



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 09-Jul-2020 | Report No: PIDC29959



**BASIC INFORMATION**

**A. Basic Project Data**

Country Eswatini	Project ID P174447	Project Name Eswatini - Economic Recovery Development Policy Financing I (P174447)	Parent Project ID (if any)
Region AFRICA EAST	Estimated Board Date Aug 06, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

The development objectives of the proposed emergency DPO are to: (1) To contain the spread of the virus and support firms to protect workers; and (2) secure the country’s future economic potential in improving budget management and opening up the digital economy

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	60.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	60.00
World Bank Lending	60.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context



The proposed Eswatini COVID-19 Response Emergency Development Policy Financing (DPF) in the amount of US\$60 million to the Government of Eswatini (GoE) supports policy reforms mitigating the impact of the COVID-19 crisis and laying the foundations for recovery. The proposed stand-alone operation will help the Government to save lives and livelihoods in the short-term and will support critical structural reforms to create the economy of the future. It is part of a broader package by the World Bank Group that focuses on support to the immediate response to the crisis as well as economic and social recovery.

The Government of Eswatini has acted swiftly to mitigate and contain the health and economic impact of the COVID-19 pandemic. After recording the first case of the coronavirus on March 14, 2020, the government subsequently declared a two-months State of Emergency in response to the COVID-19 outbreak on March 17, 2020. The declaration was accompanied by several measures including cancellation of national events, schools' closure, banning social gatherings and restrictions on travel within the country and from high risk countries. The Government also enacted an economic support program. It approved a supplementary budget and the Central Bank announced liquidity enhancing measures including decreasing the discount rate for three consecutive times (cumulatively by 250 basis points).

The COVID-19 pandemic has exacerbated Eswatini's economic challenges. Economic growth is projected to contract by 2.8 percent in 2020, mainly due the negative economic impacts associated with COVID-19 on key sectors. The fiscal situation is expected to worsen in 2020, as government approves supplementary budget to deal with COVID-19, amid declining revenues. The fiscal deficit is projected to increase to 8.7 percent of GDP in 2020 and will decline from 2021 as government continues with fiscal consolidation. Inflation is projected to remain within the 3-6 percent target band, but will increase in 2020, reflecting COVID-19 induced prices increases. Poverty is deepening as the COVID-19 pandemic has led to the loss of income, while prices have risen.

Poverty is projected to increase and the proportion of people living below the extreme poverty line is expected to increase to over 30 percent in 2020 and remain elevated in the medium term. The lockdown has led to the loss of labor income as companies have closed responding to both demand and supply disruptions. Non-labor income has also fallen due to the decline in international (and domestic) remittances resulting from the economic impacts of the crisis in places where migrants are employed. Most of Eswatini remittances are from South Africa – a country with the highest COVID-19 infection rate in Southern Africa. The poverty impact may however be moderated by better agricultural output, which supports the majority of the poor.

#### 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 emergency operation also has two pillars almost similar to the CPF pillars; its first pillar focuses on protecting lives and livelihoods through containing the spread of the virus and support to SMEs and providing employment contingency measures to protect jobs. The second pillar focuses on economic management through budget management and debt transparency to secure the country's future economic potential. 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 these four areas; and across



the other four areas, (5) achieving transparency and effectiveness of policymaking, committing to policy implementation. The support provided in this emergency operation fit well in most of the policy areas suggested in the SCD.

### **C. Proposed Development Objective(s)**

The objectives of the proposed emergency DPO are to: (1) To contain the spread of the virus and support firms to protect workers; and (2) secure the country's future economic potential in improving budget management and opening up the digital economy.

#### Key Results

The operation supports policy actions that are expected to contribute to meet a number of results including: (i) the containment of the spread of COVID-19 through adoption essential policy measures; (ii) provision of temporary income support through employment contingency measures; (iii) improved liquidity provision for firms impacted by COVID-19; (iv) structurally reducing domestic expenditure arrears through adoption of public finance management regulations and strategy; (v) improved debt transparency through the Annual Debt Bulletin Report; (vi) strengthened the procurement regulatory legal framework through the adoption of the Public Procurement Regulations to implement the Public Procurement Act; (vii) greater use of electronic communications and transactions.

