PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA22992

Project Name	Swaziland Private Sector Competitiveness (P151433)
Region	AFRICA
Country	Swaziland
Sector(s)	General industry and trade sector (20%), Agro-industry, marketing, and trade (20%), Public administration- Industry and trade (20%), SME Finance (20%), Other industry (20%)
Theme(s)	Regulation and competition policy (25%), Other Financial Sector Development (25%), Micro, Small and Medium Enterprise support (25%), Export development and competitiveness (25%)
Lending Instrument	Investment Project Financing
Project ID	P151433
Borrower(s)	Ministry of Finance, Ministry of Finance
Implementing Agency	Ministry of Economic Planning and Development
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	29-Sep-2015
Date PID Approved/Disclosed	07-Oct-2015
Estimated Date of Appraisal Completion	30-Sep-2015
Estimated Date of Board Approval	30-Nov-2015
Appraisal Review Decision (from Decision Note)	At the Decision Review meeting on September 9, 2015, the Chair authorized the project for Appraisal, subject to finalization and disclosure of the ESMF. Negotiations would be proposed to be conducted in Pretoria, to support strong connectivity. The review discussed the risk rating of the project and agreed to rate the project as Substantial.

I. Project Context

Country Context

1. Swaziland is a middle income country with a Gross Domestic Product (GDP) per capita of US$ 3,034, yet has high rates of poverty and inequality and is experiencing slow growth. According to current estimates, 63 percent of the population lives below the national poverty line, and unemployment is around 29 percent. GDP grew at 6.3 percent in the 1980s, but fell to 3.7 percent in the 1990s, then 2.3 percent in the 2000s. GDP per capita growth has been marginally above 1 percent annually from 2000 to 2013, which is the lowest of SADC countries . To overcome this development challenge, the country will need to break out of its low growth trajectory with labor intensive growth.

2. Swaziland's slow growth is caused by slow export growth and declining investment.

- Exports. Swaziland, as a small open economy, has relied on exports as an engine of growth. However, in recent years, the country's export performance has been lagging peers and regional neighbors. Exports grew in the 1980s and 1990s, but have been declining in the 2000s (negative 3 percent growth from 2000 to 2012). This vulnerability is likely to worsen, since Swazi exports are relatively dependent on trade preferences, including sugar (under the European Union Sugar Regime) and apparel (under the Africa Growth and Opportunity Act) .
- Investment. Gross investment declined from an average of 23.2 percent of GDP in the 1980s, to around 17.4 percent in the 1990s, and further to 15.4 percent in the 2000s. This decline was largely driven by falling private investment—from an average of about 14 percent of GDP in the 1980s to just 9 percent in the 2000s, and around 5 percent in the 2010s. Over the past two decades, average investment levels in Swaziland have been lower than regional comparators and other fast-growing small states.

3. Swaziland does exhibit an underlying potential for growth, which this project aims to exploit. Two sectors of the economy may be highlighted in particular:

- Agribusiness. Nominally, agriculture accounts for only 9 percent of Swaziland's GDP , but manufactured goods derived from agricultural products (foodstuffs such as sugar, canned fruits, fruit concentrates, or meats) account for 33 percent of Swaziland's exports, and a further 23 percent if Coca-Cola concentrates are included . A few entrepreneurs have achieved notable growth and success by managing to identify and exploit profitable export markets. These successful agribusiness exporters include large firms like SwaziCan and Swaziland Meat Industries, and smaller firms like Sdemane Farms and Black Mamba . The existence of these firms signals the potential for more farmers to be incorporated into profitable value chains, particularly towards export markets. Given that three quarters of Swaziland's population engage in subsistence farming of low-value commodities, improved performance in agribusiness clearly has the potential to be transformative.
- Tourism. Despite its small geographical area, Swaziland offers a diversity of attractions including nature- and culture-based resources, including: privately- and publicly-owned game reserves; an array of traditional ceremonies; community tourism products; and a range of soft and hard adventure tourism offerings. Yet the tourism sector currently remains small, accounting for 2.2 percent of GDP, growing at around 0.1 percent annually, and employing only around 5,500 people (1.8 percent of the working population). Tourism can be a potent development tool—not only in generating economic growth, but also through its high potential for employment and entrepreneurship and its creation of linkages to other sectors of the economy (e.g. suppliers of goods and services to tourism establishments).

Agribusiness and Tourism also have a good potential for impact on poverty, since they are relatively labor-intensive sectors, and are strongly linked to rural areas. In Swaziland, rural areas account for approximately 88 percent of the poor and 95 percent of the extreme poor.

4. The Project aims to boost investment, exports, and jobs. The objectives will be achieved through reforms to the business environment and through interventions in the agribusiness and tourism sectors. These interventions will prompt a response from the private sector, in terms of increased willingness and ability to invest, and increased ability to export. The impact will be to increase incomes, particularly in labor-intensive sectors which have the highest impact on poverty and on shared prosperity.

