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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$40 MILLION TO

THE KINGDOM OF ESWATINI

FOR THE

ESWATINI ECONOMIC RECOVERY DEVELOPMENT POLICY LOAN

October 23, 2020

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

Kingdom of Eswatini

GOVERNMENT FISCAL YEAR

April 1 – March 31

CURRENCY EQUIVALENTS

Exchange Rate Effective as of September 30, 2020

Currency Unit = Eswatini Emalangeni (E)

US$1.00 = E16.81

US$1.00 = SDR 0.702474

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	IPF	Investment Policy Financing
BoP	Balance of Payments		
CBE	Central Bank of Eswatini	LDP	Letter of Development Policy
COVID	Coronavirus Disease	MoF	Ministry of Finance
CPF	Country Partnership Framework	MoH	Ministry of Health
		SACU	Southern African Customs Union
DPF	Development Policy Financing	SCD	Systematic Country Diagnostic
DSA	Debt Sustainability Analysis		
FDI	Foreign Direct Investment	SME	Small and Medium Enterprises
GDP	Gross Domestic Product	SOE	State-Owned Enterprise
GNP	Gross National Product	US$	United States Dollar
GoE	Government of Eswatini	WB	World Bank
IBRD	International Bank for Reconstruction and Development	WBG	World Bank Group
		WHO	World Health Organization
IFC	International Finance Corporation	IPF	Investment Policy Financing
IFI	International Financial Institution	Y/Y	Year-on-Year
IMF	International Monetary Fund		

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KINGDOM OF ESWATINI

ESWATINI ECONOMIC RECOVERY DEVELOPMENT POLICY LOAN

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P174447	Yes	1st in a series of 2

Proposed Development Objective(s)

The development objectives of the proposed emergency DPO are to: (1) help contain the spread of the virus and support firms to protect workers; (2) contribute towards securing the country's future economic potential in strengthening transparency and budget management; and (3) improve competitiveness and open up the digital economy

Organizations

Borrower: ESWATINI

Implementing Agency: MINISTRY OF FINANCE AND MINISTRY OF ECONOMIC PLANNING AND DEVELOPMENT

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**40.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	40.00

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

Substantial

Results

Indicator Name	Baseline	Target
Results Indicator **#1a:** Number of COVID-19 tests conducted by the designated in-country laboratory (disaggregated by results) in 12 months (Number) Results Indicator **#1b:** Percentage of children under the age of 12 months who received the third dose of DTP vaccine during the month	22,032 (August 2020) 90% (2019)	100,000 (August 2022) 90%[1] (2022)
Results indicator **#2**: Number of workers and firms that benefited from the contingency funds	0 workers and companies (July 2020)	100 companies and 40,000 workers (December 2022)
Results indicator **#3**: Number of MSMEs benefiting from tax credits	0 (2020)	200 (December 2022)
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 2022)
Results indicator **#5**: Transparency & Accountability - Ibrahim Index on African Governance (IIAG)	40/100 (2019)	50/100 (2022)
Results indicator **#6**: Percentage of tenders awarded competitively and following the regulations	0% (2019)	100% (December 2022)
Results indicator **#7**: Online Services Sub-Index of the UN E-Government Development Index (UN EGDI)	0.45 (2020)	0.55 (2022)
Results indicator **#8**: Increase in the value of mobile money balance (percentage of GDP)	0.2% (2018)	0.4% (2022)
Results indicator **#9a:** Number of days to obtain trade license Results indicator **#9b:** Cases lodged at the Commercial bench as a % 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 (2022) Cases lodged at the Commercial bench 5% (2022)

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE KINGDOM OF ESWATINI

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document presents a first US$40 million Economic Recovery Development Policy Loan to the Kingdom of Eswatini.** This is the first 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. The proposed policy actions are 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 has been completed in 2020. The CPS was initially extended by the Performance and Learning Review (report number 126205-SZ) to 2020 and was further extended to 2021 due to the COVID-19 pandemic.

2. **Eswatini is a small middle-income economy with high levels of poverty, inequality and unemployment.** Eswatini's economy is closely tied to the South African market and, during the apartheid regime, it benefited as an investment destination, helping to propel the country to middle-income status already by the early 1990s. However, since then, Eswatini has struggled to regain its previous economic momentum. With a Gini coefficient of 54.6 in 2016, Eswatini is one of the most unequal countries in the world and its poverty levels are very high for a middle-income economy. 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 at the 2011 purchasing power parity). Life expectancy is also one of the lowest in the world at 59 years (as of 2018), mostly due to the Acquired immunodeficiency syndrome (AIDS)/Human Immunodeficiency Virus (HIV)epidemic, high maternal and child mortality, and the impact of malnutrition. The COVID-19 pandemic will deepen Eswatini's social and economic challenges, and poverty is expected to increase further.

3. **The COVID-19 crisis has exposed Eswatini's deeper economic imbalances.** While the health impact of the COVID-19 pandemic on Eswatini has been moderate thus far, the pandemic has created a severe shock to an already struggling economy. Over the past decade, poverty levels, jobs and the incomes of the average Eswatini citizens have stagnated, while public finances have deteriorated. For 2020, the World Bank projects that the economy will contract by 3.5 percent—the first recession since 1976—followed by a modest recovery in 2021 with 1.5 percent growth. This means that the Government is now faced with the dual task of responding to the crisis while also addressing the underlying structural challenges, so that its economy can grow sustainably at higher levels.

4. **The World Bank completed the SCD in 2020, which provides a new roadmap to prosperity in Eswatini.** The SCD outlines three main priorities: First, Eswatini needs to strengthen its economic management given the deterioration of the fiscal situation. The SCD recommends a focus on lowering fiscal deficits and reducing arrears to reenergize private sector activity. Second, the country needs to diversify its economy to create jobs. The opening up of new sectors is closely connected with improving Eswatini's business climate, increasing access to finance for small and medium enterprises (SMEs), and improving connectivity. Third, Eswatini needs to strengthen its human capital and provide an inclusive delivery of public services. Eswatini ranks near the bottom

[2] Coronavirus Disease 2019 (COVID-19)

of the World Bank's 2020 Human Capital Index, with a score of 0.37 mostly due to a low adult survival rate (e.g., from HIV/AIDS) and poor learning outcomes. Here Eswatini needs to reshape its health system to provide higher access for the vulnerable, while also enhancing digital skills from an early age. This policy operation focuses on the first two SCD priorities as the Government has implemented the most ambitious policy reforms in these areas. In parallel, the World Bank is engaged in the third area through the Health System Strengthening for Human Capital Development in Eswatini Project (P168564).

5. **For Eswatini, the current crisis serves as an opportunity to initiate reforms to put the country on a higher and more inclusive growth path.** Already before the COVID-19 crisis hit, the Government had made a start on important reforms to stabilize the macro-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, procurement and opening up the digital economy), which are at the core of this operation. The Government has 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.

6. **When the COVID-19 pandemic hit, the Government responded to the crisis very swiftly and took important measures to mitigate the health and economic impacts.** After recording the first cases of the coronavirus in mid-March, the Government subsequently declared a two-month State of Emergency in response to the COVID-19 outbreak on March 17, 2020. Since then, COVID-19 cases have been rising and, by end-September 2020, Eswatini had registered 5,462 infections and 108 deaths. The Government canceled national events, closed schools, banned social gatherings and restricted travel. The Government also enacted an economic support program and approved two supplementary budgets, one in March 2020 and the other in June 2020. The Central Bank of Eswatini (CBE) announced liquidity enhancing measures, including decreasing the discount rate four consecutive times (cumulatively by 275 basis points).

7. **This first DPL to Eswatini sets the stage for a deeper reform engagement with the World Bank Group.** The Government requested the World Bank to provide medium-term support to the country's recovery and reform program. As a result, this operation combines critical measures to respond to the COVID-19 pandemic with deeper structural reforms that will be supported through a series of two policy operations. This programmatic operation has three pillars:

- ***Protecting Lives and Livelihoods.*** The first pillar consists of measures to flatten the curve of infections through health services delivery, while placing a strong emphasis on providing targeted support to firms so that they can survive and maintain jobs. The Government's response to the COVID-19 pandemic creates an impetus for deeper reforms in the health system to increase life expectancy.
- ***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 transparency, 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.

8. **These three pillars are aligned with the approach laid out in the *World Bank Group COVID-19 Crisis Response Approach Paper.*** Operating across the three stages of *relief, restructuring and resilient recovery*, three

thematic pillars anchor the proposed operation in Eswatini. These reforms are expected to lead to a more targeted and efficient overall provision of health services during the crisis, ensure a greater resilience of firms (*protecting lives and livelihoods*), and lay the foundation for a more rapid and fiscally sustainable post-crisis recovery (*protecting the economy and the future*).

9. **This operation is expected to generate positive social impacts and some environmental benefits.** The Poverty and Social Impact Analysis of this operation (Annex 4) confirms that most reforms supported by this operation will benefit the poor and vulnerable. The prior actions aim to alleviate the adverse impacts of the COVID-19 pandemic on households and firms in the short term, safeguard rural livelihoods and affordability in the medium term, and improve access to finance and government revenues in the longer term. Furthermore, Eswatini is vulnerable to climate change, given that the main economic growth and development contributing sectors such as agriculture and water resources are climate sensitive. In line with Eswatini's Nationally Determined Contributions (NDC) commitments, this project supports climate mitigation and adaptation strategies as per the World Bank Africa Climate Business Plan 2020. While this operation has a focus on macroeconomic stability and selected areas of competitiveness, and as such does not lend itself to direct climate co-benefits, it will nonetheless strengthen climate resilience, enhancing climate co-benefits in the medium term (see Annex 5).

10. **The proposed Development Policy Financing (DPF) has been jointly prepared by the World Bank and International Finance Corporation (IFC), and is part of a broader engagement of international financial institutions, namely the International Monetary Fund (IMF) and the African Development Bank (AfDB).** In response to the COVID-19 crisis, the IMF Executive Board agreed in July 2020 to a US$110 million disbursement to Eswatini through its Rapid Financing Instrument (RFI). The (AfDB agreed to provide co-financing of US$40 million in parallel to this World Bank operation to maintain medium-term support to the reform program. IFC already has a strong ongoing engagement in Eswatini, which this operation is leveraging, especially to improve the business environment.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

Real sector

11. **The COVID-19 pandemic is pushing Eswatini into its first recession since 1976.** For 2020, the World Bank projects a contraction of 3.5 and 6.9 percent in the baseline and downside scenarios, respectively. This contraction stands in contrast to a pre-COVID-19 projection of 2.6 percent growth (Table 1). As Eswatini's population growth is 1 percent per year, this means that average income growth for a citizen of the Kingdom will decline by at least 4.5 percent in 2020. A large part of the Eswatini population already lives in poverty or close to the poverty line and, in the absence of strong measures to protect the poor and vulnerable, poverty is likely to deepen further in Eswatini.

12. **The economy was already in a weak position before the COVID-19 pandemic struck.** In 2019, poor agriculture output and a deteriorating fiscal position led to a real gross domestic product (GDP) growth of only 1.3 percent down from 2.4 percent in 2018. 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. The Government also froze public sector wages in 2019, which further weakened domestic demand.

13. **The Government's COVID-19 containment measures have brought the economy almost to a standstill.** Since March 2020, the Government has imposed severe mobility restrictions and demanded the temporary closure of businesses involving person-to-person contact. As a result, almost all economic sectors have contracted during the lockdown, with the exceptions of the health and communication sectors. The mobility restrictions and business closures have led to job losses. As of mid-August 2020, over 75 companies had temporary laid off over 17,000 workers. The companies subsequently applied and accessed the COVID-19 Layoff Relief Fund. This fund was set up by the Government as an employment contingency measure to provide financing for compensatory relief to employees who have suffered a loss of earnings as a result of being temporarily laid off without pay during the COVID-19 national emergency.

14. **Inflation has started to pick up in 2020, partly due to COVID-19-induced supply chain disruptions.** From January 2020 to July 2020, inflation increased from 2.7 to 3.9 percent year-on-year (y/y). The Government's continued freeze on electricity and water tariffs (which carries the largest weight in the Consumer Price Index followed by food) has reduced inflationary pressures. The Government has deferred an electricity tariff increase until 2021, while a water tariff increase was deferred for three months from April to June (coming into effect in July 2020). Given the deferments, 2020 inflation is likely to be lower than pre-COVID projection of 5.1 percent (Table 1).

Table 1: Selected Economic and Financial Indicators, 2018–23

			Projected (Base Case)				Pre-COVID-19	
	2018 Prel.	2019 Est.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2020 Proj.	2021 Proj.
Real sector and prices (Percentage changes; unless otherwise indicated)								
Real GDP	2.4	1.3	-3.5	1.5	0.9	1.2	2.6	1.6
GDP deflator	2.8	5.1	5.2	4.8	4.7	4.8	5.1	5.3
Consumer prices (annual average)	4.8	2.6	4.1	4.2	4.6	4.8	5.1	5.5
Fiscal (% of GDP)								
Revenue	24.8	26.5	27.2	27.5	26.6	28.5	28.9	27.3
Expenditure	34.7	33.8	35.9	33.9	32.8	31.3	33.4	33.3
Overall Fiscal Balance/1	-9.9	-7.3	-8.7	-6.4	-6.2	-2.9	-4.5	-6.0
Primary Fiscal Balance	-8.6	-5.5	-6.4	-3.5	-3.0	0.6	-3.0	-3.4
Public Debt, gross	33.8	38.0	47.9	52.5	55.2	52.6	39.0	45.3
External Public Debt	10.1	12.3	24.0	26.0	26.2	22.5	14.9	18.8
Money and credit (% change)								
M2	4.1	1.7	10.7	12.6	7.3	6.3	5.3	4.4
Credit to the private sector (% of GDP)	5.1	4.6	-0.4	8.4	6.6	6.2	4.1	6.2
External sector (% of GDP unless otherwise indicated)								
Exports	39.0	43.3	37.3	41.2	41.0	41.4	44.1	40.5

Imports	38.4	37.6	37.0	35.8	34.7	33.7	38.1	37.9
Current account balance	1.3	4.0	1.0	5.6	4.3	5.9	2.6	3.0
Gross international reserves (months of imports)	2.8	2.6	3.2	3.9	4.5	5.0	2.5	2.4
Exchange rate (local currency per US$)	13.2	14.5						
Memorandum Items								
Nominal GDP (Emalangeni, billion)	63.4	66.6	68.4	72.6	76.6	81.2	72.9	76.0
Nominal GDP (US$, billion)	4.8	5.0	3.9	4.3	4.8	5.0	4.9	5.1
1/Fiscal balance with policy measures								

Source: World Bank estimates based on data from the Ministry of Finance (MoF), CBE and the IMF.

Fiscal developments

15. **Since the beginning of the COVID-19 crisis, the Government has approved two supplementary budgets, one in March 2020 and the other in June 2020.** The total amount of COVID-19-related expenditures as per the two supplementary budgets amounted to E1.1 billion (1.6 percent of GDP), 0.1 percent of GDP in March 2020 for FY19/20 and a further 1.5 percent in June (for FY20/21) (Box 1). Revenue shortfalls as per the Government's supplementary budget revisions amount to E2.7 billion (3.9 percent of GDP). The supplementary budgets have facilitated more expenditures on health (buying personal protective equipment, pharmaceuticals, scanners, laboratory set-up and hospital equipment), WASH activities (water treatment facilities hand sanitizers), mitigating COVID-19 impact on small and medium enterprises (SMEs), home schooling activities and food commodities (Box Table 1).

Box 1: Eswatini's COVID-19 Fiscal Response Package – 2020/21

The Government of Eswatini responded to the crisis by increasing expenditure for FY2021 by an additional E1 billion (1.5 percent of GDP). This involves spending on drugs, health equipment, improved access to food, water and sanitation. They also implemented policies that protect firms' survival and employment.

Box Table 1: Estimated Economic Impact of the COVID-19 Crisis for 2020

	E million	Percent of GDP
Health and other frontline services	246	0.36
Food Distribution Programs	335	0.49
Water and Sanitation Services	121	0.18
Urban Human Settlements	156	0.23
Commerce Industry and Trade	105	0.15
Education and Social Protection	37	0.05
Total	1,000	1.5

Source: Eswatini authorities (June 2020) and World Bank staff calculations.

