3 days by 2023, as well as lodging at least 5 percent of the overall High Court cases through a specialized commercial track by 2023. The number of days to obtain a Trade license will be measured by analyzing actual licensing data from the Ministry of Commerce, Industry and Trade licensing department and validated through a private sector survey.

Table 5: DPF Prior Actions and analytical underpinnings

Prior Action	Analytical Underpinnings
Operation Pillar 1: RELIEF: Protecting Lives and Livelihoods	
Prior Action #1	Legal and Regulatory Framework: The current legal and regulatory framework was assessed. It was noted that the Public Health Act (1969) was not comprehensive enough to address all health and related issues and was recommended that a Health Bill be drafted.
Prior Action #2	The Economic Policy Response to the COVID-19 Crisis (World Bank, April 2020a). Supporting jobs and firms is justified in the context of a major crisis.
Prior Action #3	Eswatini financial markets diagnostic – Technical note on credit infrastructure and working capital finance for micro, small and medium enterprises (World Bank, 2021). The credit reporting system is in its infancy. There is one credit reporting service provider, which is a representative office of a South Africa-based company. Only banks and mobile network operators are reporting to the credit bureau, while microfinance organizations and saving and credit cooperatives are not. The credit bureau coverage ratio is 54.2 percent of adults. It collects and distributes mainly consumer-credit negative data and no positive data. The credit bureau is not connected to government databases and is therefore not benefiting from them. The credit reporting system, governed by the Consumer Credit Act, 2016, had several deficiencies which are corrected by the recently approved amendments. COVID-19 Outbreak: Implications on Corporate and Individual Insolvency (World Bank, 2020c). In a crisis, the need for liquidity increases the risk of pushing viable firms into liquidation, especially vulnerable MSMEs with unnecessary widespread employment losses and fire sale of assets. Ensuring that sound firms are given a fair chance to survive the expected temporary market disruption is therefore critical.

Prior Action	Analytical Underpinnings
Operation Pillar 2: RESTRUCTURING: Strengthening Transparency and Public Financial Management	
Prior Action #4	Eswatini Systematic Country Diagnostic 2020.
Prior Action #5	Guidelines on Corporate Governance of State-Owned Enterprises (OECD, 2015); The Governance of Regulators (OECD, 2014); Corporate Governance of State-Owned Enterprises: A Toolkit (World Bank, 2014)
Prior Action #6	Eswatini spends around E14 billion (about 25 of GDP) in the purchase of services, works and supplies. Public procurement is key to the effectiveness and accountability of public expenditure management in many sectors such as energy, transport, and the provision of health and education services. Public procurement in Eswatini is governed by Public Procurement Act No.7 of 2011. However, since then, no implementing regulations to the Act have been issued. Enactment of the regulations has been in the making for many years and this Prior Action will help to accomplish it.
Operation Pillar 3: RESILIENT RECOVERY: Opening Up of the Economy and Improving Competitiveness	
Prior Action #7	COVID-19 Crisis Response: Digital Development GP Action Plan (World Bank, 2020). World Development Report: Digital Dividends (World Bank Group, 2016).
Prior Action #8	The National Clearing and Settlement Systems Act (NCSSA) has provided the legal basis for the development of the payments system in Eswatini since 2011. However, developments in the payments space post-2011 triggered the review of the NCSSA by the authorities in consultation with financial market stakeholders. These included: the entry of nonbank service providers into the payments space; the advent of innovation and increasing focus on digital payments; the release of the new standards governing financial market infrastructures in 2012; and the adoption of the SADC Payment Systems Model Law to provide guidance in developing a sound legal and regulatory framework as part of the overall strategy of promoting regional harmonization and more efficient cross-border payments and remittances. COVID-19 has revealed the challenges of relying on traditional manual and paper-based payments processes and the importance of enhancing digital financial services (DFS) provision. The protection of interests of payers and payees in payment instruments has become even more important in DFS to prevent erosion of confidence in the payment system. Hence, having a proportionate and predictable legal framework that guarantees settlement of obligations, transparent dispute resolution mechanism and adequate provisions for the oversight and supervision of DFS is critical. The enactment of the NPS Bill is therefore important in providing a sound legal basis to and strengthening the central bank's mandate in regulating DFS and cross border payments.
Prior Action #9	Lower cost of entry associated with higher firm productivity and less corruption [World Bank, Alesina and others (2005), Perotti and Volpin (2004), Fisman and Sarria-Allende (2004), Antunes and Cavalcanti (2007), Barseghyan (2008), and Klapper (2009)]. Simpler start-up translates into greater job opportunities [World Bank, Freund and Bolaky (2008), Chang, Kaltani and Loayza (2009), and Helpman, Melitz and Rubinstein (2008)]. Where does regulation hurt? Evidence from new businesses across countries. (National Bureau of Economic Research, 2009). Women are particularly affected by regulation and its impact on entrepreneurship. Heavy regulation stifles the pursuit of business opportunity, especially for women, the unemployed and other vulnerable groups. Assessment Study on Delayed Justice Delivery (UNDP 2010). Informality and Regulations: What Drives the Growth of Firms? (IMF, 2008). The informal sector's share in overall economic activity decreases with better contract enforcement quality, measured

Prior Action	Analytical Underpinnings
	by a country-wide measure of rule of law, as well as by the firm's perception of the fairness of courts. In contrast, improvements in court efficiency are associated with a lower share of the informal sector in the overall economic activity, increased investor confidence and with creditors' rights, help increase bank lending only if contracts can be enforced before the courts increased bank financing of firms for new investment. IMF's Executive Article IV Consultation with the Kingdom of Eswatini report (February 2020) pushes for further actions to strengthen governance and improve business conditions, including contracts enforcement. The creation of commercial courts is specifically recommended.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

92. The World Bank Group (WBG) CPS remains relevant for WBG support in response to the COVID-19 pandemic. The CPS was extended by the Eswatini Performance and Learning Review (report number 126205-SZ) to FY20 and preparation for the new CPF was delayed due to the COVID-19 pandemic. The WBG portfolio in Eswatini is relatively new and all active projects were declared effective in the last quarter of FY20. The pandemic, however, presented an urgent need to deploy other instruments such as the DPL and the Fast-Track Facility, which fit well into the existing program.

93. This DPL II continues to fit well into the existing CPF, which has two program pillars. These are: (i) Promoting growth and productivity – this pillar supports the Government to create an enabling environment for private sector investment and competitiveness, MSME growth and jobs; and (ii) Strengthening state capabilities – this pillar supports the areas of governance, economic management and social services delivery. This second operation has two pillars almost similar to the CPF pillars. Its first pillar focuses on protecting lives and livelihoods through providing support to SMEs and protecting jobs through employment contingency measures. The second pillar focuses on strengthening transparency and public financial management, which fits well into the CPF pillar. The third pillar focuses on opening up of the economy and improving competitiveness through facilitating digital transformation and improving competition and the business-enabling environment. The World Bank has recently completed the Eswatini SCD in 2020 that recommends five policy areas as stated in the introduction. The support provided in this second operation fits well in most of the policy areas suggested in the SCD.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

94. The World Bank maintains close collaboration and coordination with other development partners in the implementation of its country program in Eswatini. The World Bank has maintained close coordination with in-country development partners, taking a lead on maximizing finance for the development agenda. The World Bank has closely coordinated with the IMF, especially on the macroeconomic policy framework. The AfDB is also preparing a US$36 million budget support operation.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

95. **The COVID-19 pandemic has led to significant increases in poverty**. It is estimated that extreme poverty, measured at the US$1.90 per person per day (in 2011 PPP) poverty line, remained elevated at 28 percent, in 2021 (World Bank's Macro Poverty Outlook [MPO], 2022)[9]. Projections suggest extreme poverty levels will remain elevated at around 27 percent despite some degree of economic recovery.

96. **The poverty increase reflects the impact of the pandemic on economic activity**. Although from May 2020 the Government adopted a more relaxed partial lockdown under which formal firms were allowed to operate, the damage to economic activity remained significant, compounded by South Africa's strict containment measures and the closure of some ports of entry with South Africa. For example, there is evidence of severe adverse impacts of the pandemic on the economy, with large falls in tax revenue, increases in loss-making firms, and declines in employment. For instance, the simulations indicate an increase in the firm exit rate relative to the pre-COVID-19 baseline of 66 percent, which implies a permanent payroll loss equivalent to 0.2 percent of GDP and a permanent turnover loss equivalent to 1.3 percent of GDP.[10] Needless to say, this negatively affects employment and livelihoods even when the effect of a government-sponsored wage subsidy to protect formal employment is taken into account. Reforms adopted to address the negative impact of the pandemic will influence the resultant poverty and inequality impacts.

97. **The reforms supported by this operation are pro-poor and likely to have positive poverty and social effects in the short and medium term**. The measures aim to protect lives and livelihoods and are directly linked to the productivity of people and economic opportunities. Furthermore, strengthening transparency and public financial management will help promote better public service delivery, thereby improving welfare and contributing to poverty reduction. None of the Prior Actions carries a clear substantial risk of adverse social or poverty effects.

98. **Strengthening the health system (Prior Action #1) through modernizing the sector is expected to enhance efficiency of the system** and directly benefits the poor who tend to be more reliant on the public health sector.