Sectoral and institutional Context

5. The ability of the private sector in Swaziland to be competitive and to generate jobs faces several main constraints. This project engages with the following three constraints:

(a) Business enabling environment. Swaziland is ranked 110th of 189 countries according to Doing Business Indicators 2015 . The World Economic Forum Global Competitiveness Report 2014-2015 ranks Swaziland 123rd out of 144 countries. The World Economic Forum's 2013 Travel and Tourism Competitiveness Index (TTCI) ranks Swaziland 119 out of 140 countries . These indices give a partial, yet indicative, impression of the extent to which Swaziland's regulatory environment currently facilitates private sector activity.

(b) Access to finance. There exists a moderately well-developed commercial banking sector in Swaziland; but most firms, including Small or Medium size Enterprises (SMEs), face limited opportunities to access commercial financing for investment capital and working capital. Main constraints include poor business and financial literacy on the part of entrepreneurs, and a lack of information and experience in assessing SMEs on the part of financial institutions.

(c) Skills to seize market opportunities. Swaziland has a good potential for growth in agribusiness, tourism, and some other industries, but these opportunities have not yet been well-leveraged by firms—particularly because of poor market knowledge and business skills. Farmers mostly grow undifferentiated crops without having identified the needs of a target market; and many hospitality enterprises lack a strategic approach to developing their products and increasing their revenues.

6. This selection of constraints is informed by Swaziland's development strategies and plans which also highlight these areas. Almost all diagnostic and sector studies identify agribusiness and tourism as good potential opportunities. Key documents such as the Economic Recovery Strategy (2011), the Investor Road Map (2005 & 2012), and the Private Sector Development Strategy (formulated by the Federation of Swaziland Employers and Chamber of Commerce in 2011) frequently cite as priorities: business environment reform; clarity on investment policies; trade facilitation; the need to transition from subsistence to commercial agriculture; business development services and concessional finance.

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7. With respect to agribusiness and tourism industries, there is considerable room for increased specialization of enterprises.

- Agribusiness. Since 2001, Swaziland has committed more than US$100 million of international loans and grants to agricultural sector , with a further US$ 36 million in the pipeline from IFAD and the EU alone. However, these existing projects are focused mainly on the supply side of the agricultural industry (irrigation, dams, and extension services). Two further key constraints to growth have not yet been systematically addressed: access to finance and access to markets. Agribusiness enterprises face limited opportunities to access finance. This is because of the risky nature of agricultural production, the lack of (credit) information and creditors' rights regime, and limited interest by financial institutions to develop more suitable products. Many banks consider agricultural finance too risky because of the low capacity of firms themselves. Lack of adequate financial management, market analysis, and business plan development are often cited as key reasons why SMEs remain financially excluded. Access to product markets could meanwhile be improved through increased capabilities amongst firms to identify and operationalize their participation in more profitable value chains.
- Tourism. Swaziland has a good reputation within the region for offering unique cultural experiences, diverse wildlife and adventure activities. Yet the tourism sector remains small, with a

direct contribution to GDP of only 2.1 percent and indirect contribution of 4.8 percent, compared to averages in the Sub-Saharan Africa (SSA) region of 2.8 percent and 8.5 percent inter alia . Swaziland's key opportunities for improved tourism sector performance include: increased private and public sector institutional capacity and coordination; improved tourism promotion and development of strategic brand and market positioning; increased quality and diversification of tourism product offerings; more consistent quality and service standards; and improved air access. There are opportunities to provide meaningful benefits to local communities and households with tourism revenues through competitively packaging Swaziland's traditional ceremonies, cultural heritage, and natural endowments, and by further developing tourism value chain products. Existing examples of community based initiatives include Shewula Mountain Camp, developed nearly a decade ago through an EU-funded project, and the initiatives of Lubumbo Eco Trails.

8. These opportunities and constraints in agribusiness and tourism are consistent with existing Government strategies and plans. The new National Agricultural Investment Program (NAIP), plans approximately US$ 1.14 billion of investments over ten years in five main programmes of investment: (i) sustainable natural resources management; (ii) improved access to markets and value chains; (iii) food supply and reducing hunger; (iv) agricultural research, training and extension; and (v) agricultural knowledge management. The National Tourism Strategy and Action Plan (2012-2016) aims to extend visitors' average length of stay through the development of new tourism products; to increase international arrivals from 1.2 million to 1.5 million; and to increase marketing budgets to promote existing and new products. Additionally, community tourism has been and remains a high priority for the government, as evidenced by its prominent placement within the National Tourism Policy (2010).

II. Proposed Development Objectives

The development objective is: to support an improved investment climate and strengthen competitiveness of firms, especially in the agribusiness and tourism sectors.

III. Project Description

Component Name

1. Improving the business environment

Comments (optional)

Component Name

2. Growth in Agribusiness and Tourism industries

Comments (optional)

Component Name

3. Project implementation and monitoring

Comments (optional)

IV. Financing *(in USD Million)*

Total Project Cost:	25.00	Total Bank Financing:	25.00

Financing Gap:	0.00	
For Loans/Credits/Others		**Amount**
Borrower		0.00
International Bank for Reconstruction and Development		25.00
Total		25.00

V. Implementation

A. Implementing Arrangements

The project is expected to be implemented for a period of five calendar years, from 1 April 2016 to 31 March 2021.