16. **Rising fiscal deficits and the accumulation of arrears since 2016, triggered by falling Southern African Customs Union (SACU) receipts and rising wages, have driven the increase in total public debt levels.** Total public debt (excluding arrears) increased (y/y) by 3 percent of GDP to 30 percent of GDP in 2019, largely driven by a high primary deficit. Domestic debt was the major driver of the rise in total public debt, as it increased (y/y)

by over 3 percent of GDP to around 20 percent of GDP in December 2019, maintaining its dominance as a share of GDP since 2016. Fiscal consolidation efforts beginning in 2019 had been premised on a wage freeze, containment of recurrent expenditures and the deferment of capital projects. The measures were necessary to address the fiscal challenges that began in 2016, partly due to a 17 percent real increase in the public sector wages bill and a substantial fall in Southern African Customs Union (SACU) revenues. As a result of the fiscal consolidation efforts, the fiscal deficit declined from 9.9 percent of GDP in 2018 to 7.3 percent in 2019 (Table 2).

17. **Financing constraints are continuing in 2020.** Although the fiscal deficit declined in 2019, financing constraints led the Government to continue financing the deficit by accumulating domestic arrears, drawing down on reserves, and borrowing from the domestic market. Domestic arrears rose to 8.1 percent of GDP at the end of 2019, from 7.1 percent of GDP in 2018. The arrears have continued to increase, reaching E5.3 billion in March 2020, of which E2.3 billion has been verified and is ready for payment. The arrears increased partly due to low fiscal revenues, poor expenditure quality, weak expenditure control, a growing wage bill, and inefficient state-owned enterprises (SOEs) with large contingent liabilities. The Government has committed to clearing these arrears and has therefore adopted an arrears clearance strategy (see Section 4). Gross official reserves declined from 2.8 months in 2018 to 2.6 months in 2019, the lowest level since the 2010/11 global financial crisis, and largely reflecting the use of reserves to finance persistent fiscal deficits.

Table 2: Selected Fiscal Indicators, 2018–23 (Percent of GDP)

			Projected (Base Case)				**Pre-COVID-19**	
	2018 Prel.	2019 Est.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2020 Proj.	2021 Proj.
Total revenue and grants	24.8	26.5	27.2	27.5	26.6	28.5	28.9	27.3
Taxes	23.6	24.5	25.6	25.7	24.5	26.1	27.2	26.0
Direct taxes	8.3	8.5	7.6	8.4	8.4	8.4	8.6	8.4
Indirect taxes	6.0	6.4	5.7	6.4	7.3	7.7	7.1	7.2
Trade taxes	9.3	9.5	12.2	10.9	8.7	9.9	11.4	10.4
of which SACU	9.2	9.5	12.2	10.9	8.6	9.9	11.4	10.3
Other Tax Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.5	1.2	0.8	0.9	1.3	1.5	1.0	0.8
Grants	0.7	0.8	0.9	0.9	0.9	0.9	0.8	0.6
Total expenditure	34.7	33.8	35.9	33.9	32.8	31.3	33.4	33.3
Compensation of employees	13.3	11.9	11.9	11.8	11.4	11.0	11.6	12.5
o/w Wages and salaries	11.7	10.6	10.9	10.9	11.0	11.1	9.8	9.7
Goods and services	4.1	4.5	4.5	4.3	4.0	3.4	3.8	4.4
Interest Payments	1.3	1.8	2.2	2.9	3.2	3.4	1.5	2.6
Domestic	1.0	1.4	1.4	2.0	2.3	2.6	1.3	2.1
Foreign	0.3	0.4	0.8	0.9	0.9	0.9	0.2	0.5
Other expenses	7.2	8.3	9.9	7.8	7.7	7.4	7.6	6.9
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants (transfers)	5.4	5.4	5.4	5.2	5.1	4.8	5.5	5.1
Covid related spending	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0

Other	1.8	2.9	3.0	2.5	2.5	2.5	2.0	2.1
Unidentified spending	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	5.3	7.3	7.3	7.0	6.5	6.1	9.0	6.9
Overall Balance/1	-9.9	-7.3	-8.7	-6.4	-6.2	-2.9	-4.5	-6.0
Financing	5.5	4.9	8.7	6.4	6.2	2.9	3.5	1.6
Domestic	4.3	2.0	1.9	1.6	1.9	2.5	2.3	0.3
External	1.2	2.9	6.8	4.8	4.3	0.4	1.2	1.3
of which: IMF RFI (net)	0.0	0.0	2.8	0.0	0.0	-0.5	0.0	
World Bank	0.0	0.0	1.0	0.9	0.0	0.0	0.0	
AfDB	0.0	0.0	1.0	0.0	0.0	0.0	0.0	
Unidentified financing	4.3	2.4	0.0	0.0	0.0	0.0	1.0	4.4
Memorandum items:								
Gross public Debt/2	33.8	38.0	47.9	52.5	55.2	52.6	39.0	45.3
Domestic	23.8	25.8	23.9	26.6	29.1	30.1	24.1	26.5
External	10.1	12.3	24.0	26.0	26.2	22.5	14.9	18.8
Unpaid invoices (stock of arrears)	7.1	8.1	6.9	5.5	4.2	3.0	8.4	9.4
GDP at market prices (Emalangeni millions)	63352	66552	68405	72579	76636	81245	72938	769391

1. Deficit after fiscal adjustment only for projected (base case).
2. Gross public debt include arrears.

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

Monetary and financial sector development

18. **The COVID-19 pandemic has prompted the CBE to continue with its accommodative monetary policy in 2020 to support economic activity.** Accommodative monetary policy started in 2019, prompted by low inflationary pressures. This saw the discount/repo rate reduced from 6.75 percent in December 2018 to 6.5 by December 2019. With the COVID-19 pandemic since March 2020, the discount rate was reduced a further four consecutive times, including two cuts of 100 basis points each on March 20 and April 16, 2020, and 50 basis points on May 2, followed by a 25-basis-point cut on July 24, leaving the repo rate at 3.75 percent. To inject liquidity into the economy in the face of the pandemic, the CBE further reduced the liquidity requirement for commercial banks from 25 to 20 percent. It also reduced the reserve requirement from 6 to 5 percent and encouraged banks to consider loan restructuring and repayment holidays.

19. **Accommodative monetary policy has not stimulated credit demand, as most companies, especially tourism and manufacturing, were closed during the lockdown**. Credit to the private sector (across all sectors) contracted (y/y) by 5.9 percent in April 2020 and 6.4 percent in June 2020. In general, monetary policy developments in Eswatini are closely linked to South Africa, as Eswatini’s currency, the emalangeni, is pegged to the South African rand.

20. **The banking sector is relatively well capitalized and liquid but remains vulnerable to non-performing loans that were already high pre-COVID-19.** Non-performing loans (NPLs) to total loans increased from 9.0 percent in September 2019 to 9.3 percent in April 2020. NPLs have been rising since 2015 (from 3.6 percent in June 2015) to about 9 percent in September 2019, reflecting a deterioration in public expenditure arrears and a

slowdown in economic growth. The capital adequacy ratio (CAR) is well above the minimum statutory requirement of 8 percent, at 18.7 percent in June 2019, and profitability is high with an average return on assets (ROA) of 2.6 percent and return on equity (ROE) of 16.6 percent up from 2.2 and 13.4 percent respectively in December 2017. The banking sector is dominated by four banks (three of which are South African), with a combined market share of about 86 percent.

External developments

21. **The first month of the lockdown saw a sharp adjustment in external trade**. With mobility restrictions, exports fell by 40 percent y/y in April 2020, while imports contracted by 45 percent. The trend continued to July, although now there is some recovery in exports and imports, as South Africa has relaxed the lockdown and Eswatini has allowed companies to restart operations. Cumulative exports from January to July 2020 were 3.3 percent lower than in the same period last year, while imports were 7.7 percent lower.

22. **The trade balance and current account have remained in surplus.** Eswatini has recorded current account surpluses since the 2010/11 global financial crisis, mainly due to higher secondary income from SACU revenue receipts. Eswatini's main exports increased in 2019, especially sugar (which accounts for 24 percent of total exports), other edibles (47 percent) and textiles (12 percent). These goods have benefited from Eswatini's readmission into the Africa Growth Opportunity Act (AGOA) in 2018. Most imports also increased, with fuel imports, which account for 16 percent of total imports, growing by 48.1 percent in 2019. South Africa remains the largest trading partner of Eswatini, accounting for 64 percent of its exports and about 74 percent of its imports. Despite the current account surplus, fiscal challenges continued to constrain growth in the gross official reserves, which declined from 2.8 months in 2018 to 2.6 months in 2019—the lowest level since 2010/11 global financial crisis.

23. **As a result of the COVID-19 pandemic, the emalangeni depreciated by over 24 percent between January and April 2020, to over E18 per US dollar, reflecting the depreciation of the South African rand, to which the currency is pegged.** The rand has depreciated by 19 percent (as of end June) since December 2019, reflecting weak economic activity and reduced foreign currency inflows into South Africa. The emalangeni has been volatile and, between April and August, it regained about 10 percent of its value against the US dollar. This partial recovery could be associated with the easing of COVID-19 containment measures.

Table 3: Balance of Payments Financing Requirements/Sources, 2018–23 (US$ million)

			Projected (Base Case)				Pre-COVID-19	
	2018 Prel.	2019 Est.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2020 Proj.	2021 Proj.
Financing Requirements	**32.0**	**159.2**	**-10.1**	**173.2**	**125.3**	**200.2**	**88.2**	**77.2**
Current account surplus	62.7	194.4	39.5	239.3	205.7	292.0	125.9	154.1
Amortization	-30.7	-35.2	-49.6	-66.1	-80.4	-91.8	-37.8	-76.9
Financing Sources	**-32.0**	**-159.2**	**10.1**	**-173.2**	**-125.3**	**-200.2**	**-88.2**	**-77.2**
Capital account	-2.3	-1.0	-1.1	-1.2	-1.3	-1.2	-1.0	-2.1
Financial account/1	27.7	97.6	151.7	-0.2	28.3	46.6	147.0	57.5
Foreign direct investment (net)	-47.0	-108.0	-6.0	-32.7	-36.6	-30.4	-122.5	-126.0
Portfolio investment (net)	-85.6	85.8	137.4	-4.2	108.6	112.0	93.1	101.5

Financial derivatives	6.7	0.7	8.6	8.8	9.4	9.1	4.9	4.7
Other investment (net)	153.5	119.2	11.8	27.9	-53.1	-44.2	171.5	77.3
of which disbursement	87.8	149.8	234.0	120.8	135.7	140.1	135.0	171.4
Errors and Omissions	-58.41869	-68.7806	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (-=increase)	56.4	8.3	-27.5	-212.2	-95.7	-152.4	59.8	-17.6
Additional Financing Sources								
IMF RFI (net)			110.4					
World Bank			40.0	40.0				
AfDB			40.0					
Memorandum item:								
Nominal GDP (US$ million)	4757	5027	3909	4269	4790	4952	4900	5076
1 Positive sign indicates outflow								

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

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

Macroeconomic outlook

24. **The COVID-19 pandemic has led to a substantial deterioration of the near-term outlook, while the medium-term recovery will hinge on the aftereffects of the pandemic on SACU revenues and the general economy.** The Eswatini economy is projected to contract by 3.5 percent in 2020 (compared with a pre-COVID-19 projection of a 2.6 percent expansion) due to both demand and supply shocks caused by the pandemic (see Box 2 for the transmission channels). Most economic sectors are projected to contract in 2020. The supply side, especially the manufacturing sector, in particular sugar and textiles, will be hard hit by the pandemic due to global value chain disruptions. The textile industry is expected to contract by over 30 percent as international supply and demand are affected, driven by their linkages to China and other trading partners that have closed their borders. The transport sector both within and outside Eswatini is severely affected by non-usage, as movements within and outside the country are restricted.

25. **Growth is expected to rebound in 2021 to 1.5 percent and thereafter remain subdued in the following years as the authorities implement their fiscal consolidation plan.** The rebound in 2021 will follow the reopening of the economy (easing of restrictive lockdown measures), started in the second half of 2020, leading to improved economic activity in the short term. Furthermore, access to international financial institution (IFI) loans (the IMF has already approved a US$110 million loan under the RFI) and the Government's efforts to clear domestic expenditure arrears, coupled with the implementation of the Government's Post COVID-19 Recovery Plan, will support this short-term rebound. However, the services sector will remain constrained, as tourists' precautionary behaviors are likely to persist and weigh on the outlook. Persistent voluntary social-distancing behaviors are likely to hamper a full recovery of the tourism sector in 2021.

26. **The second-round effects of the pandemic and implementation of the Fiscal Adjustment Plan will constrain economic recovery in 2022**. The second-round effects of the pandemic are anticipated to manifest through a reduction in SACU revenues, leading to a deterioration in the fiscal position and constraining economic

recovery. SACU revenues are projected to fall by 3.6 percent of GDP in 2022. Moreover, fiscal consolidation measures will constrain demand and dampen further growth prospects.

27. **To achieve high growth in the medium term, deeper supply-side and governance reforms will be needed to support private investment and strengthen competitiveness.** These include reforms to reduce vulnerabilities to state capture and other forms of corruption, streamline business regulations and regulatory requirements, reduce high electricity and telecommunications costs, contain wage growth, and address shortages of skilled workers. This operation is supporting policies that will help to address some of these challenges and also support the Government's Strategic Roadmap and National Development Plan (see Section 3 for details).

28. **Inflation is expected to remain high during the pandemic, although within the 3 to 6 percent target band, given the Government's deferral of electricity and water tariff increases.** The freeze on electricity tariffs postpones the next increase to 2021, which will help to keep inflation below the upper-band threshold in 2020 and 2021. However, the pandemic has created supply constraints that will result in upward price adjustments in 2020. Furthermore, currency depreciation against the US dollar will contribute to inflation, which is expected to increase slightly to around 5 percent in the medium term, as the Government relaxes the freeze on utility prices.

Box 2: Eswatini's COVID-19 Crisis – Transmission Channels

Growth impact. Economic growth was already declining even before the COVID-19 pandemic. Due to the pandemic, the economic crisis is now deepening. The impact of the pandemic on growth is expected to operate through two channels. *First*, through the external channel impacting both demand and supply through trade, tourism, remittances, a weakening exchange rate, and an anticipated decline of SACU revenues. *Second*, domestic policy channels such as lockdown (stay home), social distancing, travel restrictions and health-related measures that are affecting both domestic demand and supply through loss of income, job losses and company closures. Fiscal response to the pandemic will lead to more fiscal challenges, such as the accumulation of arrears, which will further dampen economic recovery. Through these channels, almost all economic sectors are contracting in 2020.

The immediate impact of COVID-19 in Eswatini included massive job losses, especially workers in the textile and hospitality industries, as they have been affected most by the lockdown. In addition, the lockdown has impacted severely the informal sector, estimated at about 38 percent of GDP—one of the largest shares in Africa. Informal sector activities were the last to be allowed to reopen. On the demand side, restrictions on movement and activities resulted in a general decline in demand as cashflow and income of businesses and households dropped. The pandemic reduced consumption and investment by households, government, and firms due to the rise in unemployment, reduced salaries, increased pressures on disposable incomes, and a reduction in tax revenues and donor funding. Firms in the services sector that require direct contact between producers and consumers have been especially hard hit by health measures, which has trickled down to the wider economy as many businesses suspended operations and employment declined. Overall, the economy is now projected to contract in 2020—a clear divergence from previous growth projections. Real GDP growth is projected to contract by 3.5 percent in the baseline and by 6.9 percent in the downside scenario (Box Table 2).

Box Table 2: Estimated Economic Impact of the COVID-19 Crisis for 2020

	Pre-COVID-19 Proj.	Baseline COVID-19 Proj.	Downside COVID-19 Proj.

Real GDP growth (%)	**2.6**	**-3.5**	**-6.9**
Fiscal deficit (% of GDP)	**-4.5**	**-8.7**	**-10.4**
Revenues (% of GDP)	**28.9**	**27.2**	**25.7**
Expenditure (% of GDP)	**33.4**	**35.9**	**36.1**
Current account surplus	**2.6**	**1.0**	**-1.1**

Source: World Bank staff compilation, based on data from World Bank Macro Poverty Outlook (October 2019); and MoF.