99. **The Unemployment Benefit/Insurance Fund (Prior Action #2) will provide short-term income support to individuals who are not currently working due to employment losses as a result of the COVID-19 pandemic and, therefore, is expected to have a direct and positive impact on poverty in affected households.** The Government is working out modalities on informal sector contribution given the infrequent cashflow; considerations include a quarterly lump sum payments by informal traders or once a year contribution. Furthermore, gender sensitivity, as promulgated by comprehensive maternity benefits and the conscious enrollment of at least 50 percent women will strengthen shock response for a number of female-headed households who are overrepresented in the informal sector. By improving the position of firms, improving

[9] The Macro Poverty Outlook (MPO) analyzes macroeconomic and poverty developments in 146 developing countries. The report is released twice annually for the Spring and Annual Meetings of the WBG and IMF.
[10] Lees, A., G. Mascagni and M. Kilumelume (2020). 'Simulating the Impact of COVID-19 on Formal Firms in South Africa'. MTI Practice Note 9K. Washington, DC: World Bank.

financing to MSMEs (Prior Action #3) is expected to support poverty reduction through the creation or maintenance of jobs. Although a lack of data on firms' size does not allow full Poverty and Social Impact Analysis (PSIA) of the measure, the overall impact should benefit low-income earners. A simulation of the poverty-reducing impact of an employment contingency measure and relief to SMEs found that the poverty impact of the pandemic is nearly 1 percentage point lower due to these measures, equivalent to nearly 10,000 fewer people falling into poverty. While in the baseline analysis poverty rises by 3.2 and 5.4 percent through a three-month and a six-month lockdown, respectively, these increases in poverty are reduced to 2.9 and 5.0 percent with the employment contingency, and 2.4 and 4.8 percent, respectively, with the SME relief. Together, these two measures were simulated to reduce the poverty increase to 2.3 and 4.5 percent, respectively.

100. Advancing the digital economy is important for poverty reduction. Introducing the use of e-GP (Prior Action #6), as well as enabling digital financial services (Prior Action #8), can improve delivery systems. It is important to note, however, that those who may be most vulnerable to the impacts of the COVID-19 pandemic may be less likely to benefit from the use of digital financial services. The Finscope 2018 data suggest that 69 percent of adults in Eswatini use mobile money services, with usage rates lowest among the poor. Digital transformation of the telecommunications sector (Prior Action #7) is expected to support poverty reduction because prices will likely fall and the poor will benefit. Also, increased competition will create more jobs, which also should have a positive impact on poverty.

101. An improved business-enabling environment (Prior Action #9) will boost private investments, entrepreneurship, and subsequently create jobs. The relatively thin competition in Eswatini is exacerbated by relatively low entrepreneurship rates, partly due to limited access to finance by SMEs.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

102. Eswatini's environmental laws, regulations and policies are in place and generally acceptable. Over the past 15 years, Eswatini has made significant progress in mainstreaming environmental sustainability into decision-making processes, starting first with the Eswatini Environmental Management Act (2003), which regulates Environmental and Social Impact Assessments (ESIA) in Eswatini. The Act establishes the Eswatini Environmental Authority (EEA)—formerly known as the Swaziland Environmental Authority (SEA)—as a corporate body and promotes the enhancement, protection and conservation of the country's natural resources. It outlines the EEA's powers, functions, principles, regulations, strategies, and practices with regard to environmental assessment and compliance issues, and promotes integrated environmental management. The EEA's capacity and track record for managing environmental risks associated with development initiatives and overseeing and ensuring environmental compliance monitoring is strong and well-established.

103. As per Operational Policy (OP) 8.60, the World Bank has assessed whether the country policies supported by this DPL are likely to have an impact on the environment, forests, and natural resources. This assessment shows that the Prior Actions #6, #8 and #9 are likely to have a positive impact on the country's environment, forests, and natural resources.

104. Contactless payments, introducing the use of e-GP and the setting-up of a modern electronic case management system across all levels of the judiciary would eradicate the environmental cost of cash and reduce paper usage. The establishment of a Small Claims Court in every region of Eswatini will reduce traffic, as there will be no need to travel to the capital. However, from a lifecycle assessment perspective, the Government should be cautious regarding the indirect or less visible environmental cost of technologies that underpin contactless payments or/and e-Government initiatives. In addition, by introducing the use of e-GP, care should be taken to ensure that this process integrates environmental and social due diligence and associated permitting requirements.

105. Meanwhile, activities under Prior Actions #1 and #7 are likely to lead to more future investments, which may contribute to negative environmental impacts due to an increase in volumes of health-care waste, e-waste, and demand on natural resources. Eswatini's Waste Regulations published in 2000 outline requirements for collection, handling, transport, recovery, treatment, storage and disposal, and general management of solid and liquid waste in urban areas, as well as in waste control areas (non-urban areas). However, there are knowledge, skills, changing attitudes and behavior, and inter-relations gaps in the Member Country's system for reducing adverse environmental effects that been already identified under Prior Actions #1 and #7. The Health Care Waste Management Strategy to be developed under the ongoing Health System Strengthening for Human Capital Development in Eswatini Project (P168564) and Eswatini COVID-19 Emergency Response Project (P173883) COVID-19 response have proposed tools and dedicated resources to address these gaps. The Project Implementation Unit (PIU) has recruited an Environmental Risk Management Specialist and a Social Risk Management Specialist (E&S Specialists) to support the management of environmental, social, health and safety (ESHS) risks. For operational efficiency, the PIU's E&S roles are shared between the two projects (P173883 and P168564). At the national level, the MoH/EHD has designated national focal person to coordinate, manage, and monitor all environmental and social risks in the health sector, including Health Care Waste Management (HCWM) and risks to health-care workers and the public. Each regional hospital will designate an Environmental Health Officer (EHO) to be responsible for implementing and monitoring proper management of environmental, health and safety interventions (including HCWM and sanitation) and coordinating the same at health centers and community clinics. In addition, an Environmental and Social Management Framework (ESMF), which includes an Infection Control and Waste Management Plan (ICWMP), was prepared and is under implementation at health-care facilities across the country. The issuance of the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines 2021 is expected to lead to increased investment in a high-performance network for all citizens in Eswatini and improved internet access (unique mobile broadband subscriptions per 100 individuals) from 35 to 50 percent by 2023. For investments under Prior Action #7, it is worth noting that in Eswatini the EIA process is mandatory and must be undertaken before any project can commence. Every developer or manufacturer implementing a project is expected to carry out an EIA before starting, and if identified impacts cannot be mitigated, the project may not proceed. The Eswatini Environment Authority (EAA) is well-established and ensures that the environment is treated properly and monitors the development in the state of the environment. In addition, there is a well-established Eswatini Environment Fund, which makes resources available for environmental compliance monitoring.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

106. The PFM system in Eswatini has several weaknesses and these have resulted in recent hurdles in containing public spending and the accumulation of arrears. These weaknesses include inadequate expenditure controls and a paper-based procurement system. Annual central government budgetary data by fiscal year are reported on an invoice-registered basis by spending entity and only to the IMF in the Government Finance Statistics Manual 2014 (GFSM) format. The implementation of GFS classification standards has been recently improved. Large discrepancies are common in the fiscal operations of the central government, and no fiscal statistics are disseminated for extra budgetary funds and institutions, and consolidated general government.

107. Recently, the PFM system has been strengthened, including through the reforms supported by this operation. The authorities have recently introduced an invoice-tracking system that has helped identify unpaid bills, and they continue to focus on PFM reforms, including implementation of the 2011 Public Procurement Act, the 2017 Public Financial Management Act, and the clearing of expenditure arrears. Better oversight is still needed in relation to the management and control of the wage bill and public investment (to streamline project portfolio and reduce delays and cost over-runs), and this should be broadened to include improving the monitoring of SOEs to contain fiscal risks. There are ongoing reforms that are being supported by this DPL. The Accountant General is responsible for the preparation of consolidated financial statements and for improving the timeliness, accuracy and efficiency of financial reporting. The Finance and Audit Act provides that the Annual Financial Statements must be presented to the Auditor General for audit by September 30 each year, i.e., within six months of the end of the year. The financial statements are submitted for audit within eight months after year end.

108. Historically, the Kingdom's budget has been one of the least transparent, and citizens are not engaged in the budget process. Eswatini scored 31 out of 100 on budget transparency in the 2019 Open Budget Index (OBI), an improvement from 3 out of 100 in 2017 but still low compared with the global average of 45 percent. The Government now publishes the Executive's Budget Proposal and Enacted Budget, which contributed to the improved score. Citizens are not provided any opportunity to participate in the budget process, as evidenced by a score of 0 out of 100 in 2019 OBI. The budget is prepared and presented through the various government structures up to Parliament. The Government should consider preparing and timely publishing a citizens' budget to increase transparency and introduce opportunities for citizens to participate in the budget process (participatory budgeting). As recommended in the OBI and Eswatini United Nations Children's Fund (UNICEF) National Budget Brief 2018/19, this could start with piloting mechanisms for citizens to engage with the Government during budget formulation and monitoring, focusing on specific community-based development funds (e.g., rural development funds) or sectors in the initial phases.

