H. E. Bheki Bhembe
Principal Secretary of Economic Planning and Development
Ministry of Economic Planning and Development
Mbabane
Kingdom of Swaziland

Excellency:

Re: IBRD Loan 8003-SZ (Swaziland – Local Government Project)
Second Revised Disbursement Letter dates December 11, 2011 and July 8, 2015
Additional Instructions: Restatement Disbursement

I refer to the Loan Agreement between the International Bank for Reconstruction and Development (the “Bank”) and the Kingdom of Swaziland (the “Borrower”) for the above-referenced project, dated December 14, 2011. The Agreement provides that the Bank may issue additional instructions regarding the withdrawal of the proceeds of Loan 8003 (“Loan”).

This letter (“Disbursement Letter”), as revised from time to time, constitutes the additional instructions and is a second restatement of the Disbursement Letters dated December 14, 2011, and July 8, 2015 restating Section (II), par (vi) bullet point (iv) to introduce a new ceiling of USD 12,000,000 instead of USD 4,500,000.

The attached World Bank Disbursement Guidelines for Projects, dated May 1, 2006, (“Disbursement Guidelines”) (Attachment 1), are an integral part of the Disbursement Letter. The manner in which the provisions in the Disbursement Guidelines apply to the Loan is specified below. Sections and subsections in parentheses below refer to the relevant sections and subsections in the Disbursement Guidelines and, unless otherwise defined in this letter, the capitalized terms used have the meanings ascribed to them in the Disbursement Guidelines.

I. Disbursement Arrangements

(i) Disbursement Methods (section 2). The following Disbursement Methods may be used under the Loan:
(ii) **Disbursement Deadline Date (subsection 3.7).** The Disbursement Deadline Date is 4 months after the Closing Date specified in the Loan Agreement. Any changes to this date will be notified by the Bank.

(iii) **Disbursement Conditions (subsection 3.8).** Please refer to the Disbursement Condition(s) in the Loan Agreement.

II. Withdrawal of Loan Proceeds

(i) **Authorized Signatures (subsection 3.1).**
An authorized signatory letter in the Form attached (Attachment 2) should be furnished to the Bank at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

The World Bank  
P. O. Box 12629  
Harfield 0028  
Pretoria, Republic of South Africa  
Attention: Country Director

(ii) **Applications (subsections 3.2 - 3.3).** Please provide completed and signed applications for withdrawal, together with supporting documents, to the address indicated below:

The World Bank  
Loan Department  
Kenya Re Towers, 10th Floor  
Upper Hill, Off Ragati Road  
Nairobi, Kenya  
Tel. No. +254202983000

(iii) **Electronic Delivery (subsection 3.4)** The Bank may permit the Borrower to electronically deliver to the Bank Applications (with supporting documents) through the Bank’s Client Connection, web-based portal. The option to deliver Applications to the Bank by electronic means may be effected if: (a) the Borrower has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Applications and to receive secure identification credentials ("SIDC") from the Bank for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the Borrower have registered as users of Client Connection. If the Bank agrees, the Bank will provide the Borrower with SIDC for the designated officials. Following which, the designated officials may deliver Applications electronically by completing Form 2380, which is accessible through Client Connection (https://clientconnection.worldbank.org). The Borrower may continue to exercise the option of preparing and delivering Applications in paper form. The
Bank reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the Borrower.

(iv) Terms and Conditions of Use of SIDC to Process Applications. By designating officials to use SIDC and by choosing to deliver the Applications electronically, the Borrower confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation ("Terms and Conditions of Use of Secure Identification Credentials") provided in Attachment 5; and (b) to cause such official to abide by those terms and conditions.

(v) Minimum Value of Applications (subsection 3.5). The Minimum Value of Applications is 20% of the amount advanced to the Designated Account.

(vi) Advances (sections 5 and 6).

- **Type of Designated Account[s] (subsection 5.3):** Segregated
- **Currency of Designated Account[s] (subsection 5.4):** United States Dollars (USD)
- **Financial Institution at which the Designated Account[s] Will Be Opened (subsection 5.5):** Central Bank of Swaziland
- **Ceiling (subsection 6.1):** USD 12,000,000.

