



Project Proposal for
KINGDOM OF ESWATINI

June 2025

Component: Revenue

Module: RM-I: Tax Policy



PROJECT SUMMARY

COUNTRY: Kingdom of Eswatini

LEAD DEPARTMENT: FAD

REGION: AFR

PLANNED DATES: FY26-FY28

PROJECT MANAGERS: Juan Carlos Benitez (Tax Policy, FADT2, Lead)

ESTIMATED BUDGET \$406,600

BUDGET FOR ENDORSEMENT: \$406,600

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ACRONYMS

CD	Capacity development
FAD	IMF's Fiscal Affairs Department
MoF	Ministry of Finance, Kingdom of Eswatini
SACU	Southern African Customs Union
TPU	Tax policy unit

I. PROJECT PURPOSE

Country request and relevance/importance

The Ministry of Finance (MoF) of the Kingdom of Eswatini submitted a request for technical assistance to build tax policy capabilities for the analysis of the tax system and its potential reforms, revenue forecasting, development of tax models and legal drafting. The authorities envisage this capacity development project as critical to undertaking successful tax reforms, underpinned by sound technical analyses.

The Kingdom of Eswatini faces tax revenue adequacy concerns due to an expected decline in Southern African Customs Union (SACU) revenue. Enhancing domestic revenue mobilization is increasingly essential to establish reliable internal revenue to fund public priorities. A strong tax policy unit (TPU), or its equivalent within the MoF, is essential to a well-designed tax system that balances the economic and social benefits it pursues with the basic role of generating revenue to fund public goods and services. Historically, tax incentives have been viewed as the only lever to attract investment and promote job creation in the context of strong international competition. However, these incentives have rarely undergone a proper analysis prior to their implementation, which has led to multiple poorly targeted incentives which eroded the tax base and opened the doors for abuse. Thus, it is critical to focus on developing the appropriate institutional capacity to assess and improve the design aspects of the tax system, and tax incentives in particular, to ensure they are properly designed, reduce the erosion of the tax base and routinely appraise whether they are effective at achieving their intended goals.

Description of Modules

This module aims to enhance tax policy design and strengthen the authorities' capabilities through training workshops on revenue forecasting, international taxation, and drafting proposal formulation during the period July 2026 to April 2028 (FY26-FY28). The module will also support the formulation of a tax reform plan to broaden the tax base and the establishment of a tax research agenda.

The estimated budget for this project is \$406,600 and endorsement is requested for the full amount through FY27.

II. BACKGROUND

Macro-fiscal situation

Eswatini's real gross domestic product (GDP) growth reached approximately 3.7 percent in 2024. It was driven by robust performances in the services and manufacturing sectors of the economy, alongside substantial transfers from the Southern African Customs Union (SACU).

Eswatini's tax-to-GDP ratio was 26.5 percent of GDP in 2024. Tax revenue, as a share of GDP, averaged 25.5 percent during the decade (2014-24). However, tax-to-GDP revenue has shown a declining trend from its peak of 28.2 percent in 2013 until reaching its lowest at 22.0 percent of GDP in 2023. In 2024, the tax-to-GDP ratio recovered spurred by an increase in SACU revenue. However, SACU revenue is expected to decline in the near future in line with the implementation of the African Continental Free Trade Area (AfCFTA) by South Africa in 2024 and proposed changes to the SACU revenue sharing formula. These developments highlight the importance of transitioning towards a tax structure that is less reliant on SACU transfers.

Eswatini's fiscal deficit for the fiscal year 2024/25 was 1.9 percent of GDP but is projected to worsen to - 5.4 percent by end-2025. The government is expected to finance the fiscal deficit mostly by issuing domestic debt. Gross general government public debt is projected to rise, from an estimated 37.2 percent of GDP in 2024 to 38.0 percent of GDP at end-2025.

Country engagement and alignment to reform priorities

Eswatini endured the pandemic years and subsequent shocks from the war in Ukraine comparatively well but has had low buffers and gaps in public financial management. Years of expansionary budget spending policies and volatile SACU revenues widened the fiscal deficit. One of the country's key policy challenges and surveillance priorities is fiscal adjustment (through prioritizing expenditure and revenue enhancement) to preserve debt sustainability and build fiscal and external buffers.

A fiscal adjustment plan was launched in 2020/21 with a focus on rationalizing public spending on goods and services, including containing the public wage bill. On the revenue side, Eswatini established the SACU revenue stabilization fund to mitigate SACU revenue volatility. In 2023, Eswatini also enacted a tax policy reform aimed at attracting investment and fostering employment. The reform reduced the

corporate income tax rate and introduced a reduced corporate income tax (CIT) rate for certain new businesses driven by the push for more tax concessions from other public ministries.

Capacity issues are a major constraint to technical assistance absorption and better progress can be achieved by hands-on-training, and close and continuous CD engagement.