The materialization of the downside scenario poses significant risks. However, the assumption that underpins the downside scenario (prolonged COVID-19-related restrictions) now seems farfetched, as Eswatini and other countries have gradually started to open their economies. The downward scenario would result in a steep economic contraction and higher fiscal deficit. The financing gap will be higher than the baseline, necessitating more borrowing and deepening of the fiscal consolidation measures. The Government has already come up with plans to circumvent such a scenario by proffering the Post COVID-19 Economic Recovery Plan and starting to implement the fiscal consolidation measures.

29. **The fiscal deficit is projected to increase significantly to 8.7 percent of GDP in 2020, as public spending increases while revenues fall.** Revenues are projected to fall by about 1.7 percent of GDP compared with pre-COVID-19-period projection, as weak economic activity negatively affects both direct taxes (income tax, company tax) and indirect taxes (consumption taxes such as VAT). Furthermore, the decline in trade, especially imports, and the interruption of global value chains, have a direct and immediate negative impact on excises, import duties and value-added collections. Total expenditure is projected to increase by about 2.5 percent of GDP compared with the pre-COVID-19 projection, as the Government spends more on health, and provides additional support to individuals and businesses to mitigate the impact of the crisis.

30. **Health-related spending on COVID-19 containment is increasing through the Government's approval of two supplementary budgets**. Other responses that may also increase spending are additional cash transfers and food assistance (to 300,000 households) provided to the most vulnerable, and various support (tax relief) mechanisms for targeted businesses and industries. The net fiscal effect will be to increase the fiscal deficit by 4.2 percentage points of GDP in the baseline scenario (Table 2) and by 5.9 percentage points of GDP in the downside scenario (Box Table 2).

31. **COVID-19-related expenditures have increased the financing gap.** The Government has identified domestic financing of 1.9 percent of GDP, together with other foreign financing, leaving a COVID-19-related financing gap of 4.9 percent of GDP. This financing gap is expected to be closed through an already approved IMF RFI operation (US$110 million; 2.8 percent of GDP), this proposed World Bank budget support operation (US$40 million; 1.0 percent of GDP), and AfDB budget support of (US$40 million; 1.0 percent of GDP). The Government commits to clear arrears in the medium term, partly by domestic resource mobilization and by implementing fiscal consolidation measures. Clearing of arrears will help unlock private sector activity.

32. **The fiscal deficit is projected to narrow over the medium term, as the Government continues with fiscal consolidation in the face of an anticipated decline in SACU revenues.** While the economic impact of the COVID-19 pandemic will subside, SACU revenues are projected to decline significantly due to the 2020 COVID-19 aftereffects on trade that will have their greatest impact on SACU receipts in 2022. The slowdown in South Africa will adversely affect SACU revenues, particularly in FY22/23, generating additional budget and external financing pressures. Eswatini's SACU revenues for FY20/21 are likely to be lower than pre-crisis. Under the SACU revenue-

sharing formula, FY20/21 revenues distributed in excess of actual outturns will be paid back in FY22/23, making 2022 revenues lower. Despite the anticipated medium-term SACU revenue contraction, domestic revenues are expected to increase as the Government implements the revenue-enhancing measures in its adjustment plan (as explained below).

33. **In June 2020, Eswatini's Cabinet approved a three-year Fiscal Adjustment Plan (FY21/22 to FY23/24), expected to result in a cumulative 6.5 percent of GDP adjustments by 2023**. The Fiscal Adjustment Plan aims to promote fiscal sustainability in the medium term. The plan includes reforms to widen the revenue base, limit wage bill growth, improve expenditure efficiency, especially in the capital budget, and limit transfers to SOEs. Total expenditure adjustments of 4.1 percent of GDP (cumulative) by 2023 will be achieved in four ways. The first is a reduction in the compensation of employees by continuing the freeze on posts with the aim of abolishing redundant ones, reducing the number of posts by 1,000 annually for the next three financial years effective from FY21/22, and awarding cost-of-living adjustments (COLA) that are below inflation. This will result in a cumulative reduction in employment expenditure of 1.1 percent by 2023. Second is to limit transfers to SOEs by streamlining and merging of public entities with similar mandates, resulting in a cumulative expenditure cut of 1 percent of GDP. Third is to cut expenditure on goods and services by a cumulative 1 percent by the closing of trading accounts for certain expenditure items and improving the system for the commitment of funds, as well as enhanced procurement efficiencies. Fourth, expenditure on capital projects will be cut by 0.9 percent of GDP by introducing a lower replacement rate for completed capital projects.

34. **The Fiscal Adjustment Plan entails revenue adjustments of 2.4 percent of GDP by 2023, arising from value-added tax, fuel, alcohol and tobacco levies and non-tax revenue.** The adjustments include increasing the marginal taxation rate on individual tax resulting in a cumulative increase in revenue of 0.4 percent of GDP by 2023, together with increasing value-added tax by expanding the tax base to include certain items currently exempted and by increasing the taxation rate resulting in increasing revenue cumulatively by 0.8 percent of GDP by 2023. Other tax rates to be increased include fuel, alcohol and tobacco levies, which will increase revenue by a cumulative 0.9 percent of GDP. Non-tax revenue will increase by 0.4 percent of GDP by increasing user fees and efficiencies in dividend collections. The resultant adjustment will partly contribute to a reduction of the fiscal deficit to below pre-crisis levels to around 3 percent by 2023. Subsequently, the accumulation of expenditure arrears is projected to fall to below 4 percent of GDP by 2023 as the financing gap is closed. However, failure to implement this plan will result in the fiscal deficit increasing to 9.4 percent by 2023.

35. **The current account surplus is expected to decline significantly due to low exports and tourism receipts, and reduced remittances in 2020.** The current account surplus is projected to decline to 1.0 percent of GDP in 2020, from over 4 percent in 2019. Exports are expected to decline by over 5 percent, while imports are projected to decline by 1 percent. In 2020, the trade surplus is expected to remain, while the services deficit is projected to increase, as the country remains a net importer of services. The secondary income account will remain in surplus as SACU inflows remain relatively high in 2020, albeit temporarily.

36. **The current account surplus is, however, expected to pick up from 2021 onward, as COVID-19-related trade and supply disruptions ease**. Exports are projected to recover more than imports. Furthermore, the Fiscal Adjustment Plan will help contain domestic demand and contribute to lower imports, resulting in an improvement of the current account balance over the medium term. 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. Albeit a small country, Eswatini has attracted major exporting

companies such as the Coca-Cola plant during the Apartheid period in South Africa and is the fourth-largest producer of sugar in Africa.

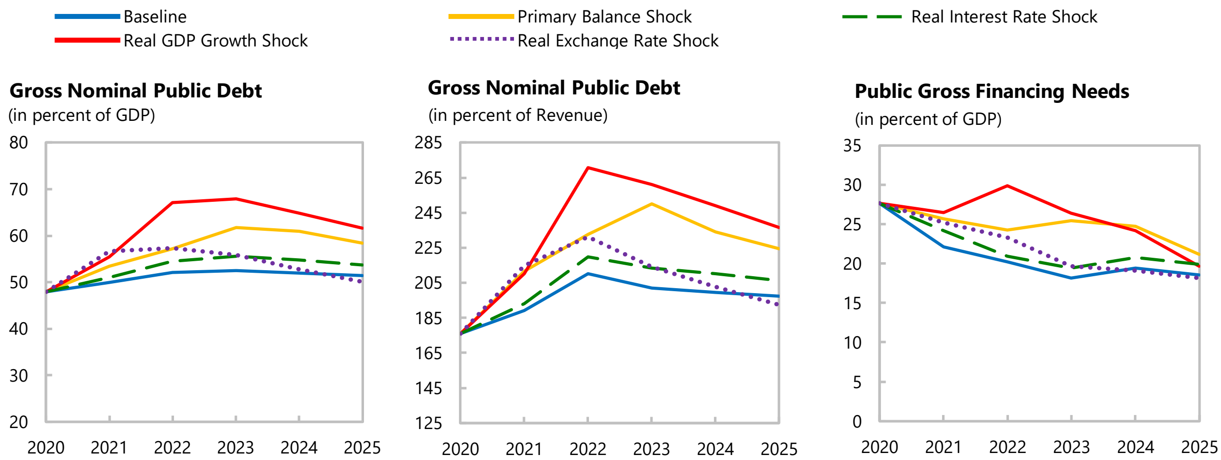
37. **However, the vulnerability of the current account position to developments in South Africa is high**. Eswatini remains highly dependent on South Africa, not only in terms of trade balance (two-thirds of its trade is with South Africa), but also on the income balance (through SACU transfers). The overall balance of payments (BoP) financing requirement is projected at US$163 million in 2020. Foreign financing, including through this World Bank proposed operation and the AfDB operation (combined at about 2 percent of GDP), together with the approved IMF RFI of 2.8 percent of GDP, is expected to finance the external financing gap (Table 3). These inflows should boost international reserves. In the medium term, both the current account and the BoP are projected to be in surplus.

Debt Sustainability

38. **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. External debt is projected to increase significantly (by over 9 percent of GDP to 24 percent of GDP compared with pre-COVID-19 projections) in FY20/21, with increased recourse to external financing. Before the pandemic, external debt was relatively flat and lower (almost half) than domestic debt as a percentage of GDP. About two-thirds of external debt is owned by public entities. But with the pandemic, external debt (as a percentage of GDP) will increase to almost the same level as domestic debt. The IMF projects debt to peak at around 55 percent under the reform scenario, with 6.5 percent of GDP in adjustment to be implemented during FY21/22 to FY23/24.

39. **Successful implementation of the authorities' fiscal adjustment plans 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 raise both sustainability and liquidity concerns. Stress analysis suggests that debt levels and gross financing needs (GFN) are particularly sensitive to GDP growth shocks (Figure 1). Combining GDP and primary balance shocks with macroeconomic shocks would bring 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 DSA.

40. The Government has been improving its debt management. The Government prepared a Medium-Term Debt Management Strategy (MTDS) in April 2019, as per the requirement of the new 2017 Public Finance Management Act. The Government has intensified debt management and established an operational Debt Management Unit under MoF, which is an important improvement. MoF conducted its own first ever Debt Sustainability Analysis in August 2019. Furthermore, the authorities updated the debt policy in 2018, which was approved by the Cabinet. The authorities publish a monthly debt profile on CBE website but are yet to capacitate fully the Debt Management Unit in line with the new PFM regulations.

41. The macroeconomic outlook is subject to three major risks. First, as a small open economy, Eswatini is highly vulnerable to a prolonged COVID-19 pandemic, through its impact on trade, tourism and remittances, especially from its main economic partner, South Africa. This could slow down economic recovery in 2021. The second risk is the impact of expected decline on 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. This might pose a risk of the further accumulation of domestic arrears negatively affecting economic activity. Third, though public debt is currently low, to deal with the crisis the Government is contracting more debt. The maturities and composition of public debt carry significant rollover and liquidity risks, as well as exchange rate vulnerabilities. The Government has over-relied on short-term debt and, in 2019, over 90 percent of the Government's estimated gross financing needs going forward were related to short-term domestic liabilities, exposing the country to rollover risks. Furthermore, with the Government responding to the COVID-19 pandemic through contracting external debt, this may lead to high debt levels. 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.

42. In the context of the large shock to the economy, the impacts of which are still unfolding, the macroeconomic policy framework underlying this operation is assessed to be adequate. The Government has acted swiftly to mitigate the health and the economic impacts of the COVID-19 pandemic. This relates to the health policy response, and the fiscal and monetary policy responses that intended to ensure sufficient liquidity in the economic system, while social-distancing measures are in place. To bridge the fiscal financing gap created by the crisis, the Government has requested emergency support from the IMF, the World Bank, AfDB and other partners. The IMF Board already approved a US$110 million disbursement on July 29, 2020, through its RFI, while AfDB is preparing US$40 million in budget support.

43. **The Government has been committed to fiscal consolidation in the past (the fiscal deficit declined in 2019) and is committing to continue with fiscal consolidation in the medium term.** As discussed earlier, it has a three-year medium-term fiscal adjustment plan that was approved by the Cabinet in June 2020, with the aim of restoring debt sustainability while protecting the most vulnerable through a combination of spending and revenue measures. Due to various policy measures to be implemented, a cumulative adjustment of 6.5 percent of GDP is expected by FY23/24 (Table 2). All these measures are expected to contribute toward reducing the fiscal deficit and expenditure arrears in the medium term. To fully clear the arrears, more external financing is required in the medium term, amounting to about 4 percent of GDP. There are significant uncertainties given the pandemic, and the Government is aware of these and has come with up with various policies (Adjustment Plan, the Economic Recovery Plan), and is ready to adjust as needed.

2.3. IMF RELATIONS

44. **In response to the COVID-19 crisis, the IMF Board has approved a US$110 million disbursement to Eswatini through its RFI.** The Government has, however, not yet requested a program with the IMF. The latest Eswatini Article IV discussion took place in November 2019 and recognized the significant macroeconomic gains in 2019. The Article IV assessment noted the fiscal consolidation efforts that have been started with the authorities. The Directors of the IMF welcomed the recent fiscal measures to stabilize the economy and support growth and encouraged more decisive policy action to bring the economy back on a sustainable path. The IMF and the World Bank have closely coordinated on the macroeconomic framework and the required financing emanating from the COVID-19 pandemic.

3. GOVERNMENT PROGRAM

45. **The Government of Eswatini 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 the recovery of the economy underpinned by sound macroeconomic management, fiscal stability and economic growth.

46. **The COVID-19 pandemic has served as a trigger for the Government to respond by implementing 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.

47. **To enhance debt transparency, MoF published for the first time an Annual Debt Bulletin Report for 2019**. This contains information on loan details (interest, maturity, and amount), debt service profile, interest and exchange rate fluctuations, and risk indicators. In addition, to strengthen the procurement regulatory legal framework for improved efficiency and transparency, the Government has approved and submitted to Parliament the Public Procurement Regulations to implement the Public Procurement Act. To facilitate greater use of electronic communications and transactions to promote e-government, e-commerce, government efficiency and private sector growth for recovery, the Electronic Communications and Transactions Bill has been submitted for parliamentary approval. Finally, the business enabling environment is facilitated through the implementation of improved service standards at the Ministry of Commerce, Industry and Trade that will make it easier to obtain trade licenses.

48. **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.

49. **The Government declared a two-month State of Emergency on March 17, 2020, two days after recording its first case of the coronavirus.** The Government adopted its Coronavirus (COVID-19) Regulations with the objective of preventing the spread of the virus through aggressive testing, contact tracing, isolation and treatment of confirmed cases—a strategy that global experience has demonstrated successful in helping to contain the COVID-19 outbreak and reduce infections. The Government also took several measures to contain the outbreak, including closing most of its borders, closing all schools, and banning all public gatherings of 20 people or more. Two laboratories in the country have been prepared to test for COVID-19 infections, while the bed capacity in hospitals has been increased, and more health equipment and medical supplies procured. The Ministry of Health has developed and published the National Contingency Plan for Novel Corona Virus (COVID-19), which supports measures to improve preparedness, response structures and mechanisms for the early detection and effective management of the COVID-19 outbreak.

50. **The Government's two supplementary budgets have reallocated fiscal resources to respond 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 hospitals and completing new hospitals. In mid-April, the Government also announced the provision of a COVID-19 Layoff Relief Fund of up to E90 million to businesses with a turnover of E8 million or less, which are mainly SMEs. This relief will be directed to businesses that have continually supported the development of the country by complying with their tax obligations.

51. **The relief fund will be paid by way of tax refunds through the Eswatini Revenue Authority in monthly instalments of 25 percent of the actual tax paid in 2019.** The Government announced in April that it will provide food assistance to the most vulnerable (over 300,000 individuals) who have been adversely affected by the COVID-19 pandemic. Other announced revenue measures to mitigate the impact of the virus include: no payment of tax for taxpayers projecting losses after filing loss provisional returns; extension of returns filing deadlines by three months before penalties kick-in; payment arrangements for taxpayers facing cash flow problems; and a waiver of penalties and interest for older tax debts if the principal is cleared by the end of September 2020.