III. Reporting on Use of Loan Proceeds

(i) Supporting Documentation (section 4). Supporting documentation should be provided with each application for withdrawal as set out below:

- **For requests for Reimbursement and for reporting eligible expenditures paid from the Designated Account:**
  - List of payments against contracts that are subject to the Bank’s prior review, in the form attached (Attachment 4)
  - Records evidencing eligible expenditures (Attachment 3A – Statement of Expenditure – with supporting documentation, e.g. copies of receipts, supplier invoices, for payments made under contracts above SOE documentation thresholds – Individual Consultants against contracts valued at USD 100,000 equivalent or more; (ii) Individual Consultants against contracts valued at USD 50,000 equivalent or more; (iii) Goods against contracts valued at USD 200,000 or more; (iv) Works against contracts valued at USD 500,000 or more.
- 4 -

- Statement of Expenditure in the form attached (Attachment 3B – Statement of Expenditure – with no supporting documentation, for payments made under all other contracts (below SOE documentation thresholds) above and for Training.

- For requests for Direct Payment: records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices

(ii) Frequency of Reporting Eligible Expenditures Paid from the Designated Account
(subsection 6.3: Quarterly

(iii) Other Supporting Documentation Instructions: (a) A Designated Account activity reconciliation statement and Bank Statement should be submitted with each withdrawal application reporting on the use of Credit proceeds from the Designated Account; (b) Eligible Expenditures to be financed through Performance-Based Infrastructure Grants are the actual costs for Goods, Works and Services for capital investments in municipal roads.

V. Other Important Information


From the Client Connection website, you will be able to prepare and deliver Applications, monitor the near real-time status of the Loan, and retrieve related policy, financial, and procurement information.

32/ If you have not already done so, the Bank recommends that you register as a user of the Client Connection website (https://clientconnection.worldbank.org). From this website you will be able to prepare and deliver Applications, monitor the near real-time status of the Loan, and retrieve related policy, financial, and procurement information. All Borrower officials authorized to sign and deliver Applications by electronic means are required to register with Client Connection before electronic delivery can be effected. For more information about the website and registration arrangements, please contact the Bank by email at <clientconnection@worldbank.org>.

If you have any queries in relation to the above, please contact Christiaan Nieuwoudt, Finance Officer at cnieuwoudt@worldbank.org using the above reference.

Yours sincerely,

Ivan Velev
Acting Country Director
South Africa, Botswana, Lesotho, Namibia, Swaziland, Zambia and Zimbabwe
Attachment

All Attachments remain valid as provided under the original Disbursement Letter, except for Attachment 5 on the Electronic Delivery of Withdrawal Applications to the Bank, which has been replaced.

cc with copies:  
H. E. Bertram Stewart  
Principal Secretary  
Ministry of Economic Planning and Development  

H. E. Clifford Mamba  
Principal Secretary  
Ministry of Housing and Urban Development  

H. E. Princess Gcebile Dlamini  
Principal Secretary  
Ministry of Tinkhundla Administration and Development  
Mbabane, Swaziland  

Mr. Victor Masilela  
Finance Officer  
Ministry of Finance  

Mr. Thusasizwe Dlamini  
Project Coordinator  
SLGP Support Team  

Mr. Tito Simelane  
Director Urban Housing  
Ministry of Housing and Urban Development  

Mr. Thulani Mkhaliphi  
Director for Decentralization  
Ministry of Tinkhundla Administration and Development  

Mr. Pete Larose  
Executive Director for Swaziland  
The World Bank Group
RESTRUCTURING DATA SHEET

AFRICA
Local Government Project (SLGP) (P095232)
Swaziland
Social, Urban, Rural and Resilience Global Practice

Report No: RES23982

Basic Information

<table>
<thead>
<tr>
<th>Project ID:</th>
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<tr>
<td>Lending Instrument:</td>
<td>Specific Investment Loan</td>
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<tr>
<td>Regional Vice President:</td>
<td>Makhtar Diop</td>
</tr>
<tr>
<td>Country Director:</td>
<td>Paolo Belli</td>
</tr>
<tr>
<td>Senior Global Practice Director:</td>
<td>Ede Jorge Ijjasz-Vasquez</td>
</tr>
<tr>
<td>Practice Manager/ Manager:</td>
<td>Sameh Naguib Wahba, Tadros</td>
</tr>
<tr>
<td>Team Leader(s):</td>
<td>Kwabena Amankwah-Ayeh, Asmita Tiwari</td>
</tr>
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<td>Borrower:</td>
<td>Ministry of Housing and Urban Development</td>
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<td>Responsible Agency:</td>
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Restructuring Type

Form Type: Full Restructuring Paper
Restructuring Level: Level 1
Decision Authority: RVP Decision
Explanation of Approval Authority: Processed as level 2 as authorized in paragraph 14 of OP 10.00.

