Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-Jan-2022 | Report No: PIDA33562

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Eswatini	P175317	Eswatini Economic Recovery Development Policy Loan II (P175317)	P174447
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA EAST	08-Mar-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance	Ministry of Planning and Economic Development		

Proposed Development Objective(s)

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

Financing (in US$, Millions)

SUMMARY

Total Financing	75.00

DETAILS

Total World Bank Group Financing	75.00
World Bank Lending	75.00

Decision
Other

Explanation
The review did authorize the team to appraisal and do technical discussions. The team will come back to the RVP to seek clearance to negotiate the operation.

B. Introduction and Context

Country Context

This is the second in a programmatic series of two operations—Economic Recovery Development Policy Loan (DPL) II to the Kingdom of Eswatini—amounting to US$75 to support the Government of Eswatini's economic reform program. The proposed operation supports the Government's post-COVID-19 economic recovery program and its efforts to implement critical structural reforms to address binding constraints to the country's development.

Eswatini is enduring major socio-economic challenges brought about by the COVID-19 pandemic and political unrest. The pandemic has created a severe shock to an already struggling economy. Over the past decade, poverty levels, jobs and the incomes of average Eswatini citizens have stagnated, while public finances have deteriorated. The 2021 Integrated Labour Force Survey shows that the unemployment rate increased from 23 percent in 2016 to 33.3 percent in 2021. Frequent socio-political riots in 2021 reflect these challenges. The political unrest left behind significant human and economic losses and has added pressure on the Government to address the structural challenges revealed by the COVID-19 pandemic. In 2020, the economy contracted by 1.9 percent—the first recession since 1976—followed by a modest recovery in 2021 with 1.5 percent growth.

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

The first DPL in this series, DPL I, supported this reform process and the Government achieved substantial results. For example, government arrears to the private sector have been a perennial challenge distorting public financial and private sector activity. Eswatini has substantially reduced arrears in 2021 by about 6 percent of gross domestic product (GDP) year-on-year (y/y) and is on track to establish a structural block on arrears accumulation with the establishment of the Treasury Single Account (TSA) supported by this second DPL. The first operation also supported curbing COVID-19 infections through health services delivery, with 140,000 tests for the COVID-19 virus. New procurement regulations make the procurement process more transparent and competitive, and the digital payments with mobile money balance increased from 0.3 percent of GDP in 2019 to 0.5 percent in 2020.

T**he second DPL, DPL II, is now supporting the deepening of these key reforms.** These reforms are intended to stabilize the country's fiscal position, improve competitiveness, and support economic recovery, while at the same time supporting policy responses to strengthen the health system and mitigate the impact of the COVID-19 pandemic on the poor and vulnerable.

Relationship to CPF

This proposed operation fits well into the existing Country Partnership Framework (CPF) that has prioritized two program pillars. These are (i) Promoting growth and job creation - 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 support provided by this second operation also has two pillars similar to the CPF pillars: its first pillar focuses on protecting lives and livelihoods through strengthening and modernizing the health system to increase life expectancy, while placing a strong emphasis on providing targeted support to firms so that they can survive and maintain jobs. The second pillar focuses strengthening transparency and public financial management and supports inclusive and sustainable economic recovery by addressing key structural bottlenecks, particularly through clearing domestic expenditure arrears and measures to prevent their recurrence, enhancing debt and fiscal sustainability, and reforming procurement processes. The third pillar focuses on opening up of the economy and improving competitiveness through facilitating digital transformation and improving competition and the business-enabling environment. The World Bank has recently completed the Eswatini Systematic Country Diagnostic (SCD) in 2020 that recommends five policy areas which are (1) strengthening macroeconomic management; (2) diversifying the economy; (3) strengthening human capital and inclusive delivery of public services; (4) improving resilience to natural disasters and economic shocks; and across the other four areas, (5) achieving transparency and effectiveness of policymaking while committing to policy implementation. The support provided in this second operation fits well in most of the policy areas suggested in the SCD.