52. **CBE responded by announcing various measures aimed at cushioning the impact of the pandemic 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

53. **The proposed operation supports the Government's reform program and its response to the COVID-19 crisis.** The proposed operation is a programmatic operation of two single-tranche loans to support the implementation of the Government's reforms intended to stabilize the country's fiscal position, and improve competitiveness and support economic recovery, while at the same time supporting policy responses to manage the health crisis and mitigate the impact of the pandemic on the poor and vulnerable. A thorough macro-fiscal assessment has been carried out, which informs the operation.

54. **The development objectives of the proposed DPL are to: (i) help contain the spread of the virus and support firms to protect workers; (ii) contribute toward securing the country's future economic potential by strengthening transparency and budget management; and (iii) improve competitiveness and open up the digital economy.** The *first pillar (Protecting Lives and Livelihoods)* consists of measures to cushion the impact of the pandemic on the most vulnerable populations by supporting measures to contain COVID-19 (social distancing, quarantining, restriction of travel and consumer protection), and the timely provision of COVID-19-related health services, including testing. Furthermore, the operation supports employment contingency measures to provide financial compensatory relief to employees who have suffered a loss of earnings as a result of being temporarily laid off without pay during the COVID-19 national emergency, as well as measures to enhance access to liquidity for firms through the COVID-19 Small and Medium Enterprise Relief Fund. 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 and public financial management regulations that will limit the recurrence of domestic arrears; the improvement of debt reporting; and procurement regulations for improved 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-up by eliminating trade license requirements

and fees for basic trade activities. A summary of the prior actions is presented in Table 4, with all of the nine prior actions completed.

55. **These pillars are aligned with the approach laid out in the *World Bank Group COVID-19 Crisis Response Approach Paper*.** Operating across the three stages of *relief, restructuring and resilient recovery*, three thematic pillars anchor the proposed operation in Eswatini. These reforms are expected to lead to a more targeted and efficient overall provision of health services during the crisis, ensure a greater resilience of firms (*protecting lives and livelihoods*), and lay the foundation for a more rapid and fiscally sustainable post-crisis recovery (*protecting the economy and the future*).

56. **This proposed DPF is the first World Bank Group (WBG) budget support operation in Eswatini, and one that combines structural reforms with a COVID-19 response.** The operation lays the foundation for longer-term development policy support to Eswatini over two years, while at the same time providing Eswatini with short-term relief in an emergency situation caused by the COVID-19 pandemic. Eswatini is in need of many major reforms to address the country's binding constraints, which will take time and are impossible to achieve in one operation. A programmatic approach allows for a much deeper and meaningful policy dialogue with the Government. From the country perspective, this approach allows the World Bank to provide the Government with sufficient financing to turn the economy around. In return, by committing to a programmatic operation, the Government is demonstrating its seriousness regarding the reforms.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

57. **The policy actions supported by this DPO series are grouped under three pillars, and include nine prior actions for the first DPO (DPO1) and nine indicative triggers for second DPO (DPO2).**

Pillar 1. RELIEF: Protecting Lives and Livelihoods

Health

58. **Eswatini's health system performance is hampered by outdated legislation, and weak regulation, 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. The COVID-19 pandemic has an impact on health-care seeking, for example, by reducing maternal and child health and chronic care because of fear to go to facilities, which adds to the direct effects of the COVID-19 virus, and additional mortality due to suppressed care-seeking or congested sites. These can lead to rolling back universal health coverage, reducing human capital formation, and negatively affecting worker productivity. Therefore, to help expand the focus and stabilize services during the COVID-19 pandemic and beyond, a structured engagement with central agencies will be needed to support reform of the health system, specifically to improve health service decentralization (management and service delivery) and to strengthen health financing (budget preparation and management, and improved accountability to use public resources, e.g., contracting of services).

59. **By end-September 2020, there were 5,462 confirmed cases of COVID-19, 4,859 recovered people and 108 deaths in Eswatin**i. The fundamental concern is to contain the disease and delay the spread of infection. The secondary crisis that Eswatini is facing is the economic impact of the outbreak. The Government has put in place several measures to assist individuals and businesses to cope with the consequences of the crisis. The

Eswatini health authorities moved quickly to put in place measures to reduce the risk of infection for vulnerable people, and to prepare hospitals, health staff and the means needed to be able to receive patients with suspected COVID-19 coming to health facilities. The Government has three designated treatment centers for COVID-19, namely: (i) the Lubombo Hospital with 80 active beds, of which nine are ICU beds, expanded with 84 general beds and 20 ICU beds by end-August 2020; (ii) the TB Hospital being renovated for COVID-19 with 150 general beds and 50 ICU beds, expected to be ready by mid-October 2020; and (iii) the Mavuso Trade Centre, which has about 190 active beds, with an expansion capacity of 350 beds. In addition, the RFM Hospital ICU has nine active beds that are on standby for COVID-19 patients should demand arise. Regarding hospital equipment, Eswatini has bought and received medical equipment, including 60 ventilators and 50 bedside monitors. To manage the pandemic, the Government has also hired 682 health workers, including doctors, nurses, paramedics, pharmacists and laboratory staff.

60. To strengthen the COVID-19 health response, the DPO supports measures to improve preparedness, and response structures and mechanisms for the early detection and effective management of the COVID-19 outbreak (Prior Action #1). To support this objective, the Ministry of Health (MoH) has developed a National Contingency Plan (NCP) to address the COVID-19 pandemic. In alignment with the NCP, the Government has established a COVID-19 testing laboratory in Mbabane and upgraded the Lubombo Referral Laboratory for COVID-19 testing, as well as ensuring the availability of face masks to minimize the spread of the virus, increasing the number of ventilators available, and providing over 1,000 scanners to help upscale the screening process. As of end-September, 44,061 COVID-19 test results had been processed. Additional measures are being implemented in the Manzini region hotspots in an effort to curb transmission, including door-to-door health education and promotion, cluster testing, increased screening in schools, and training to reduce infection rates among health-care workers. Regarding reaching marginalized groups, the NCP has specific references to securing access to such groups, for example: ensuring safety of vulnerable groups at community and all levels; monitoring safe infection prevention and control (IPC) practices among vulnerable groups; and implementing special considerations and programs for vulnerable populations (targeting elderly, patients with chronic diseases, pregnant and lactating women, and children). The overall COVID-19 health response is also supported by the Eswatini COVID-19 Emergency Response Project (P173883).

61. The Health Bill (Trigger #1) is central to creating an enabling legislative framework for health sector modernization, and strengthening system capacity and performance to support effective and efficient health service delivery. It is expected to strengthen health system capacity and performance to ensure that the MoH effectively executes its core regulatory, administrative, technical and health service delivery functions, and protects the public's health within the Kingdom through measures directed at preventing, detecting, and responding to disease threats. The Bill is also designed to improve access to essential, affordable and quality health services and medicines leading to universal health coverage. The Bill will establish a Directorate of Regulatory Services including the functions and departments of standards and quality management, licensing, inspection, legal affairs and enforcement, and laboratory, radiation and biomedical equipment. Lastly, the Bill will provide for the establishment of a Health Service Commission that will be responsible for human resources for: protecting the health of staff in the Ministry and health professionals in public health facilities; and providing regulation for health service delivery, including breast milk formula substitute marketing restrictions, immunization, health regulation of trade premises, water, food safety, and prohibition on advertisements and occupational health and safety.

62. Prior Action #1 and Trigger #1 build the resilience of beneficiaries vulnerable to climate shocks. The NCP provides a platform for strengthening pandemic preparedness more broadly, including the current and future pandemics. Having a specific mechanism of health emergency preparedness can help governments and communities better manage climate-related health emergencies (e.g., from floods, droughts, intense storms, shifting disease vectors and degraded air quality). As part of the efforts to construct and rehabilitate health centers to treat COVID-19 patients, there are opportunities to ensure that construction standards are put in place that promote energy efficiency, reliance on low-carbon energy sources, and resilience to extreme weather events.

63. The proposed DPL1 supports the following prior action:

Prior Action #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.	**Results Indicator #1a:** Number of COVID-19 tests conducted by the designated in-country laboratory (disaggregated by results) in 12 months (number)	22,032 (August 2020)	100,000 (December 2022)
	Results Indicator #1b: Percentage of children under the age of 12 months who received the third dose of DTP vaccine during the month	90% (2019)	90%[3] (2022)

64. The proposed trigger for DPL2 is the following:

- **Trigger #1: Health System Strengthening.** To strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted the Health Bill to Parliament.

Employment Contingency

65. The global COVID-19 pandemic and related lockdowns have had a profoundly negative impact on Eswatini 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 the shock. The COVID-19 pandemic highlights the necessity and opportunities to improve the resilience of social protection infrastructure and to develop systems that can get “cash to people” in a crisis. It is critical to support the private sector so that viable firms do not exit as a result of the pandemic. The immediate objective is to address urgent liquidity pressures to limit closures and bankruptcies, and prevent widespread layoffs. Measures to help firms and workers cope with the challenges posed by the pandemic include credit guarantees, grants, and the easing of taxes and rental payments, and securing the payment of wages.

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

66. **To protect workers against the negative economic impact of the COVID-19 pandemic, the Government has issued employment contingency measures, which provide for a contribution of E25 million for financing compensatory relief to employees who have suffered a loss of earnings as a result of being temporarily laid off without pay during the COVID-19 national emergency (Prior Action #2).** The relief aims to mitigate the effects of loss of earnings by employees, in compliance with international labor standards. It provides E400 (US$25) per month to an employee who has been laidoff. The amount provides relief for buying basic food items that can sustain an employee for a month. All companies are eligible, with most beneficiary companies from labour-intensive industries such as textile and apparel; manufacturing and processing; and forestry. As of end-September, about 19,600 employees have benefited and over E10 million has been disbursed. The relief to unpaid employees builds the resilience of beneficiaries to climate shocks by helping beneficiaries to be able to buy food and clean water that could be impacted by droughts and food insecurity. **To help establish long-term employment contingency mechanisms, the Borrower, through its Ministry of Labour and Social Security, has established a fully-fledged Unemployment Benefit/Insurance Fund (Trigger #2).**

67. **The proposed DPL1 supports the following prior action:**

Prior Action #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.	**Results indicator #2**: Number of workers and firms that benefited from the contingency funds	0 workers and companies (July 2020)	100 companies and 40,000 workers (December 2022)

68. **The proposed trigger for DPL2 is the following:**

- **#2: Employment Contingency.** 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.

Liquidity to Firms/Private Sector Support

69. **An estimated 47 percent of Eswatini SMEs are facing liquidity pressures from the loss of revenues due to the COVID-19 pandemic.** Liquidity support should be rapid, transparent and time bound. Financial institutions will need to continue providing credit and working capital for businesses and trade activities in a sustainable way, while taking due care of financial risks. Cash distribution and access may experience large negative disruptions.

70. **To provide liquidity to firms, the operation supports the Government's tax reform, which in practice offers cash flow relief for targeted firms (Prior Action #3).** The Borrower, through its MoF and Revenue Authority, approved and published guidelines for exceptional tax refunds for SMEs to be funded by the COVID-19 Small and Medium Enterprise Relief Fund (of E90 million [US$4.8 million]). This relief will be directed to businesses that have continually supported the development of the country by complying with their tax obligations, which means they have filed and paid their taxes on time up to the 2019 tax year. To qualify, the

business (including sole traders) must have a turnover of E8 million or less, based on its 2019 submissions. On application, the business should submit supporting evidence that demonstrates the effect of the COVID-19 situation on the business starting from April 2020 and subsequent months. It should provide payroll schedules from January 2020 to show evidence for retention and payment of employees. The applications must be submitted by the 7th of the subsequent month, starting in May. This amount will be paid by way of refund of the company/business taxes through the Eswatini Revenue Authority in monthly instalments of 25 percent of the actual tax paid in 2019. There were 1859 SMEs that qualified in 2019, with a turnover of up to E8 million in 2019. Fifty-five taxpayers have benefited, with refunds amounting to over E726,000 being paid out at the end of September 2020. The COVID-19 Small and Medium Enterprise Relief Fund also provides liquidity to enterprises/firms involved in activities dedicated to reduction, capture, or sequestration of greenhouse gas emissions (e.g., renewable energy, energy audit, energy efficiency, sustainable forest management, climate-smart agriculture, waste management, etc.), promotion of the use of climate-resilient technologies in sectors or industries vulnerable to impacts of climate change, and support enterprises in industries that contribute to NDCs or other national/regional climate action plans.

71. **In addition, the Government is planning to pass legislation to develop credit infrastructure by facilitating the registration of movable assets on a modern electronic registry and enabling the collection and sharing of positive credit reference information (Trigger #3).** 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. SMEs 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). Formal credit has also suffered from the COVID-19 pandemic (0.4 percent nominal decline, year-on-year, as of July 2020). To strengthen economic recovery, Eswatini will need to ensure that credit re-starts flowing to businesses for investments. However, there are structural barriers to access formal credit, particularly the lack of collateral and financial reporting. Moreover, poor data quality and limited use of credit bureau services are impeding the effectiveness of the credit reporting system, even though depth of credit information in Eswatini is higher than the SSA average. The proposed reforms aim to allow businesses in Eswatini, particularly SMEs, to leverage their movable assets and credit history to access finance.

72. **The proposed DPL1 supports the following prior action:**

Prior Action #3: Liquidity to Firms. 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 one hundred percent (100%) of business tax paid in the tax year 2019, effected on a month-by-month basis at twenty five percent (25%) for each month completed during the COVID-19 national emergency.	**Results indicator #3:** Number of MSMEs benefiting from tax credits	0 (2020)	200 (December 2022)

73. **The proposed trigger for DPL2 is the following:**

- **Trigger #3: Liquidity to Firms.** To leverage private financing to MSMEs, the Borrower has enacted legislation that facilitates: (i) the registration and perfection of security interests over movable assets based on a modern electronic registry; and (ii) the collection and distribution of positive credit reference information.

Expected results (Pillar 1)

74. **The Prior Actions in Pillar 1 help support an effective crisis response in Eswatini and cushion the impact of the pandemic on the most vulnerable sections of the population, laying the foundation for a rapid recovery.** The National Contingency Plan for Novel Corona Virus (COVID-19) will ensure that services are available at the required geographic locations in a timely fashion, as indicated by the increase in the number of COVID-19 tests—100,000 tests are expected to be done by December 2020. This is important to encourage individuals with symptoms to seek medical attention so that suspected cases are discovered early and exposure to other members of society is minimized. Once passed, the Health Bill will ensure that 90 percent of children under the age of 12 months will receive the third dose of DTP vaccine during the month by 2021. Furthermore, it is expected that the Prior Actions under Pillar 1 will lead to greater resilience of firms, particularly SMEs and workers, and lay the foundations for a more rapid post-crisis recovery. One hundred companies and 40,000 workers are expected to benefit from employment contingency measures. Many workers and firms are estimated to benefit from the disbursement of the COVID-19 Small and Medium Enterprise Relief Fund by the end of 2020.

75. **Although Policy Actions #2 and #3 only benefit formal businesses, the Government has undertaken other measures (not reflected in the DPL's policy matrix) that provide some relief to informal businesses**, such as the suspension of the increase in the price of electricity for two months and the reduction in the price of fuel, but mostly the food assistance and cash transfers provided to the most vulnerable. This is somewhat aligned with the World Bank position paper on "Supporting Firm Resilience"[4] that proposes to support informal firms through social protection in the short run and microfinance/fintech in the recovery phase. This reflects the fact that "the vast majority of informal businesses have few or no paid employees, low productivity, are not linked to the formal economy except through utility and rent payments and are highly dependent on social networks and community-based financing."

Pillar 2: RESTRUCTURING: Protecting the Economy and the Future

Budget Management

76. **Eswatini is grappling with persistent macro-fiscal challenges, which adversely affect private sector activity and economic growth.** The economy remains highly dependent on South Africa. Changes in the South African economy affect Eswatini's economy through several channels, including through revenue and trade shocks. Eswatini is particularly dependent on highly volatile SACU revenues, which translate into significant fluctuations in public spending and pose a challenge to the management of fiscal resources. The Government found it difficult to lower spending and increase borrowing during years of low SACU receipts, culminating in a fiscal crisis in 2010–11 and renewed fiscal challenges starting from 2016.

77. **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 as at end-2019, up from 7.1

[4] Freund, Caroline and Alfonso Garcia Mora. 2020. World Bank Group report "Supporting Firm Resilience". http://pubdocs.worldbank.org/en/111141593044217205/Supporting-Firm-Resilience-Final.pdf

percent of GDP reported in 2018. The Government has committed to clearing these arrears, partly by implementing its Fiscal Adjustment Plan.