Financing (as of 14-Nov-2016)

<table>
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<th>Project</th>
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<th>Signing Date</th>
<th>Effectiveness Date</th>
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<th>Revised Closing Date</th>
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Disbursements (in Millions)

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<th>Undisbursed</th>
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<td>26.90</td>
<td>0.00</td>
<td>16.98</td>
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<td>63</td>
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Policy Waivers

Does the project depart from the CAS/CPF in content or in other significant respects? No
Does the project require any policy waiver(s)? No

A. Summary of Proposed Changes

The SLGP project will continue supporting original project components, with following proposed
Changes:

(i) Extend the project closing date by two years from June 30, 2017 till June 30, 2019. The extension is needed to make up for the two-year delay in project start and disbursements from the initially envisaged start date of April 30, 2011. In fact, the project only became effective on March 12, 2012. In addition, because the project concept was built on performance reviews and fund release to Municipalities was subject to these performance reviews, the first year after effectiveness was a period without disbursements because the Municipalities had not yet been evaluated on their performance;

(ii) Remove the additional 20 percent counterpart funding requirements so the Government provision for Project Implementation Unit (PIU) funding becomes its main counterpart fund for the project. This will help reduce the counterpart funding burden on the Government and limited government resources can be utilized for other things such as drought emergency response. International Bank for Reconstruction and Development (IBRD) will then provide 100 percent financing of the physical works to be carried out by the local governments;

(iii) Increase the designated account ceiling to at least US$12 million to allow for the bigger works being proposed by urban local governments (ULGs) and Tinkhundlas as they all qualify for support having successfully satisfied all performance criteria during the 2015 performance review process; and

(iv) Introduce under International Bank for Reconstruction and Development (IBRD) loan a Crisis and Emergency Response Component (CERC). This CERC can be used to channel emergency funds to respond to emergencies, including in support of the El Nino drought, as requested by the Government of Swaziland (GoS) in the letter dated April 1, 2016. This is in line with country management unit's efforts to enhance the country program's flexibility and responsiveness to emergencies. The CERC will enable rapid reallocation of funding between project components following an emergency should Government request support from the IBRD. The inclusion of the CERC is required to be reflected in a revised Project Development Objective (PDO), and a new indicator in project's results framework. The revised PDO will be "to assist the Borrower to develop institutionally strengthened rural local governments (Tinkhundla)", Urban Local Governments (ULGs), and to improve the Borrower's capacity to respond promptly and effectively to an Eligible Crisis or Emergency. This revised PDO includes the following additional objective: "to improve the Borrower's capacity to respond promptly and effectively to an Eligible Crisis or Emergency". If CERC is triggered a new indicator will be monitored to track progress: number of beneficiaries benefiting from emergency response and recovery activities.

| Change in Implementing Agency | No |
| Change in Project's Development Objectives | Yes |
| Change in Results Framework | Yes |
| Change in Safeguard Policies Triggered | No |
| Change of EA category | No |
| Other Changes to Safeguards | No |
| Change in Legal Covenants | No |
| Change in Loan Closing Date(s) | Yes |
| Cancellations Proposed | No |
| Change to Financing Plan | No |
| Change in Disbursement Arrangements | Yes |
| Reallocation between Disbursement Categories | No |
| Change in Disbursement Estimates | No |
| Change to Components and Cost | Yes |
| Change in Institutional Arrangements | No |
Change in Financial Management
Change in Procurement
Change in Implementation Schedule
Other Change(s)
Appraisal Summary Change in Economic and Financial Analysis
Appraisal Summary Change in Technical Analysis
Appraisal Summary Change in Social Analysis
Appraisal Summary Change in Environmental Analysis
Appraisal Summary Change in Risk Assessment

B. Project Status

During a July 2016 mission, there was found a considerable amount of funds locked up in the project designated account (DA) unaccounted for. There was slowness of disbursement since the March, 2016 mission and inability of the Project Support Team (PST) to ensure that contractors were staying within their contract terms and submitting their invoices regularly. It was the mission's view during the July 2016 mission that if the trajectory of performance by Government, PST and the local governments were not reversed immediately, achieving the Project Development Objective (PDO) was in doubt. Mission agreed with and made recommendations to the Government and the Project Support Team, to immediately implement an action plan to visit all participating local governments and work closely with all contractors to ensure that works implementation were ongoing and that certificates of works completion were submitted on time to the PST for SOE processing to the Bank. An amount of over US $3.52 million had been disbursed by the PST to the local governments by November 2015, with only US $540,000 having been accounted for to the Bank as of July 10, 2016. The mission agreed with Government and the PST that considering the lack of documentation to account for the use of funds with so much locked-up funds in the DA, the PDO indicator would be downgraded to Moderately Satisfactory.