109. The fiduciary risk for the DPL is substantial. This rating considers proposed Prior Actions and also takes into account ongoing PFM reform efforts currently being supported by the World Bank and other development partners, including support for the introduction of Financial Management Information Systems and the implementation of the PFM Act and preparation of PFM regulations with support of the IMF TA. It also considers the ongoing escalation of the fiscal situation amid the COVID-19 pandemic in Eswatini. At the same time, many of the measures supported under this program are mitigating the risks. These include establishing the Treasury Single Account, which will improve commitment and cash control, and the publication of key fiscal information on debt.

110. Foreign Exchange. The latest 2019 IMF Article IV Consultation Report was issued in February 2020. The assessment observed a weak governance framework, and recommended strengthening the independence and operational capacity of the CBE. It also observed significant operations financing government as the main sources of safeguards risks (in 2019, the CBE's total exposure to the Government amounted to 4.7 percent of GDP, which is close to the maximum exposure to the Government allowed under the Central Bank Order). Based on our review of the assessment, we observed no significant findings that directly impact the foreign exchange control environment and its effect on the proposed operation.

111. Audit of the Central Bank of Eswatini. The annual financial statements of the CBE are audited by PwC, and the abridged statements are published on the CBE website. External auditors have reported no concerns with the audited financial statements of the year ended March 31, 2021, although the audit report was qualified based on the accounting disclosure requirements. International Accounting Standard 21 requires that revaluation gains on foreign-exchange activities be recognized in the income statement, but they are recognized in equity. However, this poses no risk to the program under preparation.

112. Disbursement Arrangements. The loan amount of US$75 million will be disbursed in a single tranche upon effectiveness, and provided that the International Bank for Reconstruction and Development (IBRD) is satisfied with the implementation of the development policy program and the appropriateness of the country's macroeconomic policy framework. Once the Financing Agreement becomes effective and a withdrawal application has been received, the IBRD will deposit the loan proceeds into a US dollar-denominated account designated by the Government at the CBE. The account is a dedicated account used exclusively for the DPF proceeds. The deposit will be part of the country's foreign exchange reserves. The Government will credit the local-currency equivalent in the budget management system using the prevailing exchange rate to finance budgeted expenditures. As a due diligence measure, the Government will provide the IBRD with a letter written by the Accountant General confirming: (i) the amount of the loan proceeds that have been accounted for in the country's budget management system, with an indication of the exchange rate applied and the date of transfer; and (ii) that the account used to deposit loan proceeds is part of the country's foreign exchange reserves. The confirmation will be expected within 30 days of disbursement. If the proceeds of the loan are used to finance excluded expenditures as defined in the Financing Agreement, the IBRD will require a direct refund of an amount equal to the payment, promptly upon notice. Amounts refunded to the World Bank upon such request will be canceled. The World Bank reserves the right to request an audit of the dedicated account by independent auditors acceptable to the World Bank, and in accordance with consistently applied auditing standards.

113. Accounting and Auditing Requirement. The accounting of the loan proceeds will be the responsibility of the Accountant General at the MoF. Government procedures will be followed to administer and account for the loan proceeds and related payments. The loan proceeds will be subject to external audit by the Auditor General under the normal auditing arrangements applicable to the Government. The IBRD will have access to these audit reports.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

114. The MoF will have overall responsibility for the implementation, monitoring, and evaluation of the proposed emergency operation. The MoF is the coordinating institution for monitoring and evaluation among all the participating ministries and federal government agencies. The MoF is responsible for coordinating the work of the ministries and agencies responsible for implementation of the Prior Actions under this operation, as well as monitoring progress and results.

115. Data availability and quality are adequate for monitoring progress of this operation. The program outcomes will be monitored through results indicators, as detailed in the Policy and Results Matrix (Annex 1). Most of these results indicators are based on routinely published information and, for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators, and providing these to the MoF in a timely manner. The MoF will be responsible for submitting such information at a frequency and in a satisfactory format to the World Bank. The World Bank will provide support, including technical assistance, for some of the reforms described above, to ensure timely implementation, and adequate data collection and monitoring of indicators and outcomes of the program.

116. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

117. The overall risk rating of this operation is High. As in other countries, the impact of the COVID-19 crisis has heightened uncertainty and risks in Eswatini. The political and governance risks are high given that an additional layer of uncertainty surrounds the ongoing political unrest. The protests have added pressure on the Government to address the structural challenges revealed by the COVID-19 pandemic. The complex decision-making processes across the formal and traditional governance structures affect borrowing from international entities such as the WBG. The COVID-19 crisis could also affect the pace of the medium-term structural reforms that the Government is pursuing. Risks on the macroeconomic front, which were already high, have been exacerbated further, as multiple economic sectors are expected to be hit. Given Eswatini's dependence on the South African economy, economic recovery from the crisis is also connected to the pace of recovery in South Africa, which contributes to the high-risk rating. Macroeconomic, political and governance risks are High, while fiduciary risks and risks to institutional and implementation capacity are Substantial (Table 6).

118. The political and governance risk is rated High due to complex decision-making processes within government and in light of the protests, which resulted in loss of life and economic damages. Implementation of government initiatives depends on high-level commitment from both the traditional and formal governance systems. The relationship between the traditional and formal systems of government has, in past, lead to policy reversal or stalled policy implementation. Building on the lessons from the PLR of the CPS for FY15–18, as part of risk mitigation the World Bank engaged early on with the central agencies (MoF, Ministry of Information, Communication and Technology). The National Dialogue is expected to take place in 2022. During the opening of Parliament in February 2022, the King reiterated his commitment to the dialogue. This will likely bring some political convergence between the opposing pro-monarch and pro-democracy segments of society. Such convergence will be critical to ensure sustainability of the reform program supported by the DPO series.

119. Macroeconomic risks are rated as High, as they are exacerbated by the COVID-19 pandemic and political unrest. The continuing COVID-19 pandemic and possible future political unrest might affect the external and fiscal accounts, potentially enlarging some of the imbalances that authorities have committed to addressing. As revenue streams have reduced due to the economic slowdown, to curb the deficit the Government has approved a Fiscal Adjustment Plan focusing on various fiscal consolidation measures to deal with specific issues concerning economic recovery. However, the lack of government reform momentum and implementation contributes to the high-risk rating. While the Government has repeatedly emphasized its commitment to fiscal consolidation, failure to implement the reforms may lead to increased domestic arrears and debt levels, threatening macroeconomic stability. The proposed operation will contribute in the medium term to improved macroeconomic management, in particular by improving budget management and implementation of the fiscal adjustment program. Furthermore, the continued engagement by the World Bank, the IMF (though it does not have a program) and the AfDB will help maintain the reform momentum that addresses these macroeconomic risks.

120. Institutional and implementation capacity poses Substantial risks. This operation supports a multisectoral response by different agencies to an unprecedented crisis. While most of the agencies have developed guidelines to respond to the situation, insufficient communication or coordination around them could result in insufficient adoption. Ongoing projects and technical assistance support provided by the WBG to most agencies supporting the implementation of the Prior Actions under this operation are expected to help mitigate some of these risks.

121. The fiduciary risk for this operation is Substantial. This rating considers the proposed Prior Actions and also takes into account ongoing PFM reform efforts currently being supported by the World Bank and other development partners, including support for the introduction of a Financial Management Information System (FMIS) and the implementation of the new PFM Act with regulations prepared with support from the IMF TA. It also considers the ongoing escalation of the fiscal situation amid the COVID-19 pandemic in Eswatini. At the same time, many of the measures supported under this program are mitigating the risks. These include establishment of the single Government Account, which will improve commitment and cash control, and the publication of key fiscal information on debt.

Table 6: Summary risk ratings

Risk Categories	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	Low
Overall	High

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers		Results		
Prior Actions under DPL I	**Prior Actions under DPL II**	**Indicator Name**	**Baseline**	**Target**
***Pillar A*--- Protecting Lives and Livelihoods**				
Prior Action #1. To strengthen the COVID-19 health response, the Borrower, through its Ministry of Health, has developed the National Contingency Plan for Novel Corona Virus, which establishes measures for controlling COVID-19 and slowing down the transmission of COVID-19.	Prior Action #1. To strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted to Parliament the Health Bill, which aims at establishing the legal foundations for strengthening the national health capacity system and its performance for effective health service delivery.	Results Indicator #1a: Number of COVID-19 tests conducted by the designated in-country laboratory (disaggregated by results) (Number) Results Indicator #1b: Percentage of children under the age of 12 months who received the third dose of DTP vaccine	22,032 (August 2020) 90% (2019)	400,000 (June 2023) 90%[11] (June 2023)
Prior Action #2. To protect workers against the negative economic impact of COVID-19, the Borrower, through its Ministry of Labour and Social Security, has issued employment contingency measures, which provide for a contribution of E25 million for financing compensatory relief to employees who have suffered loss of earnings as a result of being temporarily laid off without pay during the COVID-19 national emergency.	Prior Action #2. To promote an unemployment insurance system, the Borrower through its Cabinet, has adopted the National Social Security Policy which aims at setting forth the institutional foundations for the establishment and the use of an unemployment benefit fund.	Results indicator #2: Number of beneficiaries that have been enrolled on the Unemployment Benefit/Insurance Fund	Number of beneficiaries 0 (July 2020)	Number of beneficiaries 96,874 (June 2023)
Prior Action #3. To provide liquidity to firms, the Borrower, through its Ministry of Finance and Revenue Authority, has	Prior Action #3. To leverage sustainable private financing to MSMEs, the Borrower has amended the Consumer Credit Act to	Results indicator #3: Number of credit reports issued by the credit bureau per year (thousand)	166 (2020-2021)	175 (June 2023)

[11] The target remains at 90 percent as maintaining this is a great achievement given the health challenges emanating from the pandemic.