78. This operation supports measures to contribute to fiscal sustainability by limiting the recurrence of, and clearing, domestic expenditure arrears (Prior Action #4). Specifically, the Borrower, through the Cabinet: (i) adopted and published public financial management (PFM) regulations that will limit the recurrence of domestic arrears; and (ii) adopted and published a transparent domestic expenditure arrears clearance strategy, including the list of verified arrears. The first part of the policy change (PFM regulations) is expected to limit new arrears though improved controls and reporting. The second part (arrears clearance strategy) is aimed at reducing the stock of arrears. The expenditure arrears clearance strategy paves the way to reducing expenditure arrears through reprioritization of spending to ensure that arrears are paid off, through fiscal adjustment, coupled with improved transparency on expenditure arrears and better controls. These are shorter-term measures that are then supplemented with establishing a Treasury Single Account in DPL2.

79. The prior action on clearing domestic expenditure arrears will be followed by the establishment of a Treasury Single Account (Trigger #4), which will help ensure sustainability of fiscal discipline. The Treasury Single Account (TSA) is an essential tool for consolidating and managing government cash resources, thereby minimizing borrowing costs. The TSA is critical in ensuring that all tax and non-tax revenues are collected, and payments are made correctly in a timely manner, and that government cash balances are optimally managed to reduce borrowing costs (or to maximize returns on surplus cash). As the TSA will strengthen oversight of the Treasury over the Government's cash resources, it will help better control spending against commitments and cash availability, and prevent any future accumulation of expenditure arrears such that the dire situation of having close to one-third of the budget spending in expenditure arrears will not reoccur. The TSA will help 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 in reducing the unfinanced fiscal gap in the medium term, ultimately leading to a reduction in the size and growth of arrears in the medium term.

80. The proposed DPL1 supports the following prior action:

Prior Action #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.	**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 2022)

81. The proposed trigger for DPL2 is the following:

- **Trigger #4: Budget Management.** To sustainably reduce expenditure arrears, the Borrower, through its Cabinet, has established a Treasury Single Account.

Debt Transparency

82. **This operation supports actions to improve debt transparency through the publication of an Annual Debt Bulletin Report (Prior Action #5).** With the support of this DPL, the Government will enhance its Annual Debt Report 2019. The Annual Debt Report is expected to cover central government debt, loan guarantees, and debt-related operations. The report should provide information on the composition of the debt portfolio (external vs domestic debt instruments, maturity profile, fixed vs variable rate debt), loan details (creditors, interest, maturities, and amounts), risk indicators (e.g., redemption profile), and stock of guarantees, if any. For Eswatini it is a significant reform that a Debt Bulletin is published transparently and systematically. As the country's debt level will rise from 38 percent in 2019 to 55 percent in 2023, it is even more important that the country establishes a transparent and systematic approach to reporting on its debt. The Debt Bulletin will be published every year going forward. This Prior Action is also connected to the arrears clearance strategy, as a structural decline of arrears is critical to reviving the private sector.

83. **To further ensure debt and fiscal sustainability, publishing the list of SOEs subject to streamlining and restructuring (mergers) will help manage transfers below 20 percent of revenues (Trigger #5).** A large SOE sector adds to the inflexibility of public spending and contributes to high fiscal deficit and subsequently high debt levels. At present, it is difficult to significantly reduce spending in response to negative revenue shocks, partly because of too many SOEs in Eswatini. Currently, Eswatini has 48 public enterprises, which is high given the size of the county and its economic activities, with the number of SOEs increasing almost on annual basis. More than 50 percent of these enterprises rely wholly on government support for their recurrent and capital budgets. Even the few that have income-generating potential are performing on average below expectations, and continue to rely on the Government as the revenue generated accounts for less than 15 percent of their total budget requirements. With the continual increase of number of SOEs, it is becoming very costly for the Government to fully support these entities and this contributes to high public debt, given that they incur both explicit and implicit contingency liabilities. Preliminary analysis has identified that there is often an overlap in their mandates that create duplications, which become expensive for the Government to service.

84. **The proposed DPL1 supports the following prior action:**

Prior Action #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 risk indicators.	**Results indicator #5:** Transparency & Accountability - Ibrahim Index on African Governance (IIAG)	40/100 (2019)	50/100 (2022)

85. **The proposed trigger for DPL2 is the following:**

- **Trigger #5: Debt Transparency.** To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published the list of SOEs subject to streamlining and restructuring (mergers) to manage transfers below 20 percent of revenues.

Procurement Reform

86. **This operation supports measures to strengthen the procurement regulatory legal framework for improved efficiency and transparency (Prior Action #6).** The Borrower, through its Cabinet, has approved for submission to Parliament of the Public Procurement Regulations in order to implement the Public Procurement Act. The Parliament subsequently passed the regulations in October 2020. These regulations are holistic in nature and prompt open competition. In addition, the reform will achieve value for money and enable rationalization of public procurement expenditures through modern practices and techniques, such as: (i) annual procurement planning and establishing framework agreements for the procurement of common-use items; (ii) empowering the harnessing of public procurement expenditures to promote sustainable development objectives; (iii) increased opportunities for SMEs; and (iv) enhanced transparency and accountability in public procurement.

87. **Eswatini spends around US$854 million (about 25 percent of GDP) on 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. Eswatini could see the budget deficit breach 10 percent of the country's GDP if reforms in public procurement practices are not implemented. Public procurement in Eswatini is governed by the Public Procurement Act No.7 of 2011. However, since then, no implementing regulations to the Act have been issued. The establishment of the legal, regulatory and institutional framework is the foundation for transparent and accountable systems through the legal and institutional setup. However, much remains to be done in terms of operationalization and compliance, including capacity building to all procuring entities, and updating the standard bidding documents in line with the new regulations. The target of full compliance can be reached within two years.

88. **The public procurement regulations include provisions on sustainable development objectives for opening opportunities for local private sector companies and SMEs, innovation, social welfare and environmental conservation.** Regulations under Chapter IV put in place measures to promote Swati companies through encouraging foreign companies to subcontract or partner with Swati companies and, where feasible and appropriate, dividing procurement requirements into lots, of a size for which small Swati companies are qualified and able to tender, as well as other measures, without limiting the participation of foreign companies.

89. **The Prior Action is followed by Trigger #6, which will facilitate transparency, accountability and efficiency through the introduction of electronic e-Government Procurement (e-GP).** E-Government Procurement (e-GP) enables the collection and use of data and online information to inform short- and long-term public investment decisions. Procurement technologies can also be used to develop systems dedicated to disseminating information and the immediate mobilization of resources and personnel during emergency situations such as the COVID-19 pandemic or climate-related disasters.

90. **The proposed DPL1 supports the following prior action:**

Prior Action #6: 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.	**Results Indicator #6:** Percentage of tenders awarded competitively and following	0% (2019)	100% (December 2022)

	the regulations		

91. **The proposed trigger for DPL2 is the following:**

- **Trigger #6: Procurement Reform.** To facilitate transparency, accountability and efficiency in procurement, the Borrower, through its Ministry of Finance, has approved the introduction on the use of e-Government Procurement (e-GP).

Expected results (Pillar 2)

92. **It is expected that the Prior Actions under Pillar 2 will lay the foundations for a fiscally more sustainable recovery phase once the immediate COVID-19 crisis has subsided.** Actions taken to clear domestic arrears and limit their recurrence contribute to fiscal sustainability in a structural and strategic manner. Pursuing policies to increase debt transparency during this time of crisis signals the commitment of the Government to more firmly control debt and ensure debt sustainability. The percentage of expenditure arrears in total government expenditure is expected to decrease to 15 percent by 2022, and transparency and accountability will improve from 40 out 100 to 50 out 100 in the Transparency & Accountability sub-component of the Ibrahim Index on African Governance (IIAG). The percentage of tenders awarded in 10 selected pilot agencies using e-GP is expected to be 100 percent by end 2022.

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

Digital Transformation

93. **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*) whose objective 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 Millennium 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.

94. **This operation supports 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 (Prior Action #7).** 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 improve the enabling environment for e-commerce. Shifting to electronic transactions will expand the Government's ability to digitize its public services, leading to efficiency gains through automating manual tasks and processes. Furthermore, this can lead to energy savings, and increase the capacity of government to provide timely and targeted emergency support to beneficiaries facing climate impact and hazards, easing procurement for emergency supplies and promoting risk management.

95. **The proposed Trigger #7 on implementing Section 53 of the 2013 Electronic Communications Act aims to increase competition in the broadband market, incentivize private investment in digital infrastructure, and thereby facilitate a reduction in wholesale and retail broadband service prices.** Currently, the Eswatini Posts and Telecommunications Corporation (EPTC) maintains exclusivity in key segments of the telecommunications market, namely international connectivity and national backbone infrastructure. While it does not maintain exclusivity in the fixed broadband retail segment, the EPTC owns most of the retail access network infrastructure as a result of its incumbency. This market dominance means that EPTC can charge high wholesale broadband prices, which result in high input costs for retail service providers, who invariably pass these costs down to end users. The resulting high end-user internet prices tend to depress demand for broadband services, which in turn reduces incentives for private sector investment. Section 53 of the Communications Act of 2013 stated that EPTC (then SPTC) would be unbundled into two companies: a retail operator and a telecommunications infrastructure operator. However, to date this has yet to be implemented. Implementing this and unbundling EPTC would enable effective regulation and further liberalization of the market segments.

96. **The proposed DPL1 supports the following prior action:**

Prior Action #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.	**Results indicator #7:** Online Services Sub-Index of the UN E-Government Development Index (UN EGDI)	0.45 (2020)	0.55 (2022)

97. **The proposed trigger for DPL2 is the following:**

- **Trigger #7: Digital Transformation.** 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 EPTC to establish legally separated telecommunications infrastructure and retail service operators.

Contactless Payments

98. **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.

99. **To improve the resilience of social protection amid the COVID-19 pandemic and speed up digital transformation, the operation supports measures to promote contactless payments (Prior Action #8).** In response to the pandemic, the CBE has issued two circulars to: (i) increase the limits for individual, daily and monthly bank and mobile money electronic payments, for both full know-your-customer (KYC) transactions and simplified KYC transactions; (ii) increase the size limit for mobile money wallets (from E4,000 to E10,000); and (iii) encourage payment service providers (PSPs) to stimulate and support the increase in the level of activity in digital channels by considering waiving some of the charges related to electronic transactions. These measures are permanent. Despite fast growth of mobile financial services, payment innovations have been slow. The CBE has reviewed the national payments system legislation and prepared a bill on the national payments system, which has undergone public consultations. The new legislation was developed with World Bank support and aims to integrate major developments taking place in regional and international payments systems.

100. **Trigger #8 proposes the enactment of the National Payment Systems Law, 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 Financial Services Regulatory Authority (FSRA). Enacting the National Payment Systems Law 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.

101. **The proposed DPL1 supports the following prior action:**

Prior Action #8: Contactless Payments. To promote digital payments, the Borrower's Central Bank has issued circulars, which: (a) increase the mobile money daily and monthly transaction limits for mobile money service providers; and (b) encourage banks to waive all charges relating to transfers between bank accounts and mobile money wallets.	**Results indicator #8:** Increase in the value of mobile money balance (percentage of GDP)	0.2% (2018)	0.4% (2022)

102. **The proposed trigger for DPL2 is the following:**

- **Trigger #8: Contactless Payments**. To enable digital financial services to support the digital economy, the Borrower has enacted legislation aimed at promoting innovative digital financial services and strengthening the Central Bank's role as the regulator in maintaining the safety and efficiency of the payment system.

Business-enabling environment

103. **Renewing and sustaining economic growth will depend on the most productive private firms remaining viable, and ensuring that new firms can enter, hire, expand, innovate and tap emerging opportunities in digital transformation and green technologies.** Inclusive growth can be catalyzed by improving the business environment and making it more supportive of the competitiveness of MSMEs, and of a financial system that supports greater access to finance, particularly through digital financial services (DFS).

104. **Over the past two years, Eswatini has made strides in some areas of business regulation, particularly in starting a business, obtaining construction permits, securing electricity and registering property.** Despite these positive reform efforts, Eswatini's businesses still face a range of challenges. According to the World Bank's Enterprise Survey data, the top business environment obstacles for firms include corruption, access to quality electricity, high tax rates, crime, and practices of competitors in the informal sector. **The operation support measures to improve the business-enabling environment through lower trade licensing fees and reduced time to issue trade licenses (Prior Action #9).**

105. **Firms in Eswatini face challenges in the area of commercial dispute resolution**. Two factors explain this: the average time taken to resolve a dispute to enforcement; and 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 receive a judgement.

106. **Trigger #9 proposed to accelerate the enforcement of contracts** through the establishment of: (i) a specialized bench for commercial disputes and the issuance of applicable Rules and Bench Book; (ii) a modern electronic case management system across all levels of the judiciary; and (iii) Small Claims Courts. 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.

107. **Available contract enforcement data for Eswatini indicate that, on average, it takes 956 days (compared with 655.1 days as the regional average) to resolve a simple commercial dispute.** The lengthy time to dispose of claims stems from ineffective civil procedure rules, frequent and prolonged adjournments, a lack of modern case management tools to assist the court, and a lack of effective judicial performance tools. The absence of a dedicated commercial court division or bench and the general lack of judicial specialization introduce further delays. Today, over 100 countries have a specialized commercial jurisdiction within their existing civil courts or a dedicated body of specialized commercial judges. These countries include a number of small economies, such as Lesotho, Mauritius, jurisdictions of the Organization of Eastern Caribbean States and Singapore. Improving commercial disputes resolution in Eswatini will positively impact the Kingdom's business climate and improve investor confidence.

108. **The proposed DPL1 supports the following prior action:**

Prior Action# 9: Business enabling environment. To facilitate the ease of business start-up, the Borrower: (a) has amended the Finance Act, which reverses the increase of trade license fees; and (b) through its Cabinet has approved the Trading Licenses Order Amendment Bill, which aims to reduce the time to issue trade licenses.	**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 (2022)
	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% (2022)

109. **The proposed trigger for DPL2 is the following:**

- **Trigger #9: Business-enabling environment.** To accelerate the enforcement of contracts, the Borrower, through its Ministry of Justice, 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) completed the establishment of Small Claims Courts.

Expected results (Pillar 3)

110. **The Prior Actions under Pillar 3 will improve the competitiveness of Eswatini by facilitating digital transformation and improving the business-enabling environment.** The Electronic Communications and Transactions Bill will lay the foundation for a robust and well-functioning digital economy, society and government. This is expected to result in the increase of the Online Services Sub-Index of the UN E-Government Development Index (UN EGDI) from 0.45 to 0.55 by 2022. Unbundling EPTC to establish legally separated telecommunications infrastructure and retail service operators is expected to lead to improved internet access (unique mobile broadband subscriptions per 100 individuals) from 41 to 55 by 2022. The value of mobile money balance is expected to increase from 0.2 percent of GDP in 2018 to 0.4 percent of GDP by 2021, which will further accelerate digital transformation, as well as strengthen social protection. 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 2021, as well as lodging at least 5 percent of the overall High Court cases through a specialized commercial track by 2021.

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings

Operation Pillar 1: RELIEF: Protecting Lives and Livelihoods	
Prior action #1	*Coronavirus disease (COVID-19) technical guidance (WHO, 2020).* A national public health contingency plan is critical for guiding response. Diagnostic testing for COVID-19 is critical for tracking the virus, understanding epidemiology, informing case management, and for suppressing transmission.
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	*Insolvency Reform for Credit, Entrepreneurship and Growth (World Bank, 2014).* Effective insolvency regimes save viable businesses and ensure that non-viable businesses can quickly exit the market, allowing the deployment of assets to more productive firms. Strong insolvency regimes aim to balance creditor and debtor rights, maximizing recovery. *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.
Operation Pillar 2: RESTRUCTURING: Strengthening Transparency and Public Financial Management	
Prior action #4	*Eswatini Systematic Country Diagnostic 2020.*
Prior action #5	*Promoting Debt Transparency: Because the SDGs Depend on It (World Bank, 2019).* Policy makers in borrowing countries need reliable debt information to make informed borrowing decisions. Creditors, donors, analysts, and rating agencies need it to assess sovereign creditworthiness, and to appropriately price debt instruments. Citizens need it to hold their governments accountable.
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 the 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 Economic Policy Response to the COVID-19 Crisis (World Bank, April 2020a). Use of existing structures, especially where there are social safety nets in place, is the preferred social policy response. Other channels that should be considered are community-driven and local mechanisms. Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures (World Bank, April 2020b). Cash transfer programs are the most widely used interventions by governments for social assistance.