### **D. Concept Description**

The proposed operation aims to support the authorities' response to the COVID-19 crisis and help advance a more inclusive and sustainable recovery. Specifically, the first pillar consists of emergency relief measures to cushion the impact of the pandemic on the most vulnerable population by supporting enhanced health services delivery and social distancing measures as well as protecting livelihoods by targeted support to firms by providing them liquidity and putting in place employment contingency measures. The second pillar supports inclusive and sustainable economic recovery by addressing key structural bottlenecks, particularly through clearing domestic expenditure arrears, enhancing debt transparency, reforming procurement processes as well as facilitating digital transformation.

These pillars are aligned with the Africa Region approach to Emergency Development Policy Loans; and these reforms are expected to lead to a more targeted and efficient overall provision of health services during the crisis. They are also expected to lead to greater resilience of firms and lay the foundation for a more rapid post-crisis recovery. Finally, reforms in fiscal and debt management will lay the foundation for an economic recovery that is more fiscally sustainable while reforms in electronic communications and transactions policy will support improved access to digital services.

The proposed emergency financing is the first WBG budget support operation in Eswatini which combines emergency response with medium-term policy reform. As the main objective of the operation is to provide Eswatini relief in an emergency situation caused by the COVID-19 pandemic, the program focuses on prior actions that offer the most effective solutions to manage the health crisis, mitigate the impact on the poor and vulnerable while stabilizing fiscal policy and supporting economic recovery. This emergency operation also lays the foundation to longer term development policy



support to Eswatini which will include a broader range of policy actions. This is done through structural reforms that support the emergency measures, particularly fiscal management and debt transparency to enhance private sector activity and economic growth as well as procurement and digital reforms that should help prices decline and access to goods and services increase, all of which is critical in a post-COVID-19 economy.

## **E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

### Poverty and Social Impacts

A prolonged COVID-19 crisis is likely to substantially reduce household income, possibly undermining welfare gains of the past years. As many as 35,200 people risk falling into poverty if the country is locked down for 3-months, and 59,400 people in the case of a 6-month lockdown. These correspond to a 3.2pp and 5.4pp increase in poverty, respectively. Average consumption losses range from 6% in a 3-month shutdown to 10.1% in the 6-month case. Moreover, impacts are stronger for men and households in urban areas. The pandemic strikes the lower-middle class most strongly and may result in an increase in inequality.

The reforms supported by this operation are largely pro-poor and likely to have positive poverty and social effects in the short and medium term. Measures aim to alleviate the adverse impacts of the COVID-19 pandemic on households and firms in the short term, safeguard rural livelihoods and affordability in the medium term, and improve access to finance and government revenues in the longer term. None of the prior actions carry a clear substantial risk of adverse social or poverty effects. We simulate the poverty-reducing impact of an employment contingency measure and relief to SMEs. We find that the poverty impact of COVID-19 is nearly a percentage point lower due to these measures, equivalent to nearly 10,000 fewer people falling into poverty.

### 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 DPO are likely to impact the environment, forests, and natural resources. Following this assessment, Prior Actions on public procurement and digital transformation are likely to have positive impacts on the country's natural and human environment, and other natural resources if suggested mitigation strategies are put in place. Prior Action on procurement, if undertaken, is expected to lead an improved environmental mainstreaming into investment projects, if the public procurement regulations integrate specific provisions for the integration of ESHS requirements into procurement documents for civil works and its supervision, and ESHS performance especially in relation to large-scale public and private investment projects (for example, transport and hydropower projects). Prior Action on Electronic communication and Transaction bill applicable to environmental fees, fines and penalties will enhance transparency and accountability for a proper management of funds collected. The GoE has set a National Environment Fund which comprises funds collected from environmental violations fines. The Fund is used to finance community environmental management programs in the country, the funds collected will be made available to support environmental remediation and restoration projects and other related activities that address damage caused by investment initiatives. On the other hand, funds collected from environment licensing applications are used finance the administrative costs of the EEA.



Although the DPO is expected to have positive, long-term impacts that address and respond to the threat of COVID-19, prior action 1, 2 and 5, that are already completed but under implementation may raise COVID-19 exposure concerns if targeted beneficiaries have not adopted measures that address occupational health and safety issues, including those specifically related to COVID-19. Eswatini COVID-19 Emergency Response Project (P173883), was set to prevent, detect and respond to the threat posed by COVID-19 and strengthen national systems for public health preparedness in Eswatini. It has developed a stakeholder engagement plan and proposed capacity building interventions.

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## APPROVAL

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**Approved By**

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