Prior Actions and Triggers		Results		
approved the COVID-19 SMEs E90 million tax relief fund guidelines, which regulates the provision of a refund of up to 100 percent of business tax paid in the tax year 2019, effected on a month-by-month basis at 25 percent for each month completed during the COVID-19 national emergency.	improve the credit information sharing system, by *inter alia*: (a) requiring credit providers to obtain at least one report from a credit bureau to assess a borrower's debt repayment history in order to grant any form of credit; and (b) enabling credit bureaus to provide credit scoring and to use several sources of data in order to facilitate the collection and distribution of credit reference information.			
***Pillar B---* Strengthening Transparency and Public Financial Management**				
Prior Action #4. To contribute to fiscal sustainability, the Borrower, through its Ministry of Finance, has adopted a transparent domestic expenditure arrears clearance strategy, including the list of verified arrears.	Prior Action #4. To sustainably reduce expenditure arrears, the Borrower, through its Cabinet, has approved the PFM Regulations, which require the creation of a single Government Account.	Results indicator #4: Reduced stock of arrears	26% of expenditure arrears in total government expenditure (E5.3 billion) (May 2020)	Below 15% expenditure arrears in total government expenditure (estimated E3 billion) (June 2023
Prior Action #5. To enhance debt transparency, the Borrower, through its Ministry of Finance, has adopted and published for the first time an annual debt bulletin report for 2019, which contains information on loan details, debt service profile, interest and exchange rate fluctuations, and risk indicators.	Prior Action #5. To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published the SOE Restructuring Framework, which targets to: (a) reduce the number of SOEs from 49 to below 35 through separation of regulatory and commercial activities, closing some of the SOEs, privatization; and (b) improve operational performance and accountability of remaining SOEs.	Results indicator #5: Reduction of transfers to SOEs as a percentage of total revenue)	23% of total revenue (2020)	19% of total revenue (June 2023)
Prior Action #6. To strengthen the procurement regulatory legal framework	Prior Action #6. To facilitate transparency, accountability and efficiency in public	Results indicator #6: Percentage of tenders awarded in line with the	0% (2019)	100% (June 2023)

Prior Actions and Triggers		Results		
for improving transparency, accountability and promoting open competition, the Borrower, through its Cabinet, has submitted to Parliament, the Public Procurement Regulations, which aim to promote competitive bidding.	procurement, the Borrower, through its Cabinet, has adopted a strategy for the implementation of an e-Government Procurement (e-GP) program.	regulations in all agencies and procured electronically in 10 selected pilot agencies		
Pillar C--- **Opening Up of the Economy and Improving Competitiveness**				
Prior Action #7. To promote e-Government and e-Commerce, the Borrower, through its Cabinet, has submitted to Parliament the Electronic Communications and Transactions Bill, which aims to establish the legal foundations for the use of electronic means and strengthen online consumer protection.	Prior Action #7. To promote competition and private investment in the telecommunications sector, the Borrower, through its Minister of Information, Communications and Technology, has adopted the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines, which aims at creating an efficient and competitive mobile telecommunications environment, promoting telecommunications investment, and reducing duplication of infrastructure.	Results indicator #7: 3G/4G/LTE coverage (percentage of population)	35% (2021)	50% (June 2023)
Prior Action #8. To promote digital payments, the Borrower's central bank has issued circulars, which: (i) increase the mobile money daily and monthly transaction limits for mobile money service providers; and (ii) encourage banks to waive all charges relating to transfers between bank accounts and mobile money wallets.	Prior Action #8. To support digital economy developments, the Borrower, through its Cabinet, has approved and submitted to Parliament the National Payment Systems Bill, which aims at establishing the legal foundations for enabling digital and innovative financial services and strengthening the institutional framework to promote efficiency and ensure safety in the	Results indicator #8: Increase in the value of mobile money balance (percentage of GDP)	0.2% (2018)	0.6% (June 2023)

Prior Actions and Triggers		Results		
	payment system.			
Prior Action #9. To facilitate the ease of business start-up, the Borrower: (i) has amended the Finance Act, which reverses the increase of trade license fees; and (ii) through its Cabinet has approved the Trading Licenses Order Amendment Bill, which aims to reduce the time to issue trade licenses.	Prior Action #9. To strengthen judicial enforcement of commercial contracts, the Borrower: (a) through its Chief Justice, has issued Practice Directive 1/2021 dated October 6, 2021, establishing a specialized Commercial Court with jurisdiction to hear and determine commercial disputes; (b) through its Chief Justice, has issued the Small Claims Court Rules.	Results indicator #9a: Number of days to obtain a Trade license Results indicator #9b: Cases lodged at the Commercial bench as a percentage of overall High Court cases	Number of days to obtain trade license - 5.3 days (2020) 0% (2020)	Reduction of days by 4.3 days, time to obtain trade license - 1 day (June 2023) 5% (June 2023)

ANNEX 2: FUND RELATIONS ANNEX

Kingdom of Eswatini—Assessment Letter for the World Bank

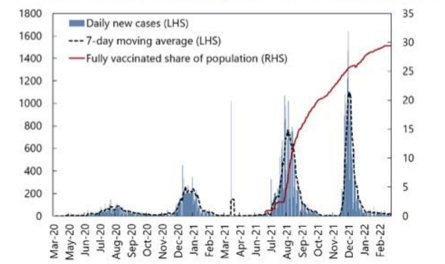
March 29, 2022

This assessment letter provides an update on the IMF's staff current assessment of Eswatini's recent economic developments, outlook and economic policies since the Rapid Financing Instrument (RFI) was approved in July 2020. The assessment has been requested by the World Bank.

I. Context and Background

1. The fourth wave of the COVID-19 pandemic, which severely hit Eswatini in late 2021, has eased. In early December 2021, the rapid spread of the omicron variant led to a new surge in COVID-19 cases, leading to an international travel ban being imposed on Eswatini.[1] Since mid-January the fourth wave has gradually eased, with new cases declining. About 29.5 percent of the population is fully vaccinated as of March 16, 2022. However, the vaccination campaign has recently slowed, mostly reflecting vaccine hesitancy.[2]

Eswatini: COVID-19 Daily Cases and Vaccination



Sources: Johns Hopkins University, and Eswatini Ministry of Health.

2. After unprecedented social unrest struck Eswatini in mid-2021, the security situation has normalized but social tensions persist. Large-scale pro-democracy protests flared-up in June 2021, calling for a reform of the political system. Widespread riots and looting occurred, a national curfew was introduced, and the army was deployed. The authorities estimate the damage to businesses and infrastructure at E 1.2 billion (1.9 percent of GDP). The security situation normalized in early-July and King Mswati III held a nationwide open dialogue forum. Social tensions persist, fueled by widespread poverty, inequality and high unemployment. Despite Eswatini's middle-income status, 29.2 percent of the population lives in extreme poverty, and income and gender inequalities are large. Unemployment increased to 33 percent in 2021, reaching 51 percent among the youth.

II. Recent Developments

3. After a contraction in 2020, the economy rebounded in 2021. Real GDP contracted by 1.9 percent in 2020 (against an average contraction of 6 percent in SACU countries) due to the impact of the COVID-19 pandemic. Real GDP growth is estimated at 3.1 percent in 2021, driven by a strong recovery in the manufacturing sector, sustained growth in the ICT sector and rebounding

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[1] The international travel ban, also imposed to other Southern African countries, was lifted in early January 2022.

[2] Eswatini aims to vaccinate 60 percent of its population by June 2022. The FY2021/22 budget included an amount of US$13.3 million (0.3 percent of GDP) for the vaccination campaign.

agriculture activity. Headline inflation declined slightly to 3.7 percent (average, y-o-y) in 2021, with food inflation rising to 4.8 percent.

4. **Eswatini's current account surplus narrowed in 2021.** Despite strong export growth, the current account surplus is estimated to have moderated to 0.5 percent of GDP in 2021, as SACU receipts sharply declined and imports rebounded. Net financial inflows were recorded in the first quarter of 2021. Gross international reserves increased to US$571 million at end-2021 (3.1 months of import coverage), supported by the general SDRs allocation. The Emalangeni appreciated by 10.2 percent (average, y-o-y) against the US dollar, reflecting the appreciation of the South African rand. The real effective exchange rate appreciated by 4.8 percent (average, y-o-y) in 2021, depreciating by about 2 percent over the first two months of 2022.

5. **Progress in the implementation of the authorities' fiscal consolidation plan and reallocation of non-priority spending contributed to contain fiscal imbalances in the first nine months of FY2021/22.** An overall fiscal deficit of 2.3 percent of GDP is estimated at end-December 2021. Tax revenues weakened to 19.3 percent of GDP, as SACU revenues sharply declined. Public spending was contained to 22 percent of GDP as planned measures to contain the wage bill and transfers to state-owned enterprises (SOEs) advanced (¶10 and ¶12). Furthermore, non-priority spending reallocation provided fiscal space to establish the Reconstruction Fund (0.8 percent of GDP), aimed at supporting businesses impacted by the protests. Financing needs were mostly covered by domestic borrowing from the financial sector (¶8).

