Country and Sector Background

1. Swaziland is a lower-middle income country with a population of approximately one million. Swaziland’s income distribution is highly skewed; its Gini coefficient is .61, and 69 percent of the population lives below the national poverty line. The poor population is virtually synonymous with the 70 percent of Swazis who live on traditionally managed, largely rural Swazi Nation Land (SNL) outside of the country’s 12 urban jurisdictions. Unemployment is estimated at 29 percent, and a quarter of the population is dependent on food aid.

2. Rapid migration has been underway for many years to peri-urban areas around the two largest cities (Mbabane and Manzini), the secondary towns of Matsapha, Ezulwini, Nhlangano, Siteki and Piggs Peak, and a number of traditionally administered centers. This has placed growing pressure on local government structures to scale-up the delivery of basic services for both residents and businesses. Peri-urban growth on traditionally managed SNL is uncoordinated and basic services are limited. Both existing traditional rural institutions in their present form and Urban Local Governments are challenged to keep pace with the service needs of their growing populations and to provide enabling environments to local businesses. Rural local governments, or Tinkhundla, are embryonic at present, having historically focused on relatively simple issues such as the registration of licenses rather than basic local service delivery. The Government has struggled to identify and implement effective interventions to improve service delivery in rapidly growing rural or peri-urban settlements.
Objectives

3. The project development objective is to develop institutionally strengthened *Tinkhundla* and urban local governments. While the objective of the project and the key performance indicators focus on the institutional strengthening of local governments, the higher level goals which achievement of the objective will ultimately serve are improved service delivery and enhanced governance at the local level, including in the rural and peri-urban areas where most of the poor reside, and the development of a fiscal framework that would allow predictable resource transfers to rural and urban local governments. Improved local government performance will positively affect the services received by the poor; it will also – through expanding both the level and efficiency of public sector investment – have positive impacts on the business environment of these areas.

Rationale for Bank Involvement

4. The Bank’s involvement in this project is informed both by its longstanding engagement in the sector in Swaziland and by its experience elsewhere in capacity development of rural and small-town local authorities. World Bank support to the Government of Swaziland’s long-term local government development program began in the late 1980s and was scaled up in the Urban Development Project (UDP), which was approved by the Board in 1994 and closed in March, 2005. The UDP supported Swaziland’s two cities (Mbabane and Manzini) and the national water utility, the Swaziland Water Services Corporation, to improve the delivery and management of critical services and the living conditions of low-income urban households in the main “urbanizing corridor” of Swaziland. Since the completion of the UDP, the Bank has remained engaged in municipal management and development issues. The Bank’s experience elsewhere in developing and incentivizing local government service provision has played a significant part in the design of the proposed project.

Description

5. The project consists of three components. Component 1 supports eight selected *Tinkhundla* through the provision of performance-based funding for small-scale infrastructure investments selected through local planning and budgeting processes, allied with capacity building assistance. Component 2 follows a similar structure in supporting the 12 urban local governments, though with important differences in implementation mechanisms and specific targeting of grant funds to the roads sector. Component 3 finances project management, formal training and technical assistance for selected studies, and transactions advisory services for urban local governments that are pursuing commercial borrowing.

*Component 1 – Tinkhundla Infrastructure and Capacity Building Support*  (US$7.1 million – *IBRD*; US$660,000 – *local communities*)

6. This component comprises two inter-dependent sub-components supporting eight *Tinkhundla* located in peri-urban areas or rural growth nodes. The sub-components are: (a) *Tinkhundla* Basic Infrastructure Financing – the provision of annual, performance-based capital
funding for small-scale public infrastructure, underpinned by (b) Tinkhundla Capacity Building Support – access to on-the-job, just-in-time capacity building support provided by a Rural Capacity Building Mobile Team and designed to strengthen Tinkhundla capacity and facilitate the achievement of performance requirements. The infrastructure financed under the component will be jointly implemented by the relevant Tinkhundla and Swaziland’s Microprojects Programme, a national program with many years of experience implementing community-based projects.