With an action plan in place following the July 2016 mission and opportunity afforded the Government of Swaziland (GoS) to do its best to account for more of the project funds locked up in the designated account (DA) funds, another implementation mission was planned for November 2016. This mission ended on November 18, 2016. During the just ended implementation support mission of November 2016, the situation was found to have improved tremendously with an amount of over US$1.9 million having been accounted for thus bringing the disbursement overall to 63% (from 54% during the July 2016 mission). GoS and the PST proved during the mission that they were still committed to working with the local governments and supporting them to ensure that project and contract management become ingrained in their supervision of works. Lack of steady supervision of contracts and slow reporting of SOEs to the Bank were clear and specific reasons/conditions for downgrading the project PDO indicator during the July 2016 mission. The November 2016 mission having considered all actions taken by the Government, the momentum gathered for the SOE submissions/reporting to the Bank as well as the completed works that are already providing needed services to project beneficiaries, hereby restores the project performance to Satisfactory.

Performance Review of the participating local governments took place in October/November 2016 (ended on November 14, 2016) conducted by an independent consulting Team. Draft report availed to the November 2016 mission reveals that all Urban Local Governments and Tinkhundlas excelled this time around and they all therefore qualify to receive funds from the project as a result of their good
performance in the 2014/15 financial year. All the ULGs and Tinkhundlas will receive their portion of the year's allocation and this would enable the next tranche of disbursement at the end March 2017 to be higher and thus increase the disbursement on the project. A good number of physical works have been completed on time by both the ULGs and the Tinkhundlas.

At Government's official request to IBRD the project has been restructured to: (i) Extend the project closing date by two years till June 30, 2019; (ii) Remove the additional 20% counterpart funding requirements so the government provision for PIU funding becomes its main counterpart fund for the project; (iii) Increase the disbursement ceiling to at least US$12 million to allow for the bigger works being proposed by ULGs and Tinkhundlas as they all qualify for support having successfully satisfied all performance criteria during the 2015 performance review process; and (iv) Include a Contingent Emergency Response Component (CERC) in the project to enable rapid reallocation of funding between project components following an emergency, which would facilitate providing potential drought support to the Kingdom of Swaziland. The inclusion of the CERC is required to be reflected in a revised PDO and has been included in the restructured paper.

Project disbursement currently stands at 63.11 percent (a total of about 84 percent of the funds is committed). The implementation of performance-based grants and quality of the works carried out by the Tinkhundla and ULGs have been carried out in accordance with the agreed terms and procedures (Loan Agreement and the Project Implementation Manual). A project beneficiary survey, conducted in February 2016, indicated that the number of project beneficiaries has already exceeded the original target (13,593 compared to 12,800 target by year 5) with a very high citizen satisfaction rate of 93 percent, expressed by people surveyed. Overall the quality of the works carried out by both the rural and urban local governments remain satisfactory and completion has been within time and on budget. Some challenges persist in rural areas regarding management of the assets created through the project -- for example, public sanitary facilities are sometimes completed before management of these assets are determined thus leaving completed assets up to about three months without use after the contractors handed these completed assets over to the local governments. The July 2016 mission agreed with the Borrower that once any economic assets were sent to the IBRD for clearance and no-objection to be constructed, the facility management plan must be started in earnest and submitted to the World Bank within four months of such no-objection provided. Financial management, Procurement and Safeguards implementation have all proceeded according to agreed processes and plans.

Project Objectives will continue to be achieved following this restructuring. Total project cost remains US$33.76 million, out of which IBRD's share is US$26.9 million (and the difference is on Government account).