6. **Progress was made in the implementation of governance commitments on COVID-19 spending.** Most COVID-19 resources were channeled through the budgetary process to the Natural Disaster Management Agency (NDMA), to execute emergency spending.[3] The authorities have regularly published reports on COVID-19 spending execution and procurement contracts. Audit reports covering the operations of NDMA and COVID-19 spending have been published. An audit, focusing on compliance and procurement issues at NDMA, has been launched. The regulations to implement the new PFM law were submitted to the Parliament in June 2021.

7. **The Central Bank of Eswatini (CBE) has maintained its policy rate broadly in line with the South African Reserve Bank (SARB)'s rate.** In the context of the currency peg to the South African rand, the CBE gradually lowered the policy rate by a cumulative 275 basis points in 2020 (to 3.75 percent), following the SARB's rate reduction. In January 2022, the CBE raised its policy rate by 25 basis points (to 4 percent), following a rate increase by the SARB to contain inflationary pressures.

8. **The financial sector has remained resilient, but risks have increased.** The banking sector has remained liquid and well-capitalized. Banks' profitability started to show some improvement as

[3] An envelope of E482 million was approved for COVID-19 emergency response, of which E353.5 million was transferred to NDMA. About E100 million was allocated to the Ministry of Health.

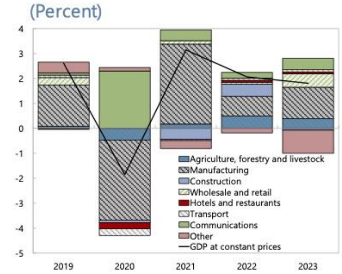
economic activity recovered. Lending to the government increased, reflecting large fiscal financing needs. Following an increase of over 23 percent in 2020, the financial sector's holdings of government securities further increased by about 12 percent in 2021 (reaching about 10 percent of the sector's total assets), heightening exposure to sovereign risk. The ratio of non-performing to total loans remained stable at 5.6 percent at end-June 2021.[4] Risks to asset quality could materialize resulting from the protracted pandemic impact and its lagged effects on the financial sector.

III. The Short-Term Outlook and Risks

9. The economic recovery is expected to continue. Real GDP growth is projected at 2.1 percent in 2022 and to moderate to 1.8 percent in 2023, reflecting the impact of the planned fiscal consolidation. Strong agricultural and manufacturing activity, recovering wholesale and retail trade, and a pick-up in construction activities would support growth this year. Headline inflation would increase to 4.8 percent (average, y-o-y), as the anticipated pick-up in international oil and food prices, owing to the repercussions of the Russia-Ukraine war, is passed-through. A current account deficit of 2.1 percent of GDP is expected in 2022, reflecting an anticipated further decline in SACU receipts, and higher oil and food imports.[5] Despite large anticipated IFIs budget support (¶10) international reserves are expected to decline to 552 million (2.9 months of imports coverage) at end-2022, slightly below the IMF reserve adequacy metrics. Over the medium-term, real growth is expected to strengthen to about 2.3 percent, supported by the implementation of planned mega-projects, including the construction of a dam. The planned fiscal consolidation (¶12) and advancing structural reforms (¶15) will support strengthening the medium-term external position.

Eswatini: Contribution to Real GDP Growth

(Percent)



Sources: Eswatini authorities; IMF staff estimates.

10. Fiscal adjustment measures will support containing public spending, amidst a large shortfall in tax revenues. The overall fiscal deficit is expected at 5.7 percent of GDP in FY2021/22. Tax revenues are anticipated to decline by about 3 percent of GDP, reflecting a sharp decline in

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[4] COVID-19 relief measures may delay the recognition of asset quality deterioration. Thus, data on banks' NPLs, profitability and capital ratios, published in the authorities' Financial Stability Report, may not fully reflect the impact of the COVID-19 crisis.

[5] The SACU revenue sharing formula adjusts for forecast errors with a two-years lag. A large negative adjustment to SACU revenues is expected in FY22/23 to reflect the much-lower than-anticipated SACU revenues collected in FY20/21 due to the impact of the pandemic.

SACU revenues, in part mitigated by strengthened non-SACU tax revenues. Public expenditure is expected to be reduced by 1 percent of GDP, as the wage bill, spending in goods and services and transfers to SOEs are reduced, and capital spending is re-prioritized. Large financing needs are expected to be covered through large domestic borrowing, budget support from the African Development Bank (U$36 million) and drawing on government deposits. Gross public debt-to-GDP is expected at 42.8 percent of GDP at end-FY2021/22.

11. The short-term outlook is subject to significant uncertainty, with risks tilted to the downside. A more prolonged impact of the pandemic and resumption of lock-down measures, social and political instability and weaker-than-expected growth in South Africa could undermine the recovery. Delays in the implementation of the planned fiscal consolidation and lower-than-anticipated SACU revenues could worsen the fiscal and external positions, heightening financing needs. A stronger-than-anticipated impact of the Russia-Ukraine war poses risks to the outlook. Notably, higher-than-expected fuel and food prices would worsen the external position and exacerbate pre-existing social tensions. On the positive side, a stronger-than-expected recovery in South Africa could support the domestic recovery.

IV. Macroeconomic Policies

12. Advancing the planned medium-term fiscal consolidation strategy is key to preserve debt sustainability, in the face of declining SACU receipts. The authorities have started to implement a growth-supporting fiscal consolidation plan over FY2021–23, which preserves social spending and the provisions of services to the population.[6] This is underpinned by: i) mobilizing additional tax revenue by broadening the tax base and strengthening tax administration; and ii) rationalizing public spending by containing the wage bill, spending in goods and services and transfers to state-owned enterprises, and re-prioritizing public investments. Notably, the implementation of the Early Voluntary Retirement Scheme and the SOEs reform will be key. In this vein, staff expects an overall fiscal deficit of 5.8 percent of GDP in FY2022/23, broadly in line with the budget submitted to the Parliament in February 2022. Against declining SACU revenues, public expenditure is expected to be contained by freezing nominal wage increases (no inflation adjustment), reducing transfers to SOEs and non-priority spending in goods and services. In parallel, growth-supporting public investment will be increased. Furthermore, tax revenue mobilization measures will start to be implemented. Under staff's baseline scenario public debt is expected to increase to 46 percent of GDP in FY2022/23 and then gradually decline.

13. Maintaining the policy rate broadly in line with the SARB's rate will be key to anchor inflation. The peg to the South African rand has provided an anchor to monetary policy and inflation expectations. As inflationary pressures build-up and the SARB gradually unwinds its accommodative

[6] The authorities' medium-term fiscal adjustment package over FY2021–23 has been downsized to 5.2 percent of GDP (from 6.5 percent of GDP as adopted in October 2020) as some tax revenues measures were postponed in view of the prolonged impact of the pandemic. The adjustment package builds on: i) revenue mobilization measures (0.6 percent of GDP); and ii) spending rationalization measures (4.6 percent of GDP).

monetary policy stance, tightening the CBE's policy stance will help support the peg and contain inflation. In parallel, preserving an adequate level of international reserves will support the credibility of the currency peg. Ensuring that the financial sector has adequate liquidity to support credit to the economy will be important. In this vein, enhancing the CBE's liquidity forecasting framework and introducing an emergency liquidity facility will support actively managing liquidity.

14. Preserving financial sector health will be important to support macroeconomic stability. Banks' earnings and asset quality could deteriorate further when COVID-19 relief measures are lifted. The CBE has strengthened banks monitoring by requiring daily reports on liquidity and deposits and quarterly reports on stress test results. Ensuring appropriate loan classification and provisioning, encouraging banks to conduct portfolio reviews and risk assessment, and establishing an early intervention scheme will support financial sector stability. In parallel, stepping-up oversight of nonbank financial institutions and finalizing the regulatory framework would be important to mitigate risks.

15. Moving ahead with growth-supporting structural reforms is needed to support the post-pandemic recovery and foster inclusion. Strengthening the business environment and governance and addressing weaknesses in product markets regulation will be important to foster medium-term inclusive growth and job creation. Continuing to strengthen the Anti-Corruption Commission and advancing the implementation of public financial management reforms will strengthen governance and fiscal transparency.

V. Relations with the Fund

16. The 2020 RFI was Eswatini's first financial engagement with the Fund. On July 29, 2020, the Executive Board approved emergency financial assistance under the RFI for SDR 78.5 million (about US$110.4 million) to address urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic. The RFI purchase was made in the form of budget support. Eswatini received a general SDR allocation of SDR 75.2 million on August 23, 2021.

17. The IMF Executive Board concluded the 2019 Article IV consultation on January 31, 2020. The 2022 Article IV consultation mission is expected to take place in September, with Executive Board discussion in late 2022. Eswatini is a high-intensity IMF technical assistance recipient. IMF capacity development has focused on public financial management, domestic revenue mobilization, financial sector oversight, and macroeconomic statistics.