7. Component 2 comprises two inter-dependent sub-components: (a) Performance-Based Infrastructure Grants; and (b) Urban Local Government Capacity Building Support. The two sub-components, operating together, are intended to strengthen the ability of urban local governments to provide and sustain the delivery of local services. Access to the grants will be subject to each local authority’s meeting minimum mandatory conditions and annual performance targets in various areas of municipal management. The use of the grants will be limited to investments in local roads and associated infrastructure, and all grant amounts would be matched from other local government revenues for a minimum additional 20 percent of the grant amount. The individual urban local governments would be responsible for all aspects of investment implementation. Capacity building under the component will be provided by an Urban the Urban Capacity Building Mobile Team (UCBMT) – comprising expertise in key areas of municipal management, finance, planning and community consultation, and procurement and asset development and management, and responding to technical assistance and capacity-building needs as they arise.


8. Component 3 supports the implementation, monitoring, evaluation, and audit of the Project, including annual Performance Assessments of the participating local governments, provides formal training and short-term technical assistance to local governments and the Government, and provides technical assistance to the Ministry of Housing and Urban Development and the Ministry of Tinkhundla Administration and Development to strengthen their capacity to support and monitor local government performance. The component includes the costs of the Project Support Team, which will oversee and manage the project on a day-to-day basis, and which will be paid for by the Government of Swaziland.

Financing

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<th>Source:</th>
<th>($m.)</th>
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<td>Government of Swaziland</td>
<td>4.00</td>
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<tr>
<td>International Bank for Reconstruction and Development</td>
<td>26.90</td>
</tr>
<tr>
<td>Communities/Urban Local Governments</td>
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33.76
Implementation

Lead implementation of the project will be the responsibility of the Ministry of Housing and Urban Development, which will oversee the project through a Project Support Team (PST) consisting of a Project Coordinator, a Deputy Project Coordinator, a Technical Assistance Coordinator, as well as fiduciary and safeguards specialist. Implementation of the infrastructure sub-component of Component 1 will be the joint responsibility of the selected Tinkhundla and the Microprojects Programme, whereas the Performance-Based Infrastructure Grants sub-component of Component 2 will be implemented by the recipient urban local governments. Component 3 will be implemented by the Project Support Team.

Sustainability

The core of the project is aimed at building institutional capacity of the Tinkhundla and the urban local governments to plan, implement, and manage their capital investment needs. The ability to choose appropriate investments among competing demands, ensure these reflect community priorities, and take account of their operating and maintenance requirements, serve as the basis for project design. The Performance Assessments – which link performance and the availability of financing – are intended to develop a system of performance and feedback that will continually strengthen capacity within local authorities. It is anticipated that, by providing a fiscal framework that delivers predictable capital resources in sufficient amounts to have an impact on the quality and quantity of local public services, the basis for a “social contract” between local governments and residents will be established and strengthened and a positive cycle of investment in service delivery and the generation of resources to operate and maintain them will be built.

Lessons Learned from Past Operations in the Country/Sector

Lessons incorporated into the design of the project include: (i) the importance of finding the right balance between existing capacities to undertake reform, the level of uncertainty/state of transition of the reform program, the level of political commitment to the reforms, and finding the right type of reforms that substantively contribute to improved institutional performance; (ii) the importance of not stretching the scope of the project too widely, both in terms of the number of components and the number of project entities; (iii) the importance of focusing capacity building on demand from beneficiaries, rather than supply.

The SLGP incorporates these lessons by (i) setting realistic institutional performance objectives that are designed to work from existing capacities towards developing improvements in selected key areas of local governance; (ii) limiting the project to two main components that operate along very similar design principles; and (iii) linking the availability of funds for infrastructure with improved municipal performance, thereby strengthening the incentives for improved performance and demand for capacity building.
Safeguard Policies (including public consultation)

<table>
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<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
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<td>Natural Habitats (OP/BP 4.04)</td>
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<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
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<td>Projects on International Waterways (OP/BP 7.50)</td>
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</tbody>
</table>

List of Technical Documents

1. Project Implementation Manual
2. Upgrading in the Peri Urban Areas of Swaziland
3. Swaziland Housing Policy
5. The Human Settlements Authority Act, 1988
6. Swaziland Physical Planning Policy
7. The Rating Acting, 1995
8. The Town Planning Act, 1961
10. The Urban Government Act, 1969
11. Environmental and Social Management Framework
12. Resettlement Policy Framework

Contact point

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas
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