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), 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 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. Creation of commercial courts is specifically recommended.

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

111. The proposed operation is one of the pillars of the World Bank's response to help mitigate the impact of the global crisis on Eswatini. The World Bank has prepared a US$6 million Eswatini COVID-19 Emergency Response Investment Project Financing (IPF) under the Fast-Track COVID-19 Facility to prevent, detect, and respond to the threat posed by COVID-19, and to strengthen national systems for public health preparedness.

112. This proposed operation fits well into the existing CPS, 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. The proposed operation also includes two pillars almost similar to the CPF pillars; its first pillar focuses on protecting lives and livelihoods through containing the spread of the virus and providing support to SMEs, and protecting jobs through employment contingency measures. The second pillar focuses on economic management through budget management and debt transparency to secure the country's future economic potential. The onset of the pandemic has reinforced the need to accelerate some human development programs, such as the health system strengthening project, and mobilize resources to contain the virus through the Eswatini COVID-19 Emergency Response Project.

113. The existing CPS remain relevant for World Bank Group support in response to COVID-19. The CPS was initially extended by the Eswatini Performance and Learning Review to FY20 and was further extended to FY21, due to COVID-19 pandemic. The Eswatini portfolio is relatively new, all active projects were declared effective in the last quarter of FY20. The pandemic however, presented a unique opportunity to deploy other instruments such as the DPL and the Fast Track Facility - which fit well into the existing program.

114. **This operation also supports the recommendations of the SCD.** The World Bank completed the SCD in 2020 that recommends five policy areas: (i) strengthening macroeconomic management; (ii) diversifying the economy; (iii) strengthening human capital and inclusive delivery of public services; (iv) improving resilience to natural disasters and economic shocks; and across these four areas, and across the other four areas, (v) achieving transparency and effectiveness of policy-making, and committing to policy implementation. The support provided in this emergency operation fits well in most of the policy areas suggested in the SCD (see Box 3).

Box 3: Eswatini's SCD and its links to the current operation

The SCD provides various pathways that can help reduce poverty and promote shared prosperity. The proposed policy areas are linked to this operation in the following way:

1. Strengthening economic management: The SCD notes a deterioration of the fiscal situation in recent years that is both constraining economic recovery and investment. Larger fiscal deficits have been financed by a combination of domestic and external debt, the accumulation of domestic arrears to the private sector, and the depletion of foreign reserves. The SCD recommends improving economic management through strengthening public finances, facilitating higher lending to the private sector, and reducing capital and recurrent spending to increase the fiscal space. Limiting rapid growth of the public wage bill and restructuring loss-making public entities and enterprises are seen as important in curbing a deterioration of the fiscal situation. This is well aligned with pillar 2 that focuses on both fiscal/budget management and debt transparency.

2. Diversifying the economy and creating jobs: The SCD notes the need to increase the productivity of key sectors, diversify the economy, and create jobs. For this to happen, Eswatini needs to enhance access to finance and reduce trade barriers. There are several prerequisites for a structural transformation toward more productive sectors, including creating a conducive business environment, increasing access to finance by SMEs, removing regional and country barriers to trade, and improving transportation and connectivity. This finding fits well in pillar 1, where this operation is supporting firms and jobs through contingency measures and the COVID-19 Relief Fund.

3. Strengthening human capital and inclusive delivery of public services: Equality of opportunity in Eswatini can only be achieved through improving both access to public services and human capital. Eswatini ranks near the bottom of the World Bank's Human Capital Index, with a score of 0.41. The main reasons for the low score are a low adult survival rate (e.g., from HIV/AIDS) and poor learning outcomes. Poor access to water and sanitation undermines health outcomes and contributes to high levels of stunting. Roads and road safety are also serious infrastructure challenges, as is information and communication technology, internet connectivity, unaffordability, low bandwidth, a lack of last-mile broadband infrastructure, and limited digital skills all create bottlenecks in the economy. This operation's two pillars fit well with this proposed policy area: Pillar 1 (health) and Pillar 2 (digital transformation).

Cross-cutting themes: Credible commitment to transparent and effective policy implementation: The SCD finds that a credible commitment to transparent and effective policy implementation, and a level playing field for the private sector, are needed to transform the economy, eliminate extreme poverty, and boost shared prosperity. Among foreign investors, perceptions about the rule of law and property rights are negative; this may hamper investment and growth. SMEs' access to financial services is limited, constraining their development. Public spending on infrastructure, education, and health is inefficient, heavily tilted toward personnel, and not commensurate with sectoral outcomes. Public sector recruitment and procurement need to be more transparent. Increasing transparency may seem difficult in the short term, but in the long run it helps build citizen and investor trust in government, and ultimately contributes to prosperity, stability, and sustainability. This finding relates well with the debt transparency and procurement policy action of this operation.

Improving resilience to natural disasters and economic shocks: Eswatini's economy is highly vulnerable to natural disasters and economic shocks, especially those linked to its overdependence on SACU revenues. Weaknesses in PFM exacerbate the impact of such shocks. Eswatini is also relatively more vulnerable to climate change, and its annual likelihood of severe drought is projected to increase by up to 20 percent by 2050. The climate co-benefits in several prior actions of this operation improve Eswatini's resilience to climate change.

Source: World Bank SCD, 2020.

115. **The implementation under this DPL is supported by a number of other complementary WBG projects and technical assistance.** Pillar 1 of this operation is supported by the Eswatini COVID-19 Emergency Response Project. Pillar 2 of this operation benefits from the regular macroeconomic and debt dialogue provided by the World Bank. Pillar 3 benefits from ongoing engagement provided by the World Bank and IFC. This proposed operation is part of a broader package of WBG support.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

116. **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 the maximizing finance for development agenda. The World Bank team has closely coordinated with the IMF, especially on the macroeconomic policy framework, and the assessment of impact of the COVID-19 pandemic on the economic and the fiscal and BoP financing gaps arising from the crisis. The AfDB is considering a regional budget support operation with country-specific allocations, including for Eswatini.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

117. **The poverty impact of the Covid-19 related lockdown may be severe**. Simulations were carried out to determine the poverty and inequality impacts of the pandemic assuming three- and six-month lockdown. However, the country did not endure a full six-months of lockdown. Instead, from May 2020, the Government adopted a more relaxed partial lockdown under which formal firms were allowed to operate. Nonetheless, the simulation results suggest that under a three-month lockdown, the national poverty rate could increase by about 3.2 percent.[5] Under a six-month lockdown, this could be 5.4 percent (Figure 2). This corresponds to 35,200 and 59,400 people falling into poverty, respectively. Households in urban areas are most adversely affected, perhaps because of the exemptions for those working in agriculture. Households headed by those with secondary education are more adversely affected than those with less education or with tertiary education. The pandemic hits all income levels but the most badly affected are those among the lower-middle class. Of those in affected households, 22.4 percent are in quintile 2, while only 17.3 percent are in quintile 5. The pandemic will likely increase inequality, with the Gini rising from 0.493 before the crisis to 0.497 in a three-month lockdown and 0.505 in a six-month lockdown.

[5] World Bank Staff Assessment.

118. **September 2020 marked six months since the lockdown (relaxed since May) was imposed**. Assuming the main elements of the lockdown remain the same and no measures are put in place to minimize the negative impacts of the pandemic, poverty would likely rise even higher than projected under the six-month lockdown scenario. However, the lockdown restrictions have been gradually relaxed, leading to increased economic activity. This is expected to mediate the negative impact of the pandemic on poverty. Furthermore, reforms adopted to address the negative impact of the pandemic will influence the resultant poverty and inequality impacts.

119. **The reforms supported by this operation are pro-poor and likely to have positive poverty and social effects in the short and medium term (see Box 4 for the methodology).** The measures aim to alleviate the adverse impacts of the COVID-19 pandemic on households and firms in the short term, safeguard rural livelihoods and affordability in the medium term, and improve access to finance and government revenues in the longer term. None of the prior actions carries a clear substantial risk of adverse social or poverty effects. We simulate the poverty-reducing impact of an employment contingency measure and relief to SMEs. We find 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.

Box 4: Methodology and assumption adopted in the Poverty and Social Impact Analysis (PSIA)

PSIA simulates labor market impacts of lockdowns as a result of the pandemic. This analysis is based on the Eswatini Household Income and Expenditure Survey 2016/17. Household consumption is affected by its members losing their jobs during the shutdown period. There is assumed to be full pass-through from income to expenditure. Workers are assumed to be affected based on their industry of employment and whether they work in industries that are not operating during the shutdown period.

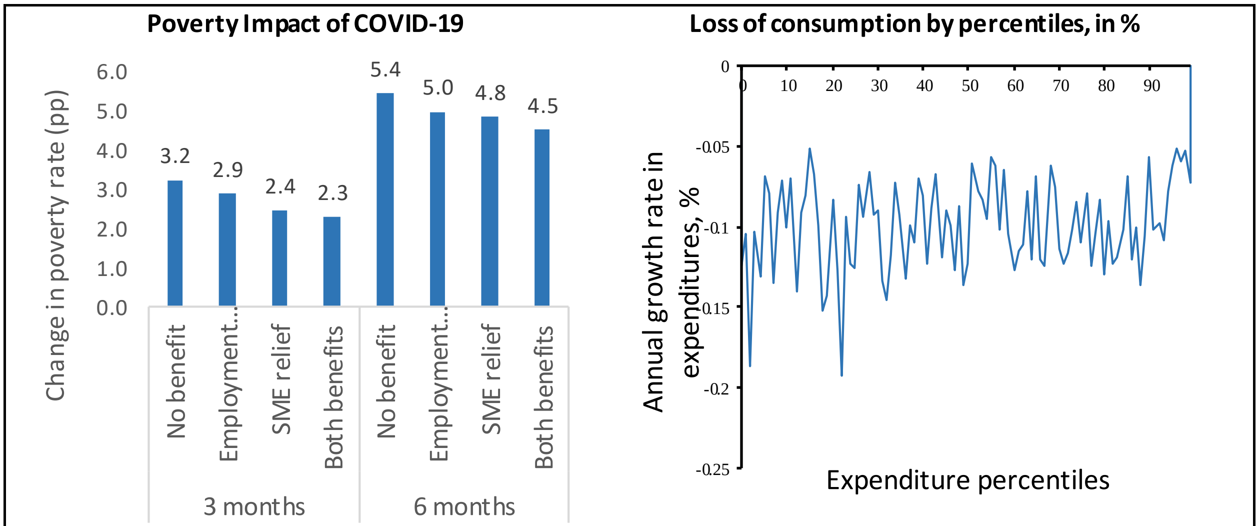
The PSIA includes analysis of Employment contingency and SME relief/liquidity to firms. The analysis is consistent with the April 8, 2020, Press Statement from the Ministry of Labour and Social Protection suspending pension fund contributions from their employers to free up resources to enable employers to continue paying their workers (Section 4(d) in the Statement). SME relief/liquidity to firms: we divide up E90 million (or US$4.8 million) uniformly among SME workers and estimate the poverty-reducing impact of this measure.

According to an announcement on April 1, 2020, the Ministry of Commerce, Industry and Trade announced that all businesses should be closed during the lockdown except for those considered essential services: food retailers, consumer goods suppliers, manufacturing, agriculture, public transport, fuel stations, financial services, waste disposal, health workers, fire and emergency services, security, water and sanitation, pharmacies, telecommunications, hospitality, energy, and the media. The analysis updated these assumptions using the June 2020 revised guidelines from the Ministry of Commerce, Industry and Trade. These exemptions correspond to COVID-19 prevention measures under Pillar 1 of the proposed DPL. In accordance with these policy announcements, we assume that workers in the following sectors are to be part of essential services and therefore exempt: those in agriculture, forestry, and fishing; electricity, gas, steam and air conditioning; water supply, sewerage, and waste management; retail sale of food, beverages and tobacco in specialized stores; financial services activities, except insurance and pension funding; public administration and defense; education; and human health and social work activities. We updated in this new round of revision to reflect the new June 2020 guidelines from the Ministry of Commerce, Trade and Industry. The loss of wage income is translated into consumption by applying the percentage change in household income to the household consumption. We consider the impact of a three-month shutdown and a six-month shutdown.

Source: World Bank Staff.

120. Social protection and labor interventions can substantially mitigate the poverty impact of COVID-19. As presented in the Figure 2, 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 reduce the poverty increase to 2.3 and 4.5 percent, respectively. With both employment contingency and SME relief, the increase in poverty is nearly 1 percentage point lower for both the three-month lockdown and six-month lockdown. This is equivalent to about 10,700 fewer individuals falling into poverty, cutting the poverty increase through the three-month lockdown by over one-quarter.

Figure 2.: Poverty and Inequality Impacts of the Pandemic and Mitigation Measures



Source: World Bank's calculation based on the simulations.

121. Digital payment mechanisms can improve delivery systems so that support can be mobilized more quickly and reach more people. While mobile money is already widespread in Eswatini, it is not universal. The Finscope 2018[6] data suggest that 69 percent of adults in the country use mobile money services. About 73 percent of urban adults used mobile money services, while 68 percent of those in rural areas did the same. Mobile money was most common among those aged 25-34, with 79 percent in that age group using mobile money, compared with only 60 percent of those over 65. This means 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 mobile payments. More than 80 percent of those in the top two quintiles used mobile money, compared with just 56 percent of those in the lowest quintile. Improving service delivery for lower income population would be beneficial in reducing poverty and inequality, while also mitigating the economic impact of the pandemic.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

[6] We use data from a survey conducted in 2018 by FinScope of adults 16 years and older in Eswatini. These findings are in line with FinScope's reported mobile money use of 66-71 percent depending on definition of usership. *http://finmark.org.za/wp-content/uploads/2019/05/FS_Consumer_Eswatini_English-2018-presentation.pdf*

122. The Government has environmental laws, regulations and policies in place and these are generally acceptable. Over the past 15 years, the Government has made significant progress in mainstreaming environmental sustainability into decision-making processes, starting first with Environmental Audit, Assessment and Review Regulations (2000), and the Eswatini Environmental Management Act (2003), which regulate 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. 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.

123. As per Operational Policy (OP) 8.60, the World Bank has assessed whether the country policies supported by this DPL are likely to impact the environment, forests, and natural resources. Following this assessment, Prior Actions 8 and 9 are likely to have positive impacts on the country's natural and human environment, and other natural resources if suggested mitigation strategies are put in place. Prior Action 8, if undertaken, is expected to lead to improved environmental mainstreaming in investment projects, if the public procurement regulations integrate specific provisions for the integration of ESHS requirements into procurement documents for civil works and its supervision, and ESHS performance especially in relation to large-scale public and private investment projects (for example, transport and hydropower projects). Prior Action 9 on the Electronic Communication and Transaction Bill applicable to environmental fees, fines and penalties will enhance transparency and accountability for a proper management of funds collected. The Government has set up a National Environment Fund, which comprises funds collected from environmental violations fines. The Fund is used to finance community environmental management programs in the country, the funds collected will be made available to support environmental remediation and restoration projects, and other related activities that address damage caused by investment initiatives. Meanwhile, funds collected from environment licensing applications are used finance the administrative costs of the EEA.

124. Although the DPL is expected to have positive, long-term impacts that address and respond to the threat of the COVID-19 pandemic, Prior Actions 1, 2 and 5, which have already been completed and are under implementation, could raise COVID-19 exposure concerns if targeted beneficiaries have not adopted measures that address occupational health and safety issues, including those specifically related to COVID-19. Eswatini COVID-19 Emergency Response Project was set up to prevent, detect and respond to the threat posed by the COVID-19 virous, and strengthen national systems for public health preparedness in Eswatini. It has developed a stakeholder engagement plan and proposed capacity-building interventions.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

125. The PFM system in Eswatini has a number of weaknesses, which have resulted in recent hurdles to contain public spending and the accumulation of arrears. The weaknesses include inadequate expenditure controls and weak procurement system. Annual budgetary central government 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. 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.

126. **Recently, the PFM system has been strengthening, 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 through implementation of the 2011 Public Procurement Act, the 2017 PFM Law, 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 improved monitoring of SOEs to contain fiscal risks. There are ongoing reforms supported by Bank-financed operations in several of these areas, and the most critical have been considered and included in policy recommendations and prior actions for the DPL. The Accountant General is responsible for the preparation of consolidated financial statements and on improving the timeliness, accuracy and efficiency of financial reporting. The Finance and Audit Act provides that the Annual Accounts 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.

127. **The Kingdom's budget has historically been one of the least transparent in the world (United Nations Children's Fund (UNICEF) National budget brief 2018/2019).** The budget is prepared and presented through the government structures up to Parliament. The UNICEF review recommended the provision of better budget information in the public domain and the introduction of opportunities for civil society participation in the dialogue.

128. **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 introduction of Financial Management Information Systems and the implementation of the new PFM Act with regulations prepared 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 includes establishing of the Treasury Single Account, which will improve commitment and cash control, and the publication of key fiscal information on debt.

129. **Foreign Exchange.** The latest 2019 IMF Article IV Consultation Report was issued in February 2020. The assessment observed a weak governance framework, and recommending 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.

130. **Audit of the Central Bank.** 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, 2020, 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.

131. **Disbursement Arrangements.** The loan amount of US$40 million equivalent will be disbursed in a single tranche upon effectiveness, and provided that the 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 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 Bank upon such request will be canceled.

132. **Accounting and Auditing Requirement.** The accounting of the loan proceeds will be the responsibility of the Accountant General at 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

133. **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.

134. **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 format satisfactory 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.

135. **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 World Bank'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 World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank 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 Grievance Redress Service (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

136. **The overall risk rating of this operation is Substantial.** 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 the complex decision-making processes across the formal and traditional governance structures, affecting 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 are also substantial on the macroeconomic front. These risks, 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 risk is high, Political and Governance, Sector Strategies, Fiduciary risks and Risks to implementation and COVID-19 related risks are Substantial. (Table 5).

137. **The risk from the COVID-19 crisis is a general and cross-cutting risk that impacts the broad economy, together with the general welfare of the population.** Notwithstanding the Government's proactivity in responding to the spread of the virus in Eswatini, a second wave of COVID-19 infections and a prolonged outbreak would have adverse impacts on the health sector, the economy and general welfare, and would consequently impact the attainment of the development objectives of this operation. This could distract the Government's attention from some of the important reforms under the proposed operation, including those for the recovery from the crisis. Key mitigating factors to these risks include the support provided by the World Bank through the Eswatini COVID-19 Emergency Response Project and the Health System Strengthening for Human Capital Development in Eswatini Project to assist the Government in case detection, confirmation, contact tracing, recording and reporting of the outbreak to limit the spread of the virus. Support under this proposed operation, as well as the substantial financing from the IMF and AfDB, will also help to mitigate the health, economic and poverty impacts of the COVID-19 pandemic and therefore the overall risks associated with the crisis.

138. **The political and governance risk is rated Substantial, given the complex decision-making process affecting Eswatini borrowing from international entities such as the WBG.** Although Eswatini has enjoyed a stable political environment and continuity in government, the implementation of government initiatives depends on high-level political commitment, which has been secured for this operation. However, weak governance structures could undermine accountability, transparency, and mechanisms for setting national priorities. The equal importance of both the traditional and formal system of government complicates clear decision-making and might lead to policy reversal as previously experienced. Building on the lessons from the Performance and Learning Review 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) during project development. A deepened sector dialogue will enable more frequent engagement with the Government and other stakeholders to keep them updated on policy progress and the expected benefits.

139. **Already high macroeconomic risks are further exacerbated by the COVID-19 pandemic.** The COVID-19 outbreak is expected to severely affect the external and fiscal accounts, potentially enlarging some of the imbalances that authorities have recently 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, the needed reforms have not been fully implemented and the continued failure to do so 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 AfDB will help maintain the reform momentum that addresses these macroeconomic risks.

140. **Institutional and implementation capacity poses Substantial risks.** This operation supports a multi-sectoral 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 prior actions under this operation are expected to help mitigate some of these risks.

141. **The fiduciary risk for this operation 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 a 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 establishing of the Treasury Single Account (TSA), which will improve commitment and cash control, and the publication of key fiscal information on debt.

142. **Finally, other risks linked to the weaknesses of the health system are Substantial.** While the spread of the COVID-19 virus in Eswatini seems to have been relatively well contained so far, there is a possibility that the situation could evolve into one of widespread community transmission, potentially overwhelming the health system. Health system capacity is low, and a more severe public health shock from the COVID-19 pandemic represents an added risk to both the cost in lives, as well as livelihoods, as illness may force many out of employment and they would need to face out-of-pocket health expenses. The burden on health-care systems from the pandemic could impede the treatment of other diseases and the provision of other routine care (preventive, promotional, and adaptative), which could hamper human capital accumulation in the long term. The Government's strong focus on the implementation of the National Contingency Plan for Novel Corona Virus (COVID-19) and COVID-19 Regulations, 2020, in the health sector is a mitigating factor.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
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	Moderate
8. Stakeholders	Low
9. Other	Substantial
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions		Results		
		Pillar I – RELIEF: Protecting Lives and Livelihoods		
Prior Actions under DPL1	**Triggers under DPL2**	**Indicator Name**	**Baseline**	**Target**
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	To strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted the Health Bill to Parliament	Results Indicator #1a: Number of COVID-19 tests conducted by the designated in-country laboratory (disaggregated by results) in 12 months (Number) Results Indicator #1b:	22,032 (August 2020) 90% (2019)	100,000 (August 2022) 90%[7] (2022)
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 earning 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	Results indicator #2: Number of workers and firms that benefited from the contingency funds	0 workers and companies (July 2020)	100 companies and 40,000 workers (December 2022)

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

Prior Action #3. 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 one hundred percent (100%) of business tax paid in the tax year 2019, effected on a month-by-month basis at twenty five percent (25%) for each month completed during the COVID-19 national emergency	To leverage private financing to MSMEs, the Borrower, has enacted enabling legislation that facilitates: (a) the registration and perfection of security interests over moveable assets based on a modern electronic registry; and (b) the collection and distribution of positive credit reference information	Results indicator #3: Number of MSMEs benefiting from tax credits	0 (2020)	200 (December 2022)
Pillar II – RESTRUCTURING: 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	To sustainably reduce expenditure arrears, the Borrower, through its Cabinet, has established a Single Treasury 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 2022)
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	To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published the list of state-owned enterprises subject to streamlining and restructuring (merge) to manage transfers below 20 percent of revenues	Results indicator #5: Transparency & Accountability- Ibrahim Index on African Governance (IIAG)	40/100 (2019)	50/100 (2022)

Prior Action #6. To strengthen the procurement regulatory legal framework for improving transparency, accountability and promoting open competition, the Borrower, through its Cabinet, has submitted to the Parliament, the Public Procurement Regulations, which aims to promote competitive bidding	To facilitate transparency, accountability and efficiency in procurement, the Borrower, through its Ministry of Finance, has approved the introduction on the use of e-Government Procurement (e-GP)	Results indicator #6: Percentage of tenders awarded competitively and following the regulations	0% (2019)	100% (December 2022)
Pillar III – RESILIENT RECOVERY: 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	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 EPTC to establish legally separated telecommunications infrastructure and retail service operators	Results indicator #7: Online Services Sub-Index of the UN E-Government Development Index (UN EGDI)	0.45 (2020)	0.55 (2022)
Prior Action #8. To promote digital payments, the Borrower's Central Bank has issued circulars, which: (a) increase the mobile money daily and monthly transaction limits for mobile money service providers; and (b) 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	Results indicator #8: Increase in the value of mobile money balance (percentage of GDP)	0.2% (2018)	0.4% (2022)

Prior Action# 9. To facilitate the ease of business start-up, the Borrower: (a) has amended the Finance Act, which reverses the increase of trade license fees; and (b) 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: (a) has established a specialized bench for commercial disputes and issued the applicable Rules and Bench Book; (b) set up a modern electronic case management system across all levels of the judiciary; and (c) has completed the establishment of Small Claims Courts	Results indicator #9a: Number of days to obtain Trade license Results indicator #9b: Cases lodged at the Commercial bench as a % 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 (2022) 5% (2022)

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Approves US$110 Million in Emergency Support to The Kingdom of Eswatini to Address The COVID-19 Pandemic

July 29, 2020

- The COVID-19 pandemic has magnified Eswatini's existing economic and social challenges, leading to a sharp decline in growth and large financing needs.
- The IMF approved US$110 million in emergency financial assistance under the Rapid Financing Instrument to support the authorities' efforts in addressing the severe economic impact of the COVID-19 pandemic.
- The immediate priority is to support public health, vulnerable groups and businesses.
- Once the impact of the pandemic subsides, it is critical to implement the authorities' fiscal consolidation plan and structural and governance reforms to ensure debt sustainability and achieve a fast and inclusive recovery.

WASHINGTON, DC: The Executive Board of the International Monetary Fund (IMF) approved the Kingdom of Eswatini's request for emergency financial assistance of SDR78.5 million (about US$110 million, 100 percent of quota) under the Rapid Financing Instrument (RFI) to meet the urgent balance of payment needs stemming from the COVID-19 pandemic.

The pandemic is severely affecting Eswatini's economy at a time when the country is already facing deep economic and social challenges. Before the pandemic, growth was subdued, the fiscal deficit and public debt were rising, and international reserves declining, amid elevated unemployment and widespread poverty. The pandemic has resulted in a sharp decline in growth and generated large financing needs, magnifying these challenges. The authorities have swiftly instituted a response package to contain the spread of the pandemic and mitigate its impact on vulnerable households and businesses.

The IMF emergency financial support will help to address urgent balance of payments needs triggered by the pandemic and catalyze additional financing from other international financial institutions. IMF support will complement the authorities' policy response to the pandemic, and their post-COVID-19 fiscal consolidation and structural reform plans to ensure economic stability and promote growth that benefits all Emaswati.

Following the Executive Board's discussion on Eswatini, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The authorities' immediate actions to respond to the COVID-19 pandemic have been timely and appropriate. The FY20/21 supplementary budget reprioritizes public spending towards health care and support to vulnerable groups to mitigate the impact of the crisis on households and businesses. The Central Bank of Eswatini has also taken timely action. It has lowered the policy rate, ensured supportive liquidity conditions, and strengthened its liquidity management framework and monitoring and regulatory standards to safeguard financial stability.

"The authorities' commitment to transparently use and report all emergency spending — including through the publication of pandemic-related spending execution, awarded procurement contracts, and independent audit of such spending—is crucial to ensure that emergency funds are used for their intended purposes. Accelerating public financial management (PFM) reforms, including by applying the implementation guidelines for the 2017 PFM law and strengthening public procurement process, will be key towards improved fiscal transparency and governance.

"Once the pandemic subsides, steadfast implementation of the authorities' multi-year fiscal consolidation strategy and structural reform agenda will be critical to ensure debt sustainability and to support a durable and inclusive recovery and stronger governance."

Table 1. Eswatini: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage changes; unless otherwise indicated)								
National account and prices									
GDP at constant prices	2.0	2.4	1.1	-3.5	1.4	0.8	1.0	1.9	2.1
GDP deflator	2.9	2.8	5.1	5.2	4.8	4.7	4.7	4.8	4.9
GDP at market prices (Emalangeni billions)	59.3	62.4	66.3	67.3	71.6	75.6	79.9	85.3	91.4
GDP at market prices (US dollar billions)	4.5	4.7	4.6	3.8	4.2	4.7	4.9	5.1	5.3
Consumer prices (average)	6.2	4.8	2.6	4.1	4.2	4.6	4.8	4.8	4.9
External sector									
Average exchange rate (local currency per US$)	13.3	13.2	14.5	...	...	...	...	...	...
Nominal exchange rate change (– = depreciation) [1]	-6.1	-0.3	3.0	...	...	...	...	...	...
Real effective exchange rate (– = depreciation) [1]	-7.8	-1.1	5.4	...	...	...	...	...	...
Terms of trade (deterioration -)	-15.6	-10.1	2.5	23.0	-2.8	-3.6	-2.3	-1.0	-1.0
Gross international reserves									
(months of imports)	3.1	2.7	2.5	3.2	4.1	4.5	5.0	5.3	5.9
(percent of GDP)	11.7	9.9	9.0	11.7	14.6	15.7	18.0	19.4	20.1
(percent of reserve money)	244	186	137	166	201	208	234	246	254
Gross reserves minus reserve money									
(percent of deposits)	24.5	16.4	9.2	16.0	23.9	26.4	33.5	37.6	39.5
Money and credit									
Domestic credit to the private sector	3.9	5.1	4.6	-0.4	8.4	6.6	6.2	7.3	7.6
Reserve money	-0.9	16.4	30.6	9.2	8.5	8.5	7.0	7.1	7.2
M2	3.8	4.1	1.7	10.7	12.6	7.3	6.3	7.5	8.0
Interest rate (percent) [2]	7.3	6.8	6.5	...	...	...	...	...	...
	(Percent of GDP)								
National accounts									
Gross capital formation	12.7	13.1	11.3	11.5	11.3	11.1	10.9	10.8	10.7
Government	7.5	5.3	6.2	6.2	6.0	5.7	5.5	5.4	5.3
Private	5.2	7.7	5.2	5.3	5.3	5.4	5.4	5.4	5.4
National savings	18.9	14.4	15.6	12.5	16.9	15.4	16.9	16.8	16.1
Government	0.3	-2.8	-0.3	-0.1	0.8	1.1	3.1	3.6	3.5
Private	18.6	17.1	15.9	12.6	16.1	14.4	13.7	13.2	12.6
External sector [3]									
Current account balance									
(including official transfers)	6.2	1.3	4.2	1.0	5.7	4.4	6.0	6.0	5.4
(excluding official transfers)	-5.0	-8.5	-5.1	-10.6	-5.5	-4.8	-3.6	-3.9	-4.4
Trade balance	4.2	0.6	5.7	0.4	5.4	6.4	7.7	7.6	7.2
Financial account	8.4	1.2	2.9	5.2	1.6	2.3	2.8	2.8	2.8
of which foreign direct investment	2.7	-1.0	-2.4	-0.2	-0.8	-0.8	-0.6	-0.6	-0.6
External debt	15.8	17.2	18.3	28.0	29.9	29.4	28.7	27.2	25.5
of which: public	8.9	9.8	11.7	21.3	23.5	23.1	22.7	21.3	19.9
Central government fiscal operations [4]									
Overall balance	-7.0	-9.9	-7.3	-8.7	-6.4	-6.2	-2.9	-3.1	-3.1
Total revenue and grants	28.0	24.8	26.5	27.2	26.4	24.8	26.0	26.0	26.0
of which: SACU receipts	11.8	9.2	9.5	12.2	10.9	8.6	9.9	9.9	9.9
Total expenditure	35.0	34.7	33.8	35.9	32.8	31.0	28.9	29.2	29.1
Public debt, gross	25.1	33.8	38.0	47.9	49.9	52.1	52.6	52.0	51.4
Public debt, net	20.1	28.2	32.4	42.5	44.8	47.3	47.8	47.9	47.5
Net lending (excl. SACU revenues)	-18.9	-19.1	-16.8	-20.9	-17.3	-14.9	-12.8	-13.1	-13.0
Primary net lending (excl. SACU revenues)	-17.7	-17.8	-15.0	-18.7	-14.4	-11.6	-9.4	-9.4	-9.3
Memorandum item:									
Population (in million)	1.09	1.10	1.11	1.13	1.14	1.15	1.16	1.18	1.19

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
P. O. BOX 443
MBABANE
ESWATINI

THE KINGDOM OF ESWATINI

October 1, 2020

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 Financing (DPF)

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 Vision 2022. Underlying this vision is the fight against poverty to ensure that by the year 2022, living conditions improve significantly in the country to near-advanced country standards, and this will be delivered by sustainable economic development, social justice, and political stability. In addition, our National Development Plan 2019/20-2021/22 is focused on the recovery of the economy underpinned by sound macroeconomic management, fiscal stability and economic growth. To achieve this, as has pertained in recent times, 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.