Project Management Unit (PMU).
The Aid Coordination and Management Services (ACMS) unit in the Ministry of Economic Planning and Development will be the project management unit. Procurement and Financial Management responsibilities for the project will both be centralized within the PMU. The ACMS is chosen as the PMU for its proven track record of managing projects financed by various development partners .
At present the ACMS is constituted by four teams: Team Coordination and Management; National Adaptation Strategy; Monitoring and Evaluation and; the UN Team covering health, education and other social sector themes. Given the additional procurement responsibilities and volume of work entailed by the World Bank project, the ACMS will add a fifth team, to be assigned to this project. The team would be comprised of two Program Officers (civil servants drawn from MEPD and MoCIT); one Accountant (contractual staff—to be responsible for financial management of the project); one Procurement Specialist (contractual staff); and one Technical Assistance support (international consultant). Overall responsibility for project implementation would be retained by the head of the ACMS (a Principal Economist civil servant drawn from MEPD).

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Interministerial Task Team.
The project implementation team at ACMS will report to an inter-ministerial Task Team. The mandate of the Committee will be to: monitor project progress; to provide strategic direction; and to facilitate information sharing between the main institutional stakeholders involved in the Project. The Task Team will be chaired jointly by MEPD and MoF, and will include focal points of the key Ministries and agencies as members: MEPD (ACMS); MoF; MoCIT; Investor Road Map Unit; SIPA; CBS; and SWADE. At time of Appraisal, the task team had already been formed, and was meeting approximately on a monthly basis.

Project decisions will not be contingent on meetings of the Task Team: the ACMS will be empowered to implement the project autonomously, but would report to the Task Team on progress and would seek assistance from the Task Team in order to resolve problems. Where these problems cannot be resolved by members of the Task Team, the Chair of the Team may refer them to the PS Finance, PS Economic Planning and Development, and/or the PS Commerce, Industry and Trade; or all three jointly to seek resolution.

Implementing agency risks are deemed to be substantial, and will be addressed as follows:
(a) Capacity. The ACMS will constitute a permanent focal point, and will recruit a special

team to be devoted full-time to this Project, constituted of a mix of civil servants and externally-recruited consultants. The Project may fund capacity development and support under the Project Management component.

(b) Governance. An inter-ministerial Task Team will be established for project governance, as per the preceding paragraph. It will report to the Minister of Finance who, representing the Kingdom of Swaziland as borrower, is accountable for performance of this project and has the necessary seniority to correct problems along the way.

(c) Fraud and corruption. Project objectives and accountability structure will be publicized extensively at launch, partly with the aim of facilitating public scrutiny of delivery. Active supervision of the PMU will be necessary to ensure that WB procurement procedures are adhered to at all times ensuring transparency and accountability. The recently appointed Swaziland Public Procurement Agency (SPPRA) may also play a part in mitigating F& C risks and may also be supported under the planned Public Sector Modernization project. The recipients of the CFF funds will be publicized to ensure full transparency.

B. Results Monitoring and Evaluation

The GoS and the World Bank will evaluate progress on the indicators presented in Annex 1 through regular reporting by the PMU and implementation support missions. The PMU will collect and present data on project indicators and core sector indicators. The PMU will hire an M&E Specialist responsible for this work, which will be funded by Component 3 of this Project.

In addition to the PDO-level results indicators, progress on each of the components will be measured by intermediate outcomes. These are listed in the Project Appraisal Document.

C. Sustainability

The Project is anchored in the priorities of the GoS's own development plans and strategies, at the macroeconomic level and sectoral level—including plans that extend beyond the lifetime of this Project. During project preparation, the team has interacted with all responsible Ministries with relevance to the project components, and care has been taken to revise the project design accordingly. The Project constitutes the first pillar of the agreed Country Partnership Framework, and will thus be a central focus of the World Bank's regular interactions with the GoS.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	✕	
Natural Habitats OP/BP 4.04	✕	
Forests OP/BP 4.36		✕
Pest Management OP 4.09	✕	
Physical Cultural Resources OP/BP 4.11	✕	
Indigenous Peoples OP/BP 4.10		✕
Involuntary Resettlement OP/BP 4.12		✕
Safety of Dams OP/BP 4.37		✕

Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

World Bank

Contact: Austin Francis Louis Kilroy
Title: Private Sector Development Spe
Tel: 458-1905
Email: akilroy@worldbank.org

Contact: Feyi Boroffice
Title: Senior Private Sector Developm
Tel: 458-7316
Email: fboroffice@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance
Contact: Bheki Bhembe
Title: Principal Secretary
Tel:
Email: bhembeb@gov.sz

Name: Ministry of Finance
Contact: Armstrong Dlamini
Title: Director of Public Debt Management
Tel: 26876150285
Email: Dlaminiar@gov.sz

Implementing Agencies

Name: Ministry of Economic Planning and Development
Contact: Colin Tshabalala
Title: Head of ACMS
Tel: 26876063232
Email: colin@mepd-acms.org

VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop