I. Project Context

Country Context

1. Swaziland, a lower-middle-income country, with a gross domestic product (GDP) per capita of US$3,625, faces a high level of poverty and unemployment. The country is land-locked and largely mountainous, with 75.8 percent of the total population of 1.1 million living in rural areas. It is geographically and economically linked to South Africa, which accounts for about 80 percent and 65 percent of Swaziland’s imports and exports, respectively, in 2015. The economy of Swaziland is diversified and constitutes agriculture, forestry, and mining that account for about 10 percent of GDP; manufacturing (textiles and food processing) representing 30 percent of GDP; and Government services constituting about 20 percent of GDP. However, growth has been rather marginal in the last few years, neither equally shared nor pro-poor. An estimated 63 percent of the population lives below the national poverty line and the international extreme poverty (US$1.9 per day) rate remained as high as 39 percent in 2015. Further, with a Gini coefficient of 49.5 in 2015, inequality is high and has actually increased in rural areas. The country faces high unemployment that is estimated at around 41.7 percent (including discouraged workers) and higher unemployment among the youth (ages 15–24) and females at 56.7 percent and 46.6 percent, respectively.
2. The macroeconomic situation started to decline in 2014, after a short-term recovery from the 2010/11 fiscal crisis. While the annual GDP growth had been stable at around 3 percent since 2000, it declined by slightly above 1 percent in 2011 rendering Swaziland with the slowest in GDP growth among the Southern African Development Community countries. As a member of the Southern African Customs Union (SACU), Swaziland receives a fraction of the custom and excise revenues collected on imports. After the fiscal crisis in 2010 and 2011, the country faced significant declines in volatile SACU transfers. The gradual recovery in SACU receipts after 2011 contributed to an increased Government procyclical spending pattern that translated into an increase in public spending, reaching 32 percent of GDP in 2015 from 23.9 percent in 2011. However, a slowdown in the South African economy, associated decline in SACU revenues, and persistent drought conditions, which have resulted in poor harvests, are projected to adversely affect the economy again. The 2016 economic growth rate is projected to drop to 0.6 percent (Central Bank projections) and international reserves remain thin at around 4 months of imports for the rest of 2016.

3. The fiscal situation is worsening and if fiscal consolidation measures are not taken, the situation is heading toward the 2010/11 fiscal crisis. The SACU receipts, which accounted for 48 percent of total revenue in FY2014/15, are expected to decline sharply from 13 percent of GDP in FY2015/16 to 9.4 percent and 8.4 percent in FY2016/17 and FY2017/18, respectively. Meanwhile, despite already increasing public spending, including the high wage bill of about 12 percent of GDP (in 2015), since April 2016, the Government of Swaziland (GoS) further increased the salary for civil servants, parliament and cabinet, by 17 percent and 32 percent, respectively, beyond inflation and budgetary provisions. Fiscal deficit that was earlier projected to increase to 13.7 percent of GDP in 2016/17 will be revised upwards because of lower SACU revenues and 2016 wage adjustments. The fiscal balance turned negative in 2014/15, and continued to deteriorate in 2015/16 comprising 5 percent of GDP. Fiscal challenges are expected to remain in the near to medium term as available resources continue to dwindle while the level of spending is being increased.

4. Despite high spending in the social sectors, a combination of weak resource management and institutional coordination adversely impact performance and outcomes. In FY2015/16, the GoS spent about 12 percent of its total budget on health services, but its health sector outcomes have remained modest. The infant mortality rate (98.8 per 1,000 births ) is particularly high compared with other lower-middle-income countries, and HIV prevalence of 27 percent is among the highest in the world. Government spending on education was equally high at 22 percent of the total budget in 2015. Yet, the gross enrollment rate and completion rates remain low compared with regional counterparts. The problems are also manifested in conflicting mandates and overlapping structures, for example, on civil service management, that undermine coordination of Government policy making and implementation.

5. The GoS has initiated some measures to curb the rising fiscal deficit anticipated from the forthcoming SACU revenue shock. These measures include rationalizing the wage bill, introducing procurement reforms, and postponing noncritical transfers to state-owned enterprises, in line with the Government Program of Action 2013 that emphasizes the importance of fiscal prudence. The National Development Strategy (NDS) and Vision 2022 (developed in 1997) prioritize macroeconomic stability and economic diversification, boosting strategic infrastructure
and unlocking human capacity. Both the 2010 Fiscal Adjustment Roadmap and the 2012 Updated Fiscal Adjustment Roadmap focus on macroeconomic stability, through improving public financial management (PFM) and the investment climate to stimulate private sector growth. Both the Fiscal Adjustment Roadmap and Updated Fiscal Adjustment Roadmap place great emphasis on reducing the size of the large public sector wage bill, which has not been adequately addressed. The major challenge remains that of matching Vision 2022 with prudent fiscal management policies amid dwindling resources and selected high-value expenditures.

6. Engagement with citizens in the development process remains limited. The country operates with parliamentary and traditional monarchy systems concurrently, and these appear to be in conflict with each other. According to the World Governance Indicators, Swaziland has consistently over the last 5 years performed lower than the South African region on voice and accountability and government effectiveness, and scored 27.6 (out of 100 and lower than overall Africa average) in the Mo Ibrahim Index on participation and human rights. The limited role of civil society organizations and citizens to participate in the political scene and public policies is one of the causes for lack of transparency and accountability of the Government and impacts negatively on policy implementation. Further, trade unions and civil society organizations have become critical of this suppression of political pluralism and often express discontent through public demonstrations. According to the 2015 Ibrahim Index of African Governance, Swaziland scored 49.6 (out of 100) in overall governance, ranking 28 (out of 54) in Africa and lower than the regional average for Southern Africa. The overall governance improvement (+0.7) since 2011, though a marginal increase, signifies the Government’s commitment to governance issues such as reduction of corruption. Because the improvement in governance is minimal, it is important to engage citizens in the cause of better service delivery.

**Sectoral and institutional Context**

7. The public sector in Swaziland faces three main constraints for providing efficient public services in a challenging economic environment. First, growing public spending, especially the wage bill among other expenditure items, points to weaknesses in human resource management (HRM), including management of the payroll. The second challenge relates to weak public financial and procurement management systems and practices, which adversely affect the effective use of public financial resources (including both recurrent and capital investment expenditures). The third challenge is the limited capacity of the Government for policy planning, implementation, and monitoring and evaluation (M&E) of development results, which affects effective decision making and inhibits Government actions for needed policies and legislation that would provide an authorizing environment for key reforms. Examples include the Public Financial Management (PFM) bill and the Human Resources Management Policy. These key enabling legislations now await passage by the upper house of parliament and ascent by the King. The procurement law that passed in Parliament in 2011 lacks the accompanying regulations to become effective.

An oversize public service and wage bill are the major challenges in public resources management:

8. With about 41,000 employees (or 22 percent of total employment), the public sector is the largest employer in Swaziland and its wage bill is one of the highest in Africa. The size of the public sector and the wage bill has been growing over the last five years (figure 1). The total wage bill in 2016/17 accounts for about 14 percent of GDP. The social (education and health) and defense sectors, together, account for nearly 50 percent of the wage bill. Between 2007/08 and
2015/16, the education wage bill grew by about 106 percent, accounting for 38 percent of the total wage bill. The growth of the wage bill is the result of uncontrolled hiring and weak establishment and payroll controls. This is exacerbated by the slow growth in the economy, making the public sector the fall back employer for citizens. The July 2016 wage bill adjustment will increase overall budget deficit as the average salary increase of 17 percent for all civil servants and 32 percent for parliamentarians was not fully budgeted for.

Inefficient use of public financial resources needs to be improved to regain fiscal control:

9. Inefficient use of public financial resources results from systemic weaknesses in the PFM system. The Country Integrated Fiduciary Assessment (CIFA), published in 2011, concluded that the PFM system in Swaziland has yet to achieve levels of good practice that will ensure fiscal discipline, strategic allocation of resources, efficient, economical, and effective service delivery and accountability. Most PFM indicators continue to lag in basic levels of good performance. There remain key risks in the PFM system that require urgent further mitigation (a) over expenditure due to poor discipline in expenditure controls; (b) high levels of expenditure arrears due to lack of full implementation of a commitment system; (c) weak accountability arrangements due to inadequate capacity in financial reporting, internal audit, auditor general and the Public Accounts Committee (PAC); (d) weak payroll systems; and (e) fiscal shortfalls as there is no appropriate fiscal planning framework and ineffective tax institutions.

Evidence-based policy decision making and M&E of the development outcomes are keys for growth and poverty reduction:

10. Lack of regular and reliable statistics undermines effective decision making, monitoring of development outcomes, and accountability for results. The 1967 Statistics Act sets out the mandate of the Central Statistics Office (CSO) as a department of the Ministry of Economic Planning and Development (MEPD). The CSO does not have the financial and human resources to support the collection of timely and quality data needed for the efficient M&E. Social and economic statistics are not regularly available for effective monitoring of Sustainable Development Goals (SDGs) and the poverty situation. The World Bank estimates Swaziland’s statistical capacity indicator for 2014 as 60 (out of 100) well below the average for lower-middle-income countries.

II. Proposed Development Objectives
The project development objective is to improve public sector performance in selected ministries, departments and agencies through the strengthening of human and public resources management and use of data.

III. Project Description
Component Name
Component 1: Improved Human Resource Management and Skills (US$5.6 million)
Comments (optional)
Subcomponent 1.1 - Strengthened Human Resource Management (US$2.1 million)
This subcomponent focuses on the policy and institutional strengthening for effective HRM. This subcomponent will support the finalization of HR policy and an assessment of the HRMIS for the entire Government, development and upgrade of an efficient HRMIS, strengthening of establishment controls and review of essential HRD functions, training, and capacity-building policy
and roll out of the performance based management system.
Subcomponent 1.2 - Strengthened Skills and Knowledge for Public Administration (US$3.5 million)
The subcomponent will support building capacity of SIMPA to offer training and capacity building programs alongside IDM and UNISWA for the entire Public Administration of Swaziland.

**Component Name**

**Comments (optional)**
Sub-Component 2.1 - Strengthened Public Resource Management (US$2.6 million)
This subcomponent will support PFM capacity building alongside EU support for the IFMIS, strengthening capacity for PIM and PPP.

Sub-Component 2.2 - Strengthened Procurement Performance and Financial Accountability (US$7.5 million)
This subcomponent aims at increasing transparency and integrity of the procurement system through development of an e-Government procurement (e-GP) system and the professionalization of procurement staff and improved risk management, internal audit, and oversight.

**Component Name**
Component 3: Improved Accountability for Better Service Delivery (US$9.3 million)

**Comments (optional)**
Subcomponent 3.1 - Evidence-based Policy Making and Coordination (US$5.1 million)
subcomponent will support improving policy planning, coordination, and implementation, strengthening M&E functions for better planning, budgeting, and long-term projections for national development; and strengthening statistical capacity.

Subcomponent 3.2 - Service Delivery Innovation and Citizen Engagement (US$2.3 million)
This subcomponent will support a mechanism to foster citizens’ feedback to improve public service delivery and enhancement of selected civic and immigration services.

Subcomponent 3.3 - Strategic Implementation Support (US$1.9 million)
The component will finance a Project Support Team coordinate the implementing ministries and agencies and ensure a effective project implementation.

**IV. Financing (in USD Million)**

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<th>Amount</th>
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**V. Implementation**
Institutional and Implementation Arrangements
11. The project implementation will be led by the PMO. Under the guidance of the secretary to the cabinet, the PMO will provide stewardship for the project and will work closely with a Project Steering Committee (PSC), comprising principal secretaries of the implementing agencies and ministries. The project supports key reforms that will require continuous engagement at the highest level for political support. To ensure that this is achieved, a cabinet committee on reforms (CCR) is proposed, comprising the ministers of Finance, Economic Planning and Development, Public Service, Health, Education, Public Works and Transport, and Home Affairs. Day-to-day implementation of the project will be done by a PST to be recruited under the PMO.

12. The implementation arrangements for the project consist of three levels: (a) the CCR to provide for regular engagement at the highest political level and ensure that the project is closely aligned with the overall public sector modernization reform agenda; (b) the PSC to oversee and manage the project implementation; and (c) the Technical Working Group (TWG), consisting of staff that will lead implementation of activities in each intervention area and for each agency and ministry. The project will be supported by a six-staff PST to be set up within the PMO under the oversight of the Secretary to the Cabinet. The PST will be in charge of the day-to-day implementation of the activities and handle FM, procurement, and M&E. The roles, responsibilities, inter-relationships, and accountability of the steering committees, the PSC and PST, will be defined in more detail in the Project Operations Manual (POM), in addition to other arrangements described in annex 3. The summary below outlines the core elements of the implementation arrangements:

(a) CCR. The CCR will be the highest-level body mandated to provide strategic directions, exercise oversight, and resolve any contentious issues that might arise in the course of project implementation. The CCR will be established to ensure intergovernmental coordination and commitment to all reforms, including public sector reforms, for the achievement of the NDS. The CCR will be convened at least twice a year under the chairmanship of the deputy prime minister.

(b) PSC. This committee will be chaired by the secretary to the cabinet and its membership includes principal secretaries of the Ministries of Public Service, Education, Health, Public Works and Transport, Finance, Economic Planning and Development, the MOHA, heads of the SPPRA and SIMPA. It will meet at least every quarter with the purpose of monitoring project implementation to ensure it is aligned with the undergoing reform processes and providing necessary support for the reforms.

(c) TWG. The beneficiary MDAs will designate a component leader (a senior civil servant to be appointed by the respective MDA) who will act as the focal point responsible for leading project activities in their ministry, department, or agency. Each component leader will lead a group of technical specialists responsible for the implementation of project activities. Component leaders will (i) provide input for the preparation of the AWP; (ii) facilitate the development of terms of reference and technical specifications; (iii) guide and supervise the work of consultants; and (iv) monitor implementation progress, including procurement and disbursements, on a regular basis.

(d) PST. The PST will be housed in the PMO under the supervision of the Directorate of Transformation and Innovation, and it will be responsible for coordinating project implementation by working closely with ministries, and other project stakeholders. In particular, it will (i) manage project funds; (ii) follow up on procurement; (iii) monitor ministries responsible for the envisaged activities; (iv) ensure compliance with the World Bank’s FM and procurement guidelines and safeguards policies; and (e) prepare progress reports. The PMO will ensure the overall project management and leadership of the project and will be supported by a Project Coordination Team, including procurement, FM, and M&E experts.
VI. Safeguard Policies (including public consultation)

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Comments (optional)

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