C. Proposed Development Objective(s)

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

Key Results

The operation supports policy actions that are expected to contribute to meet a number of results, including: (i) ensuring effective and efficient delivery of quality essential health services; (ii) paving way to fully establish the Unemployment Benefit/Insurance Fund and other risk protection measures that create greater resilience of workers and lay the foundations for a more rapid post-crisis recovery; (iii) creating a stronger credit reporting system, helping firms prove their creditworthiness and thereby improve their access to finance; (iv) structurally reducing domestic expenditure arrears through adoption of public finance management regulations and strategy; (v) limiting transfers to SOEs signaling the commitment of the Government to control debt and ensure debt sustainability; (vi) strengthening the procurement regulatory legal framework through the introduction of electronic e-Government Procurement (e-GP); and (vii) improving the business-enabling environment.

D. Project Description

The proposed operation will be the second of a programmatic series of two operations that support the implementation of the Government's priority reforms. These reforms are intended to stabilize the country's fiscal position, improve competitiveness and support economic recovery, while at the same time supporting policy responses to strengthen the

health system, and mitigate the impact of the COVID-19 pandemic on the poor and vulnerable.

This proposed second DPL (DPL II) deepens support to existing components of the reform program supported by the first DPL (DPL I). The substance of the proposed DPL II loan remains consistent with the program design presented under DPL I and its prior actions link directly to the indicative triggers established under the first operation. Two actions have been strengthened, with the SOE reforms going beyond the original trigger of identifying SOEs for restructuring, and the social security legislation going beyond the legal establishment of unemployment insurance fund. The *first pillar (Protecting Lives and Livelihoods)* consists of measures to protect the most vulnerable populations by strengthening and modernizing the health system. Furthermore, the operation supports a social security policy that will facilitate the establishment of a fully-fledged Unemployment Benefit/Insurance Fund, as well as measures to leverage sustainable private financing to MSMEs. The *second pillar (Strengthening Transparency and Public Financial Management)* supports inclusive and sustainable economic recovery by addressing key structural bottlenecks. Specifically, the operation supports a strategy to clear domestic expenditure arrears by establishing a Treasury Single Account (TSA). To ensure debt and fiscal sustainability, the Borrower, through its Cabinet, has approved and published an SOE restructuring framework—including the list of SOEs subject to restructuring—in line with good international practices of regulatory governance, transparency and fiscal responsibility. The introduction of e-Government Procurement (e-GP) will improve efficiency and transparency. The *third pillar (Opening Up of the Economy and Improving Competitiveness)* includes policy actions to facilitate greater use of electronic communications and transactions, as well as mobile payments, to enable Eswatini's digital transformation and facilitate business start-ups by accelerating the enforcement of contracts.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance (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.

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. Most of these results indicators are based on routinely published information and, for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators, and providing these to the MoF in a timely manner. The MoF will be responsible for submitting such information at a frequency and in a satisfactory format to the World Bank. The World Bank will provide support, including technical assistance, for some of the reforms described above, to ensure timely implementation, and adequate data collection and monitoring of indicators and outcomes of the program.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The COVID-19 pandemic has led to significant increases in poverty. It is estimated that extreme poverty, measured at the US$1.90 per person per day (in 2011 PPP) poverty line, increased by 1 percentage point, from 29 to 30 percent, between April 2020 and October 2020 (World Bank's Macro Poverty Outlook [MPO]). Projections suggest extreme poverty levels will remain elevated at around 30 percent despite some economic recovery. The reforms supported by this operation are pro-poor and likely to have positive poverty and social effects in the short and medium term. The measures aim to protect lives and livelihoods which is directly linked to the productivity of people and the economic opportunities. Furthermore, strengthening transparency and public financial management will help promote better public service delivery, improving welfare and contributing to poverty reduction. None of the prior actions carries a clear substantial risk of adverse social or poverty effects.