Eswatini: Selected Economic Indicators, 2018–2027

	2018	2019	2020		2021	2022	2023	2024	2025	2026	2027
			Est.	RFI	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage changes; unless otherwise indicated)										
National account and prices											
GDP at constant prices	2.4	2.6	-1.9	-3.5	3.1	2.1	1.8	2.1	2.3	2.3	2.3
GDP deflator	2.8	2.5	2.6	5.2	2.5	0.8	4.6	5.4	4.8	4.7	4.7
GDP at market prices (Emalangeni billions)	61.8	65.0	65.4	67.3	69.2	71.2	75.8	81.6	87.5	93.7	100.4
GDP at market prices (US dollar billions)	4.7	4.5	4.0	3.8	4.7	4.6	4.9	5.2	5.5	5.8	5.9
Nominal GDP per capita (US dollar)	4225.9	4031.6	3526.7	3414.8	4109.4	4035.5	4250.4	4454.0	4638.7	4811.8	4887.9
Consumer prices (average)	4.8	2.6	3.9	4.1	3.7	4.8	4.2	4.4	4.4	4.4	4.4
Consumer prices (end of period)	5.2	2.0	4.6	4.5	3.5	4.8	4.2	4.5	4.4	4.4	4.4
External sector											
Exports (US$)	2.4	7.9	-13.2	-27.6	19.9	3.8	1.2	2.4	3.9	3.9	2.3
Imports (US$)	12.5	-4.7	-14.0	-17.6	30.5	6.1	-2.8	1.4	4.6	5.9	3.4
Average exchange rate (local currency per US$)	13.2	14.5	16.5	...	14.8	15.3	15.3	15.6	15.9	16.2	16.9
Nominal exchange rate change (– = depreciation)	0.3	-3.0	-4.9	...	5.2	...	...	...	...	...	...
Real effective exchange rate (– = depreciation) [1]	1.1	-4.0	-4.3	...	4.8	...	...	...	...	...	...
Terms of trade (deterioration -)	-10.1	0.5	6.7	23.0	-9.9	1.9	-5.2	-1.9	1.7	0.6	-0.8
Money and credit											
Domestic credit to the private sector	5.1	4.6	3.3	-0.4	4.8	5.5	6.7	7.5	6.9	6.9	6.7
Reserve money	16.4	30.9	24.0	9.2	-9.8	13.5	6.5	7.3	7.4	7.3	7.0
M2	4.1	1.8	15.4	10.7	0.3	13.5	6.5	7.3	7.4	7.3	7.0
Interest rate (percent) [2]	6.8	6.5	3.8	...	...	...	...	...	...	...	...
	(Percent of GDP)										
National accounts											
Gross capital formation	13.2	13.6	12.8	11.5	15.8	16.7	16.3	16.0	15.8	15.8	15.7
Government	5.4	4.9	12.2	6.2	11.6	12.5	12.1	11.8	11.7	11.5	11.4
Private	7.9	8.6	0.6	5.3	4.2	4.2	4.2	4.2	4.2	4.2	4.3
National savings	14.6	17.9	19.5	12.5	16.3	14.6	16.2	16.6	16.9	16.4	16.0
Government	-2.4	-0.1	2.0	-0.1	0.5	1.6	3.8	4.9	5.7	6.1	6.3
Private	17.0	18.0	17.5	12.7	15.8	13.0	12.3	11.6	11.1	10.4	9.7
External sector [3]											
Current account balance											
(including official transfers)	1.3	4.3	6.7	1.0	0.5	-2.1	-0.2	0.6	1.0	0.7	0.3
(excluding official transfers)	-8.6	-5.2	-5.3	-10.6	-9.4	-10.5	-8.3	-7.6	-7.7	-8.1	-8.5
Trade balance	0.6	5.8	6.0	0.4	2.7	1.9	3.4	3.7	3.4	2.7	2.2
Financial account	1.3	3.0	6.9	5.2	-0.2	0.8	-0.8	-1.2	-1.2	-0.3	-0.5
of which foreign direct investment	-1.0	-2.4	-1.4	-0.2	-1.1	-0.2	-0.3	-0.4	-2.3	-2.3	-2.4
External debt	18.8	20.5	22.5	28.0	23.0	25.0	25.1	24.1	23.2	22.8	22.0
of which: public	10.0	12.7	15.3	21.3	15.9	18.0	18.3	17.6	17.0	16.8	16.3
Gross international reserves											
(months of imports)	2.7	2.6	3.0	3.2	3.1	2.9	3.0	3.0	3.2	3.3	3.3
(percent of GDP)	10.0	9.2	12.2	11.7	13.1	11.7	11.5	11.5	12.3	12.7	13.1
(percent of reserve money)	186	137	148	166	186	150	149	149	159	164	169
Gross reserves minus reserve money											
(percent of deposits)	16.4	9.1	12.9	16.0	20.5	12.5	12.2	12.3	14.9	16.2	17.3
Central government fiscal operations [4]											
Overall balance	-9.5	-7.0	-5.4	-8.7	-5.7	-5.8	-2.6	-1.9	-1.1	-0.9	-0.6
Total revenue and grants	25.1	27.3	28.7	27.2	25.5	25.2	24.6	25.3	25.9	25.9	25.9
of which: SACU receipts	9.3	9.7	12.6	12.2	9.1	8.0	8.0	8.3	8.8	8.8	8.8
Total expenditure	34.6	34.3	34.1	35.9	31.2	30.9	27.3	27.2	26.9	26.7	26.6
Public debt, gross	33.9	39.6	42.1	47.9	42.8	45.6	44.3	42.0	40.4	38.9	37.1
Public debt, net	26.6	33.0	35.6	42.5	35.6	38.6	37.8	35.9	34.9	34.0	32.8
Net lending (excl. SACU revenues)	-18.9	-16.7	-18.0	-20.9	-14.9	-13.8	-10.7	-10.1	-9.9	-9.7	-9.5
Primary net lending (excl. SACU revenues)	-17.6	-14.6	-15.8	-18.7	-12.8	-11.8	-8.6	-7.8	-7.7	-7.5	-7.4
Memorandum item:											
Population (in million)	1.10	1.11	1.13	1.13	1.14	1.15	1.16	1.18	1.19	1.20	1.21

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] IMF Information Notice System trade-weighted; end of period.

[2] 12-month time deposit rate.

[3] The series reflect the adoption of the BPM6 methodology and recent data revisions.

[4] Public debt includes domestic arrears. Fiscal year runs from April 1 to March 31.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

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MINISTRY OF FINANCE
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MBABANE
ESWATINI

SIYINQABA

THE KINGDOM OF ESWATINI

March 3, 2022

Mr. David Malpass
President
The World Bank Group
Washington, DC 20433
United States of America

Letter of Development Policy

Subject: Kingdom of Eswatini Economic Recovery Development Policy Loan (DPL 2)

Dear Mr. Malpass,

On behalf of the Government of the Kingdom of Eswatini, I would like to express my utmost appreciation to the World Bank, for its unwavering support to the country as it strives towards fulfilling its key developmental objectives, which are anchored on the National Development Strategy, Vision 2022. Underlying this vision is the fight against poverty to ensure that living conditions are improved significantly in the country to near-advanced countries' standards, and this is envisaged to be delivered through sustainable economic development, social justice, and political stability. In addition, the National Development Plan 2019/20-2021/22 is focused on the recovery of the economy 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. To achieve this, as has pertained in recent years, my country endeavours to continue collaborating with the World Bank on critical areas such as the fight against HIV/AIDS, human capital development and critical infrastructural development, particularly energy and water. The Government of the Kingdom of Eswatini is also grateful for the financial support received in the past financial year to support the COVID-19 response. Without this support, efforts to deal with the pandemic would have been an ordeal.

Background

This development policy letter provides an update of Eswatini's economic developments and its reform agenda towards an economic recovery path in the medium term. To achieve this, besides ensuring fiscal stability and stimulating economic growth and development, the country also needs to, in the short term, mitigate against the COVID-19 pandemic, and in the longer term, achieve universal health coverage for all its citizens. It also remains a priority in the long run to achieve a sustainable macro-fiscal framework coupled with a certain level of growth. Hence, on behalf of the Government of Eswatini, I would like to request the World Bank for the financial support to the tune of USD 75 million in the form of budget support (equivalent to E1.2 billion).

Despite the country's recent economic challenges and social unrest, which were partly fuelled by the COVID-19 outbreak, the Government remains committed to achieving its goal of attaining the recovery of the economy underpinned by sound macroeconomic management, which is so critical for poverty reduction efforts to succeed. This can be fulfilled by ensuring fiscal stability through fully financed budgets and sustainable economic growth of at least 2.5 percent on average in the short-term and 5 percent thereafter. All this is enshrined in national policy documents such as the National Development Strategy (1997-2022), the Strategic Roadmap (2019-2022) and the Post-COVID-19 Economic Recovery Plan. These documents are being reviewed to extend beyond 2022 and the priority sectors seen as drivers of growth include agriculture, tourism, energy, education and ICT.

Macroeconomic Developments

In 2020, the COVID-19 pandemic pushed Eswatini into its first recession since 1983. The Government's COVID-19 containment measures constrained economic activity from both the demand and supply side. In 2021, the pandemic containment impact was exacerbated further by the social unrest. However, continued vaccination program eased COVID-19 containment restrictions and supported economic recovery in 2021. Furthermore, the implementation of the post-COVID-19 Economic Recovery Plan is projected to continue to support growth in 2022.

However, uncertainty remains around 2022 economic growth forecasts as the country's level of economic activity will depend on the second-round effects of COVID-19, and possibly political developments.