Background

This development policy letter provides an update of Eswatini's economic developments and its reform agenda which would assist development to an economic recovery path by year 2022. To achieve this, besides ensuring fiscal stability and stimulating economic growth and development, the country needs to, in the short term, mitigate against the COVID-19 pandemic, and in the medium term, implement an ambitious reform program to achieve higher levels 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 USD40 million in the form of budget support to achieve these objectives.

Despite the country's recent economic challenges, some of which emanate from the COVID-19 outbreak, the government remains focused on achieving its goal of attaining the recovery of the economy underpinned by sound macroeconomic management and poverty reduction by 2022. This can be fulfilled by ensuring fiscal stability through fully financed budgets and sustainable economic growth at a rate of 2.5 percent on average in the short-term and at least 5 percent thereafter. All this is enshrined in national policy documents such as the National Development Plan (2019/20-2021/22), the Strategic Roadmap (2019-2022) and the National Development Strategy (1997-2022). Amid the COVID-19 pandemic, the country has also developed a Post-COVID-19 Recovery Plan.

The Impact of COVID-19 on Macroeconomic Indicators

Like in most other African countries, Eswatini recorded its first case of COVID-19 in March 2020 and has seen an increase in the number of cases overtime. To reduce the spread of the virus, a 'state of national emergency' was declared and a partial lockdown imposed across the country. The partial lockdown entailed travel bans, closure of schools and universities, and the suspension of all non-essential activities. These containment measures, combined with a sharp decline in external demand for Eswatini's key exports, caused a considerable fall in economic activity.

As such, a preliminary assessment by the IMF has projected GDP growth to plummet to -3.5 percent in 2020 and rebound to 1.4 in 2021. However, uncertainty remains around these forecasts as the country's level of economic activity will depend on how soon lockdown measures are completely eased not only in-country but externally as well.

Besides decreased economic growth, there has also been an underperformance of domestic revenue collection as an estimated shortfall of E2.7 billion in the current fiscal year is anticipated. Also, the Southern African Customs Union (SACU) revenues, of which the country is a beneficiary, are projected to decline in the next 2 years due to the anticipated adverse effects of the COVID-19 pandemic on member countries' economic activity and intra-trade. Notwithstanding the significant fall in revenues, COVID-19 has necessitated an increase in spending specifically relating to health, education, food assistance programs, improving water and sanitation facilities and increasing social protection transfers. Resultantly, the fiscal deficit is expected widen from E3.4 billion pre-COVID-19 outbreak to E5.6 billion, comprising of about 9.1 percent of GDP, compared to 4.5 percent as stated in the 2020 budget.

This increase in the fiscal deficit, as well as other dire economic conditions, are expected to exert an extra strain on the country's financial conditions. Notably, public debt stock levels are expected to be 38 percent of GDP in FY 2020/21. Debt servicing is also anticipated to increase by 5 percent from current levels of 10.22 percent of GDP to 15.23 percent due to exchange rate depreciation. Foreign reserved continue to be depleted to levels below the recommended three months of import cover.

Government Programs in Addressing the Situation

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 the 27th March 2020. In addition to implementing these containment measures, the Government also sought to mitigate the virus-induced effects on the overall economy and livelihoods. As such, responses centred on three pillars namely, protecting lives and livelihoods, strengthening transparency and public financial management, and opening up of the economy and improving competitiveness, were also initiated.

Pillar 1: Protecting Lives and Livelihoods

To ensure that lives were not put at risk during the COVID-19 pandemic, 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 levels and for schools as they open, as well as social protection measures such as cash transfer grants were put in place to sustain the livelihoods of the poor and vulnerable during the nationwide lockdown. In addition to these, the Central Bank of Eswatini 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. Under the pillar of protecting livelihoods, the Government through the local Revenue Authority (SRA) was able to provide a relief fund to the tune of E90 million to small, micro and medium enterprises (SMMEs) that were affected by the pandemic. Likewise, there was a waiver of penalties for delayed payments by the tax administrator. Additionally, to stimulate economic activity, the Central Bank of Eswatini cut down the discount rate by 250 basis points and also lowered the liquidity requirement for banks from 25 percent to 20 percent.

Pillar 2: Strengthening Transparency and Public Financial Management

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 and will acquire financing from the domestic market to pay invoices that are owed to the private sector, following the cancellation of the African Export-Import (Afrexim) Bank loan. Notwithstanding, the Government is in the process of requesting 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. Finally, to enhance debt transparency, the Government has published the Annual Debt Bulletin Report for 2019 and commits to publishing the Debt Bulletin systematically every year going forward.

Pillar 3: Opening Up of the Economy and Improving Competitiveness

To improve competition and the business enabling environment in Eswatini, the Government has implemented policy reforms to facilitate digital transformation and business start-up. The Government has submitted to Parliament the Electronic Communications and Transactions Bill, which 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 improve the enabling environment for e-commerce. In addition, the Central Bank of Eswatini has issued two circulars to promote contactless payments. Renewing and sustaining economic growth will depend on the most productive private firms remaining viable and ensuring that new firms can enter, hire, expand, innovate, and tap emerging opportunities in digital transformation and green technologies. Recognizing that inclusive growth can be catalyzed by improving the business environment, the Government has implemented reforms to lower trade licensing fees and reduce the time to issue trade licenses to facilitate the ease of business start-up.

Post-COVID-19 Outlook and Plans

The Government has viewed the pandemic as an opportunity to re-assess 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.

The government is fully committed to resuscitating the economy as well as to continue to pursue medium-term policies to preserve macroeconomic stability, enhance private sector participation 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 in 2020 and finance the implementation of the Post-COVID-19 Recovery Plan.

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

1. *Regaining fiscal credibility:*

Fiscal stability has been identified as priority and a 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 give room for 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. 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. 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 targetted at contributing about 40 percent of the adjustment plan through boosting domestic revenue – 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 required productive economic activities and lift the economy out of slump. As the crisis abates, the government 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 the Recovery Strategy and the 2019 National Development Plan. Infrastructure development remains key in resuscitating economic activity, thus the setting up 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 improving the ease of doing business in the domestic economy, reviewing the regulatory framework and setting up of a one-stop-shop for businesses, amongst others. Finally, the government is committed to policies to advance digital transformation of Eswatini which will promote e-government and e-commerce as well as promote competition in the broadband market and to enable private investment in digital infrastructure.

3. *Human Capital Development*

The country has identified human capital as the critical determinant for its long-term sustainability, therefore the need to accelerate the development of skills and improving the health of the nation 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 and ensuring 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 International Monetary Fund (IMF) has pledged its support to provide policy advice and technical expertise to ensure adherence to all reforms and accountability. Additionally, to ensure accountability, the government will also intensify reforms to strengthen governance, transparency and accountability, and reduce vulnerabilities to state-capture and other forms of corruption.

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

Yours sincerely,

Hon Neal H. Rijkenberg (Minister for Finance)

On behalf of the Government of the Kingdom of Eswatini.

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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
Operation Pillar 1: RELIEF: 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. **Completed.**	**Negative** if (i) COVID19 regulations, National Contingency plan are not properly resourced, implemented and monitored, and (ii) targeted beneficiaries have not adopted measures that address occupational health and safety issues, including those specifically related to COVID-19. Eswatini COVID-19 Health Emergency Response Project	These actions have positive distributional impact supporting poor and vulnerable people. As presented in the PSIA section, the mitigation measures will reduce adverse impact of the pandemic and support households' of falling in poverty. While in the baseline analysis poverty rises by 3.2 percent and 5.4 percent through a three-month and a six-month lockdown, respectively, these increases in poverty are reduced to 2.9 percent and 5.0 percent with the employment contingency and 2.4 percent and 4.8 percent, respectively, with the SME relief. Together, these two measures reduce the poverty increase to 2.3 percent and 4.5 percent respectively.
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 E 25,000,000 for financing compensatory relief to employees who have suffered loss of earning as a result of being temporarily laid off without pay during the COVID-19 national emergency. **Completed.**	*Prior action was completed and it not subject to OP 8.60.*	
Prior Action #3. To provide liquidity to firms, the Borrower, through its	**Negative.** If targeted firms (i) did not comply with EA regulations and (ii)	SME support and financing support poor and vulnerable. Lack of data on

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 one hundred percent (100%) of business tax paid in the tax year 2019, effected on a month-by-month basis at twenty five percent (25%) for each month completed during the COVID-19 national emergency. **Completed.**	are not applying measures that address occupational health and safety issues, including those specifically related to COVID-19.	the firm size do not allow full PSIA analysis of the measure, but, generally, overall impact should benefit low income earners.
Operation Pillar 2: RESTRUCTURING: 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	**Neutral.** This action will have no positive or negative impact on Eswatini's environment and natural resources.	Neutral.
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	**Neutral.** This action will have no positive or negative impact on Eswatini's environment and natural resources.	Neutral.
Prior action #6. 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 aims to promote competitive bidding	**Positive on Eswatini's environment and natural resources.** if the public procurement regulations integrate specific provisions for the integration of ESHS requirements into procurement documents for civil works and its supervision, and ESHS performance especially in relation to large-scale public and private investment projects (for example, transport and hydropower projects).	Neutral.
Operation Pillar 3: RESILIENT RECOVERY: 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	**Positive.** If digitalization process does not happen at the expense of weakening or eliminating environmental and social due	Positive impact. See prior action 3.

Electronic Communications and Transactions Bill, which aims to establish the legal foundations for the use of electronic means and strengthen online consumer protection.	diligence, and beneficiaries. In addition, e-Transactions Bill including environmental fees, fines and penalties will enhance transparency and accountability, and the funds collected will be made available to support environmental remediation and restoration projects and other related activities that address damage caused by development initiatives.	
Prior action #8. To promote digital payments, the Borrower's Central Bank has issued circulars, which: (a) increase the mobile money daily and monthly transaction limits for mobile money service providers; and (b) encourage banks to waive all charges relating to transfers between bank accounts and mobile money wallets. **Completed.**	Neutral.	Access to financing 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 rich will benefit from the measure (see PSIA discussion).

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.

Intent to address climate Vulnerability in project

8. Eswatini recognizes that climate change can severely impact on the achievement of the ultimate vision for the country. As such, climate change is considered a priority development concern, and the country is committed to taking urgent and long-term actions to reduce the vulnerability of its people and risks to national development. Since ratifying the UNFCCC Convention, Eswatini has developed a series of notable climate actions which include the establishment of a multi-stakeholder National Climate Change Steering Committee in 2011. This Committee spearheaded the development of Eswatini's National Climate Change Strategy and Action Plan and 2015 National Climate Policy. The goal of this Policy is to support the development of a sustainable, climate resilient and inclusive low-carbon green growth economy in line with vision 2022 outlined in the national development strategy. Eswatini submitted its Intended Nationally Determined Contribution (INDC) to the Convention in 2015, which is another step toward effective climate change response, both in terms of reducing GHG emissions and adapting to the impacts of climate change.

9. In line with Eswatini's NDC commitments, this project supports climate mitigation and adaptation strategies as per the World Bank Africa Climate Change Business Plan. While this operation has a focus on macroeconomic stability and selected areas of competitiveness, and as such does not lend itself to direct climate-co benefits, there are a few critical areas where climate resilience is strengthened, as described below:

Table Annex 5.1 Specific Project Activities to Address Climate Change Vulnerability

DPL1

Prior Action	Description of Climate linked activities

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.	- The National Contingency Plan for Novel Corona Virus (COVID-19) builds the resilience of beneficiaries vulnerable to climate shocks. This is done through climate-informed policy reforms such as pandemic preparedness and disease surveillance, where there is a strong overlap between the role that planning and disease surveillance plays in terms of both health pandemics and resilience to broader climate impacts. These initiatives can help governments and communities better manage extreme heat events, rising sea levels, changes in precipitation and other environmental changes that cause floods and droughts, intense storms, shifting disease vectors and degraded air quality. As part of the efforts to construct and rehabilitate health centers to treat COVID-19 patients, there are opportunities to ensure that construction standards are put in place that promote energy efficiency, reliance on low-carbon energy sources, and resilience to extreme weather events.
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 earning as a result of being temporarily laid off without pay during the COVID-19 national emergency.	- The relief to unpaid employees builds resilience of beneficiaries to climate shocks. Support can help beneficiaries vulnerable to climate risk to be able to buy food and clean water which could be impacted by droughts and food insecurity.

Prior action #3. 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 one hundred percent (100%) of business tax paid in the tax year 2019, effected on a month-by-month basis at twenty five percent (25%) for each month completed during the COVID-19 national emergency.	- The COVID-19 Small and Medium Enterprise Relief Fund also provides liquidity to enterprises/firms involved in activities dedicated to reduction, capture, or sequestration of GHG emissions (e.g. renewable energy, energy audit, energy efficiency, sustainable forest management, climate-smart agriculture, waste management, etc.), promotion of use of climate-resilient technologies in sectors or industries vulnerable to impacts of climate change and support enterprises in industries that contribute to NDCs or other national/regional climate action plans.
Prior action #6. 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 aims to promote competitive bidding	- The Public Procurement Regulations promote sustainable development objectives, increased opportunities for SMEs, innovation and competitiveness, social welfare, and environmental conservation.
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.	- Digital transformation can be linked to efficiency gains as a result of automation and digitization. This could lead to energy savings and increase the capacity of government to provide timely and targeted emergency support to beneficiaries facing climate impact and hazards, easing procurement for emergency supplies and promoting risk management.
Prior action #8. To promote digital payments, the Borrower's Central Bank has issued circulars, which: (a) increase the mobile money daily and monthly transaction limits for mobile money service providers; and (b) encourage banks to waive all charges relating to transfers between bank accounts and mobile money wallets.	- Digital payments can be linked to efficiency gains as a result of automation and digitization. This could lead to energy savings and increase the capacity of government to provide timely and targeted emergency support to beneficiaries facing climate impact and hazards, easing procurement for emergency supplies and promoting risk management.

DPL2

Trigger	Description of Climate linked activities
Trigger #1. To strengthen and modernize the health system, the Borrower, through its Cabinet, has approved and submitted the Health Bill to Parliament.	- The National Contingency Plan for Novel Corona Virus (COVID-19) builds the resilience of beneficiaries vulnerable to climate shocks. This is done through climate-informed policy reforms such as pandemic preparedness and disease surveillance, where there is a strong overlap between the role that planning and disease surveillance plays in terms of both health pandemics and resilience to broader climate impacts. These initiatives can help governments and communities better manage extreme heat events, rising sea levels, changes in precipitation and other environmental changes that cause floods and droughts, intense storms, shifting disease vectors and degraded air quality.
Trigger #2. To help establish employment contingency mechanism the Borrower, through the Ministry of Labour, establishes a fully-fledged Unemployment Benefit/ Insurance Fund.	- The fund builds resilience of beneficiaries to climate shocks. Support can also help beneficiaries vulnerable to climate risk to be able to buy food and clean water which could be impacted by droughts and food insecurity.
Trigger #6. To facilitate transparency, accountability and efficiency in procurement, the Borrower, through its Ministry of Finance, has approved the introduction on the use of e-Government Procurement (e-GP).	- The e-GP promotes sustainable development objectives, increased opportunities for SMEs, innovation and competitiveness, social welfare, and environmental conservation. E-government can be linked to efficiency gains as a result of automation and digitization. This could lead to energy savings and increase the capacity of government to provide timely and targeted emergency support to beneficiaries facing climate impact and hazards, easing procurement for emergency supplies and promoting risk management. E-government also enables the use of climate change data and online information to inform short & long-term decision-making- E-government can also be used to develop systems dedicated to

	disseminating information and immediate mobilization of resources and personnel during climate-related disasters.
Trigger #7. 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 EPTC to establish legally separated telecommunications infrastructure and retail service operators.	- Digital transformation can be linked to efficiency gains as a result of automation and digitization. This could lead to energy savings and increase the capacity of government to provide timely and targeted emergency support to beneficiaries facing climate impact and hazards, easing procurement for emergency supplies and promoting risk management.
Trigger #8. 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 central bank's role as the regulator in maintaining the safety and efficiency of the payment system.	- Digital payments can be linked to efficiency gains as a result of automation and digitization. This could lead to energy savings and increase the capacity of government to provide timely and targeted emergency support to beneficiaries facing climate impact and hazards, easing procurement for emergency supplies and promoting risk management.