C. Proposed Changes

<table>
<thead>
<tr>
<th>Development Objective/Results</th>
</tr>
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<tbody>
<tr>
<td><strong>Project Development Objectives</strong></td>
</tr>
<tr>
<td><strong>Original PDO</strong></td>
</tr>
<tr>
<td>The project development objective is assist the Kingdom of Swaziland to develop institutionally strengthened rural local governments (Tinkhundla) and urban local governments.</td>
</tr>
</tbody>
</table>

| **Change in Project's Development Objectives** |
| **Explanation** |
| The project development objective will be revised to incorporate the Contingency Emergency Response |

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Component through this restructuring.

The Contingent Emergency Response Component (CERC) will enable rapid reallocation of funding between project components, following an emergency. By integrating a CERC into a project, the level of disaster preparedness is strengthened, eliminating the need for time-consuming restructuring in the immediate aftermath of a crisis, when the Government is in urgent need of quick liquidity. The immediate availability of financing is critically important to support the client in the first response, helping coordination in the early recovery phase, and bridging the gap to longer term recovery and reconstruction phases. CERCs can be used for immediate and emerging risks, such as natural and man-made disasters, conflicts, epidemics and economic shocks.

Per Operational Policies (OP) 10.00, paragraph 14 for existing projects supported by a World Bank Loan, which are restructured to add contingent emergency response components that meet the requirements of the Immediate Response Mechanism (IRM), the Executive Directors have delegated to Management the authority to approve Level One restructuring (see paragraph 24 of this OP) that require changes in the Project's development objectives.

Proposed New PDO

The new PDO is to assist the Borrower to develop institutionally strengthened rural local governments (Tinkhundla), ULGs, and to improve the Borrower's capacity to respond promptly and effectively to an Eligible Crisis or Emergency.

Change in Results Framework

Explanation

A new CERC PDO indicator, will be added to the project's results framework. The new indicator reads as follows:

"If the CERC is triggered: number of beneficiaries benefiting from emergency response and recovery activities". In addition, the Operations Manual will include additional specific results indicators, depending on the interventions that the CERC supports.

Financing

Change in Loan Closing Date(s)

Explanation:

The official request to extend the project closing date by two years till June 30, 2019, was received from the Government on April 26, 2016. The extension of the closing date is aimed to make up for the two-year delay in project start and slow pace of disbursements from the initially envisaged start date of April 30, 2011. The project effectiveness was delayed by nearly a year as conditions were not met until then. The project therefore only became effective on March 12, 2012 (when it was envisaged to be effective by April 2011). In addition, because the project concept was built on performance reviews and fund release to municipalities was subject to these performance reviews, the first year after effectiveness was a period without disbursements because the municipalities had not yet been evaluated on their performance.

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<tr>
<th>Ln/Cr/TF</th>
<th>Status</th>
<th>Original Closing Date</th>
<th>Previous Closing Date(s)</th>
<th>Current Closing Date</th>
<th>Proposed Closing Date</th>
<th>Proposed Application Deadline Date</th>
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</table>

Change in Disbursement Arrangements
Explanation

Increase the designated account ceiling to at least US$12 million to allow for the bigger works being proposed by ULGs and Tinkhundlas, which meet the funding criteria.

Components

Change to Components and Cost

Explanation

A Contingent Emergency Response Component will be added as follows:

Component 4: Contingent Emergency Response Component (US$0): This contingent emergency response component is included under the project in accordance with OP 10.00, paragraphs 12 and 13, for projects in situations of urgent need of assistance or capacity constraint. This will allow for rapid reallocation of project proceeds in the event of a natural or man-made disaster or crisis that has caused or is likely to imminently cause a major adverse economic and/or social impact. To trigger this component the Government needs to declare an emergency or provide a statement of fact justifying the request for the activation of the use of emergency funding. To allocate funds to this component the Government may request the World Bank to re-allocate project funds to support response and reconstruction. If the World Bank Group (WBG) agrees with the determination of the disaster, and associated response needs, this component would draw resources from the unallocated expenditure category and/or allow the Government to request the World Bank to re-categorize and reallocate financing from other project components to cover emergency response and recovery costs. This component could also be used to channel additional funds should they become available as a result of an emergency. Disbursements would be made against a positive list of critical goods or the procurement of works, and consultant services required to support the immediate response and recovery needs. An Emergency Response Operations Manual will apply to this component, detailing financial management, procurement, safeguards and any other necessary implementation arrangements.

<table>
<thead>
<tr>
<th>Current Component Name</th>
<th>Proposed Component Name</th>
<th>Current Cost (US $M)</th>
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Other Changes
Change in Implementation Schedule

Explanation
The implementation schedule will be extended for two additional years.