Government revenues in terms of the budget declined in 2021 as the COVID-19 containment measures disrupted company operations, resulting in lower profitability affecting both corporate and individual taxes. SACU revenues declined, showing the lagging impact of the COVID-19 pandemic on revenue collection. Further, delays in implementing anticipated revenue measures contributed to the fiscal deficit. Implementation of the fiscal adjustment plan and delays in implementing capital projects helped to reduce the fiscal deficit now projected to reach 5.3 percent of GDP in 2021, lower than the 6.5 percent of GDP initially projected in the original budget. Even with the lower projected deficit, the Government still fall short of fully financing the deficit hence the need for the budget support. Government remains committed to the arrears clearance strategy, which continues to bear positive results.

Public debt increased in 2021, estimated at 42.5 percent of GDP. Debt servicing is also anticipated to increase from 10.1 percent of GDP to 15.1 percent due to exchange rate depreciation coupled with the increase in debt service for domestic bonds and T-bills. Foreign reserves will be maintained above the recommended three (3) months of import cover.

Government Programs in Addressing the COVID-19 and Social Unrest Situations

To curb the spread of the COVID-19 pandemic, the Government of Eswatini invoked the National Disaster Management Act of 2006 and declared the COVID-19 virus a state of national emergency, which was reflected in the implementation of a partial lockdown in the economy on March 27, 2020. In addition to implementing these containment measures, the Government also sought to mitigate the virus-induced effects on the overall economy and livelihoods. In addressing the negative impacts of the pandemic, responses centred on three pillars: protecting lives, protecting livelihoods, and protecting the economy and ensuring future resilience (see below).

To promote national reconciliation and prevent conflict escalation, the Government is committed to restoring social cohesion through concrete initiatives, such as the organization in 2022 of an inclusive dialogue at national level (the "Sibaya Dialogue"). His Majesty reaffirmed his commitment to Sibaya Dialogue during the opening of the Fourth session of the Eleventh Parliament of the Kingdom of Eswatini in February 4, 2022. The Sibaya Dialogue, which is a traditional meeting of the nation known as the "People's Parliament", is the ultimate consultative national decision-making forum of all EmaSwati. Section 232 of the constitution refers clearly to Sibaya and stipulates that; (i) the people through Sibaya constitutes the highest policy and advisory council (Libandla) of the Nation; (ii)The Sibaya is the Swazi National Council constituted by *Bantfwabenkhosi*, the *tikhulu* of the realm and all adult citizens gathered at the official residence of the Ndlovukazi under the chairmanship of iNgwenyama who may delegate this function to any official, and (iii) Sibaya functions as the annual general meeting of the nation on pressing and controversial national issues.

A dedicated Secretariat for the Sibaya 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 by His Majesty.

As an additional commitment towards unity, social cohesion, and country's resilience, the 2022/2023 Budget Speech followed through on His Majesty's commitment to maintaining peace and stability through constructively engaging in national inclusive dialogue within the framework provided by the Constitution. The Government has set aside, in the current 2022/23 national budget, E22 million (US$1.5 million equivalent) for the Sibaya National Dialogue.

As the economy of the country resumes post COVID-19 pandemic, His Majesty indicated in his Speech from the Throne that, in addition to holding the Sibaya Dialogue, the country will now carry out all the engagements that are critical to promote peace and stability. These include several initiatives, such as the Smart Partnership Dialogue, a national consultative forum where the Government engages with all sectors of society, by sharing information, knowledge and innovative ideas to provide solutions to development challenges, as well as the Tripartite Forum established to bring together representatives from the Government, workers unions and business community in order to address labour and employment issues. All these consultative forums will now resume, ensuring that social contract operates smoothly such that the various reforms and development efforts will not be undermined. Members of Parliament (MPs) are free to table any motions in Parliament depending on what their constituencies deem necessary.

In addition to holding the 2022 Sibaya Dialogue, the Government will remain committed to implementing reforms supported by this operation.

Pillar 1: Protecting lives

To ensure that lives were not put at risk during the COVID-19 pandemic, in 2020 health regulations which were consistent with the World Health Organizations (WHO) guidelines were enforced by the country to prioritize saving lives of the citizens. Moreover, water and sanitisers were made available at community level and for schools as they opened, as well as social protection measures such as cash transfer grants for sustaining the livelihoods of the poor and vulnerable during the nationwide lockdown. In 2021, the Health Bill was approved by Cabinet and will be submitted to Parliament for approval. Once approved, it is expected to strengthen and modernize the health system. In addition to these, the Central Bank of Eswatini reduced the cost of borrowing, increased the transaction limit for mobile money transfers and removed some charges to promote cashless transfers. Schools were also prematurely closed to ensure the safety and protection of children. Educational lessons were, however provided via digital platforms and various media platforms.

Pillar 2: Protecting Livelihoods

Under the pillar of protecting livelihoods, the Government through the Eswatini Revenue Services (ERS), previously Swaziland Revenue Authority, was able to provide a tax relief fund to the tune of E90 million to micro, small and medium enterprises (MSMEs) that were affected by the pandemic. Likewise, there was a waiver of penalties for delayed payments by the tax administrator. The Cabinet has also approved a social security policy that will facilitate the establishment of a fully-fledged Unemployment Benefit/Insurance Fund, and measures to leverage sustainable private financing, particularly to MSMEs have been enacted. Additionally, to stimulate economic activity, the Central Bank of Eswatini cut down the discount rate by 250 basis points and lowered the liquidity requirement for banks from 25 percent to 20 percent.

Pillar 3: Protecting the economy and ensuring future resilience

To protect the economy and enhance its resilience, the Government of Eswatini has prioritized fiscal consolidation and prudent fiscal management to bring back expenditures into a sustainable path. Expenditure restructuring measures were taken to create fiscal space for government to finance COVID-19 related spending. Through these efforts, the Government reallocated **E1 billion** towards COVID-19 related activities targeted at mainly health spending and social protection initiatives implemented through the National Disaster Management Agency (NDMA) and ministries, to aid in the efforts to curb the spread of COVID-19 and treat those already affected. Additionally, Government has prioritized the clearance of arrears especially invoices that are owed to the private sector through a **Suppliers' Bond programme**, and is on track to establish a structural block on arrears accumulation with the establishment of the Treasury Single Account (TSA). Notwithstanding, Government secured loans from multilateral financial institutions to provide fiscal space for the COVID-19 relief as expenditure towards health is a priority for the country to strengthen the national healthcare system.

Post-COVID-19 Outlook and Plans

The Government has viewed the pandemic as an opportunity to reassess its development agenda and as a result developed an economic recovery strategy that will be anchored on macroeconomic stability, fiscal consolidation and private sector-led growth. All these pillars are also consistent with the vision outlined in the National Development Plan (NDP) and the Strategic Road Map (SRM) which advocate for economic recovery through private sector led growth.

The Government is fully committed to resuscitating the economy as well as to continue to pursue policies to preserve macroeconomic stability and human capital development in the country. Thus, the requested support from the Bank and other additional external financing from development partners will support the needs arising from the COVID-19 shock of 2020 and finance the implementation of the Post-COVID-19 Economic Recovery Plan.

Policy measures to be put in place to ensure macroeconomic stability include:

1. Regaining fiscal credibility:

Fiscal stability has been identified as a priority and matter of urgency to address for the Eswatini economy and more so with the anticipated impact of COVID-19 crisis on the domestic economy. Resultantly, it indicates an urgent need for the country to improve on public finance management and adherence to the PFM Act 2017 while ensuring the urgent clearance of arrears to enhance private sector participation and job creation. The country has now developed a detailed medium-term fiscal adjustment plan to stabilize public debt and bolster external buffers, while protecting the most vulnerable groups. The adopted adjustment plan is equivalent to 6.5 percent of GDP, implemented over the next three years starting in FY21/22 and forms part of the government's Medium-Term Recovery Strategy. Due to delays in implementation, especially on the revenue reforms, the fiscal adjustment has been revised down to be 4.8 percent of GDP over the next three-year period. Amongst the proposed adjustment measures are expenditure rationalization and revenue enhancement measures. The fiscal adjustment plan is centred around the following four pillars: (i) to contain public wage spending by continuing with policies of hiring freeze and lower-than inflation salary adjustments; (ii) commissioning of an external review of the extra-budgetary sector with the intention to rationalize spending and implement reforms to reduce transfers to key state-owned entities; (iii) continue to pursue new ways to reduce operational expenditures (including capital program) and improve the targeting of social assistance programs; and (iv) revenue enhancement measures – broadening the tax base, increasing tax rates such as personal income tax and value added tax and strengthening tax administration.

2. Enhance private sector participation

The Government recognizes the importance of the private sector in spurring inclusive and sustainable growth. The private sector has been identified as a critical component and cornerstone of the post COVID-19 Economic Recovery Strategy. The Government thus seeks to empower this sector to drive the necessary productive economic activities and lift the economy out of the slump. As the crisis abates, it will scale-up the implementation of necessary structural reforms to facilitate private investment, and support more inclusive and sustainable growth. The objective is to create an enabling business environment focusing on the ease of doing business by leveraging on the Recovery Strategy and the 2019 National Development Plan. Economic infrastructure development remains key in resuscitating economic activity, thus the setting up of factory shells and creating special economic zones to attract more foreign investors will be prioritised. Improving competitiveness will also form part of the focus for the medium term through reviewing the regulatory framework and setting up of a one-stop-shop for businesses, amongst others.