Environmental, Forests, and Other Natural Resource Aspects

The actions supported by the proposed operation are not likely to have a significant direct negative environmental consequence. As per 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 on public procurement, business enabling environment and digital transformation are likely to have positive impacts on the country's natural and human environment, and other natural resources. Contactless payments, introducing the use of e-Government Procurement (e-GP) and the setting up of a modern electronic case management system across all levels of the judiciary would eradicate the environmental cost of cash and reduce paper usage. The establishment of a small claims court in every region of Eswatini will reduce traffic as there will be no need to travel to the capital. However, from a lifecycle assessment perspective, the Government should be cautious regarding the indirect or less visible environmental cost of technologies that underpin contactless payments or/and e-Government initiatives. In addition, by introducing the use of e-Government Procurement (e-GP), care should be taken to ensure that this process integrates environmental and social due diligence and associated permitting requirements. Prior Actions health bill is likely to lead to more future investments, which may contribute to negative environmental impacts due to an increase in volumes of health-care waste, e-waste, and demand on natural resources. Eswatini's Waste Regulations published in 2000 outline requirements for collection, handling, transport, recovery, treatment, storage and disposal, and general management of solid and liquid waste in urban areas, as well as in waste control areas (non-urban areas). Under Health System Strengthening for Human Capital Development in Eswatini Project (P168564), a costed Health Care Waste Management Strategy is under development. Prior action 7- Issuance of the Mobile Network Operator Active Infrastructure Sharing and National Roaming Guidelines 2021 - is expected to lead to increased investment in a high-performance network for all citizens in Eswatini and improved internet access (unique mobile broadband subscriptions per 100 individuals) from 35 to 50 percent by 2023.

G. Risks and Mitigation

The overall risk rating of this operation is High. As in other countries, the impact of the COVID-19 crisis has heightened uncertainty and risks in Eswatini. The political and governance risks are High, exacerbated by the recent political unrest in light of the recent pro-democracy protests, which caused human and economic losses. Several protests against the monarchy, calling for democracy, began in June 2021. Pro-democracy protests have added pressure on the Government to address the structural challenges revealed by the COVID-19 pandemic. The complex decision-making processes across the formal and traditional governance structures affect borrowing from international entities such as the WBG. The COVID-19 crisis could also affect the pace of the medium-term structural reforms that the Government is pursuing. Risks

on the macroeconomic front, rated High, have been exacerbated 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. Fiduciary risks and risks to institutional capacity for implementation and sustainability are Substantial, while sector strategies and polices risk is moderate.

The proposed operation will contribute in the medium term to improved macroeconomic management, in particular by improving budget management and implementation of the fiscal adjustment program. Furthermore, the continued engagement by the World Bank, the IMF (though it does not have a program) and the AfDB will help maintain the reform momentum that addresses these macroeconomic risks. Building on the lessons from the Performance and Learning Review of the CPS for FY15–18, as part of political and governance 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. Ongoing projects and technical assistance support provided by the WBG to most agencies supporting the implementation of the Prior Actions under this operation are expected to help mitigate some of institutional and implementation capacity risks. For fiduciary risks, many of the measures supported under this program are mitigating the risks. These include establishment of the Treasury Single Account (TSA), which will improve commitment and cash control, and the publication of key fiscal information on debt.

CONTACT POINT

World Bank

Marko Kwaramba, Wolfgang Fengler
Economist

Borrower/Client/Recipient

Ministry of Finance
Sizakele Dlamini
Principal Secretary
dlaminisiza@gov.sz

Vusie Dlamini
Budget Director
dlaminivusi@gov.sz

Implementing Agencies

Ministry of Planning and Economic Development
Thabsile Mlangeni
Principal Secretary
tmlangeni@gov.sz

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Marko Kwaramba, Wolfgang Fengler

Approved By

Country Director:	Asmeen M. Khan	23-Feb-2022