3. Human Capital Development

The country has identified human capital as the critical determinant for its long-term sustainability and growth, therefore the need to accelerate the development of skills and improving the health of the nation as well as the education system will be the most effective approach in implementing SDGs and into securing a sustainable future. Policies aimed at addressing challenges constraining human capital development and improving livelihoods will be prioritised to ensure inclusiveness.

It is in the best interest of the country to ensure that the challenges posed by, and the aftermath effects of, the COVID-19 pandemic are fully addressed and reversed to ensure continued development and achievement of economic goals. The Government is committed to ensure that the domestic economy reverts to its strong economic path and sustain the fight against poverty. This, however, can only be done through collaborations and the availability of immediate financial and technical support by the international community. The AfDB is providing a budget support loan. The International Monetary Fund has pledged to continue its support to provide policy advice and technical expertise to reforms. Additionally, to ensure accountability, the Government will also intensify reforms to strengthen governance, transparency, accountability, and to intensify the fight against corruption.

We thus look forward to the Bank's continued support in this endeavour and in meeting the Government's overall development agenda.

Yours sincerely,

MINISTRY OF FINANCE
MINISTER'S OFFICE
14 MAR 2022
P.O.BOX 443
MBABANE
ESWATINI

Hon Neal H. Rijkenberg (Minister for Finance)

On behalf of the Government of the Kingdom of Eswatini.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
	Pillar One – RELIEF: Protecting Lives and Livelihoods	
Prior Action #1: **Health System Strengthening. T**o strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted to Parliament the Health Bill, which aims at establishing the legal foundations for strengthening the national health capacity system and its performance for effective health service delivery.	**Negative** effects because it will likely lead to an increase in volumes of medical waste	Positive – direct impact on poor and vulnerable households who tend to be worst affected by a weak public health system.
Prior Action #2: **Employment Contingency.** To promote an unemployment insurance system, the Borrower through its Cabinet, has adopted the National Social Security Policy which aims at setting forth the institutional foundations for the establishment and the use of an unemployment benefit fund.	Neutral	Positive – will cushion people affected by loss of jobs. However, the strength of the impacts is likely to be mediated by the fact that the program is limited to the formal sector.
Prior Action #3: **Liquidity to Firms.** To leverage sustainable private financing to MSMEs, the Borrower has amended the Consumer Credit Act to improve the credit information sharing system, by inter alia: (a) requiring credit providers to obtain at least one report from a credit bureau to assess a borrower's debt repayment history in order to grant any form of credit; and (b) enabling credit bureaus to provide credit scoring and to use several sources of data in order to facilitate the collection and distribution of credit reference	Neutral	Positive – will generate and keep jobs which should benefit the poor. Lack of data on the firm size do not allow full PSIA analysis of the measure, but, generally, overall impact should benefit low-income earners.

information.		
Pillar Two – RESTRUCTURING: Strengthening Transparency and Public Financial Management		
Prior Action #4: **Budget Management.** To sustainably reduce expenditure arrears, the Borrower, through its Cabinet, has approved and submitted to Parliament the PFM Regulations, which require the creation of a single Government Account.	Neutral	Neutral
Prior Action #5: **Debt Transparency.** To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published the SOE Restructuring Framework, which targets to: (a) reduce the number of SOEs from 49 to below 35 through separation of regulatory and commercial activities, closing some of the SOEs, privatization; and (b) improve operational performance and accountability of remaining SOEs.	Neutral	Neutral
Prior Action #6: **Procurement Reform.** To facilitate transparency, accountability and efficiency in public procurement, the Borrower, through its Cabinet, has adopted a strategy for the implementation of an e-Government Procurement (e-GP) program.	**Positive** if the design of e-Government Procurement (e-GP) considers environmental and social due diligence and associated permitting requirements.	Positive as it is the poorest and most vulnerable populations that are the most dependent on public goods and service. To the extent that the introduction of e-GP enhances the efficiency of public procurement, this will positively contribute to poverty reduction.
Prior Action #7: **Digital Transformation.** To promote competition and private investment in the telecommunications sector, the Borrower, through its Minister of Information, Communications and Technology, has adopted the Mobile Network Operator Active Infrastructure Sharing	**Negative.** If investors: (i) do not comply with EA regulations; and (ii) are not applying measures that address occupational health and safety issues.	Positive as telecommunications prices will likely fall and poor would benefit. Also, increased competition will create more jobs which also should have positive impact on poverty.

and National Roaming Guidelines, which aims at creating an efficient and competitive mobile telecommunications environment, promoting telecommunications investment, and reducing duplication of infrastructure.		
Prior Action #8: **Contactless Payments.** To support digital economy developments, the Borrower, through its Cabinet, has approved and submitted to Parliament the National Payment Systems Bill, which aims at establishing the legal foundations for enabling digital and innovative financial services and strengthening the institutional framework to promote efficiency and ensure safety in the payment system.	**Positive**. Will eradicate the environmental cost of cash.	Access to digital financial services and digital payments will have positive distributional impact. Also, the impact will benefit vulnerable and middle class more than poor due to the unequal access to digital payments. Overall, both poor and well-off will benefit from the measure.
Prior Action #9: Business enabling environment. To strengthen judicial enforcement of commercial contracts, the Borrower: (a) through its Chief Justice, has issued Practice Directive 1/2021 dated October 6, 2021, establishing a specialized Commercial Court with jurisdiction to hear and determine commercial disputes; (b) through its Chief Justice, has issued the Small Claims Court Rules. .	**Positive.** The establishment of a small claims court in every region of Eswatini will reduce traffic as there will be no need to travel to the capital.	Positive as an enabling business environment will boost private investments, entrepreneurship, and subsequently create jobs.

ANNEX 5: CLIMATE SCREENING AND CLIMATE CO-BENEFITS

Project Climate Vulnerability Context – Eswatini

1. Eswatini is at risk of hydrometeorological hazards and natural disasters, which primarily affect the agricultural sector, through seasonal flooding and periods of drought. The country experiences natural hazards such as violent storms, epidemic diseases, floods, storms and forest fires. Persistent drought is further exacerbating the country's existing challenges of food insecurity and ability to attain development goals. Consequences of severe, recent droughts for the country have resulted in 25 percent of the population being vulnerable and acknowledged as food and water insecure, with many households still reliant on welfare and social safety nets. The regions with the highest prevalence of food insecurity are Lubombo and Shiswelweni, the areas most affected by the drought.

2. **Historical climate trends** show average temperatures have increased 1.5–2°C (1901–2016). Mean annual temperature varies from 17°C in the highlands to 22°C in the Lowveld. Mean annual rainfall ranges from about 1,500mm in the northern Highveld to 500mm in the southern lowland. The rainiest periods for the country tend to occur in November to February, overlapping with the typically hottest period.

3. **Future climate projections** show average temperature in Eswatini increase of 1°C in the next 20 years. There is more than a 25 percent chance that at least one period of prolonged exposure to extreme heat, resulting in heat stress, will occur in the next five years. Potentially damaging and life-threatening river and urban floods are expected to occur at least once in the next ten years. The Lubombo area in particular is an area with rainfall patterns, terrain slope, geology, soil, land cover and (potentially) earthquakes that make localized landslides a frequent hazard phenomenon. Throughout the country, there is greater than a 50 percent chance of encountering weather that could support a significant wildfire that is likely to result in both life and property loss in any given year.

Climate impacts to key sectors

4. **Water:** Primary water sources in Eswatini are surface waters (rivers, reservoirs), ground water and atmospheric moisture. An expected 40 percent of the country's river flows will be impacted by climate change. The primary-river catchment or drainage systems in Swaziland are the Komati, Lomati, Mbuluzi, Usutu, Ngwavuma, Pongola and Lubombo. Water is relatively scarce and irrigation uses approximately 95 percent of surface water resources. Irrigation is most common in the Lowveld, which is a drier part of the country and more susceptible to drought. Late onset of the rainfall season, the shortened rain periods and severe dry spells during the critical crop growth stages are expected to increase likelihood for crop failure. This is expected to particularly pronounced in Usuthu, Mbuluzi and Ngwavuma catchments. Swaziland's grasslands are also likely to be impacted by decreasing water availability.

5. **Agriculture:** Eswatini's agricultural sector contributes nearly 10 percent of the country's GDP and over 70 percent of the country's rural population is dependent upon subsistence agriculture.

Currently, the sector is being negatively impacted by variable precipitation patterns, droughts, higher temperatures and increased storm intensities. Climate change is expected to affect crop production regardless of crop type or agro-ecological zone. Planting cycles of key crops, maize, beans, sorghum may be altered for changing rain patterns. Dairy animals are expected to perform better in the Highveld and wet Middleveld particularly during the winter months. Annual precipitation is one of the most fundamental climatic conditions for rain-fed agriculture and livestock productivity. The projected decrease may determine if certain crops or farm practices remain viable, and if reduced water availability might require a shift to more drought resistant crops or if farmers are required to shift investments into irrigation systems.

6. **Health:** The health sector will be affected by climate change impacts, with groups such as households with members living with HIV expected to be particularly vulnerable. The health sector is a cross-cutting sector and is dependent on the climate resilience of the agriculture, water and biodiversity and ecosystems sectors.

7. **Biodiversity and ecosystems:** This sector provides a range of services for the Eswatini people. Eswatini is heavily dependent on these services; the country's rural poor are especially vulnerable to the degradation of healthy ecosystems through climate change.