IMF priority areas / cross-cutting themes

There are no cross-cutting themes.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Eswatini in the area of tax policy. FAD CD will support improvements within the strategic objectives presented in Table 1.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM-I / Tax Policy	Strengthen Policy Monitoring, Evaluation, and Institutions

A. RM I – Tax Policy

Scope

Eswatini's Ministry of Finance lacks a dedicated institutional unit for the analysis and assessment of tax policy. This institutional weakness is evidenced by the MoF's inability to present strong arguments and analysis to counter multiple tax benefits sought and granted by other public ministries. Strengthening the MoF's institutional capacity is essential to protect the tax base and support its broadening. The module envisages providing hands on training in the areas of tax policy design, revenue forecasting, international taxation and legal drafting. As part of this support, the module will support the establishment of a tax research agenda to assess revenue and distributive impacts of envisaged policy changes. This module will also support the drafting of a reform agenda to address the country's revenue adequacy challenges based on previously delivered CD, in particular, redesigning tax incentives and its monitoring.

Program Objectives

The module will support the establishment of a dedicated and well-trained unit to analyze tax policy, with the aim of providing critical advice on tax reforms to protect and broaden the tax base. This unit is expected to carry out analyses to strengthen the MoF's technical position when discussing the introduction of new tax incentives proposed by other public ministries.

Expected Results (outcomes)

The expected results are the establishment of a well-trained dedicated TPU (or its equivalent), a drafted tax reform agenda to broaden the tax base; and the reduction in the proliferation of tax concessions driven by other public ministries.

Project proposals typically cover only one to two years of CD activities, which are expected to contribute to the achievement of the objectives outlined in the sections above. The objectives of this Global Public Finance Partnership (GPFP) project may require extended and ongoing support to be fully and sustainably realized. Therefore, progress reports will serve to monitor advancement towards these objectives, and it may be necessary to adjust or broaden project workplans to better facilitate the achievement of these goals.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

Tax policy has maintained a good engagement with the authorities during the last five years. Recent support has focused on providing technical assistance in the assessment of the effectiveness of tax incentives (December 2024). This engagement provided a series of recommendations on how to reform tax incentives to enhance their effectiveness in attracting long-term investment which are still being considered by the MoF. In 2021, the tax policy division delivered workshops on tax expenditure estimates, recommendations on the income tax reform, and technical assistance on the establishment of a TPU (2021). Previous tax policy CD recommendations were largely incorporated into Eswatini's tax expenditure reports, and several of the recommendations were incorporated into the 2024 Income Tax Act. Notwithstanding, the TPU has yet to be set up. The proposed project will ensure support to implement previous recommendations and support capacity building in tax policy analysis going forward.

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert (STX) work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.
- **Workshops**, during the HQ missions, staff visits, or STX visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the reforms and particular technical subjects.

C. Coordination / Cooperation

Partner	Coordination Type	Coordination Area	Frequency
IMF's African Department	Sharing of information	Tax policy priorities, and status of reforms	Regular
World Bank	Sharing of information	Status of reforms	Bi-yearly

V. RISK ASSESSMENT AND MITIGATION

Category/Module	Description	Risk Assessment	Mitigation Measures
EXTERNAL CLIMATE/CONDITIONS			
RM I - Tax Policy	External shocks (social, political, economic, etc.) impact government revenue.	Medium	Work with the IMF country team and other IMF departments to analyze emerging fiscal risks and propose potential fiscal policies to minimize fiscal risks
POLITICAL SUPPORT			
RM I - Tax Policy	Lack of political support may prevent the formal creation of a TPU and slow down reforms	Medium	Continue working at both the technical and political level in developing sound analysis to support reform needs and better inform stakeholders.
MANAGEMENT AND TECHNICAL STAFF SUPPORT AND COMMITMENT			
RM I - Tax Policy	Resistance to change and low commitment of management to enact necessary changes within the MoF Finance and implement reform measures	Medium	Engage with senior management and technical staff pro-actively to support the development of an implementation plan (and monitoring) while CD support is provided on an on-going basis.
RESOURCE ADEQUACY			
RM I - Tax Policy	Insufficient technical capacity and human resources necessary to absorb technical support and implement reforms.	High	Ensure CD plans include sufficient capacity building and training elements that are tailored to the country's needs, and prioritize CD in areas where capacity is limited.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY26	FY27	FY28	FY29	Grand Total
RM I - Tax Policy					
HQ led CD mission (Field based and remote)	1	1	-	-	2
STX visits	-	-	-	-	-
Staff visits	-	-	-	-	-
Workshops (inc. during HQ and remote CD)	-	2	-	-	2
Total	1	3	-	-	4

Note:

- In-person delivery was chosen in most instances because of the sensitivity of the CD messages being conveyed
- Remote delivery was chosen in several instances because of the protracted nature of the activity
- Collectively, the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM-I: Tax Policy		
Q3/FY26	Field-Based work	Tax policy reform and research agenda; and a workshop on tax policy analysis
Q1/FY27	Duty-Based work	Support reform agenda and research agenda
Q1/FY27	Interactive learning or workshop	Tax revenue forecasting and analysis
Q3/FY27	Interactive learning or workshop	Workshop on international taxation

VII. PROGRAM FINANCIALS

Module	FY26	FY27	TOTAL (USD)
Direct Delivery			
RM I - Tax Policy	\$129,200	\$250,800	\$380,000
Trust Fund Management Fee (7%)	\$9,044	\$17,556	\$26,600
TOTAL	\$138,244	\$268,356	\$406,600

Note: The estimated budget for this project is \$406,600 and endorsement is requested for the full amount through FY27. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM-I: Tax Policy

Objective: Strengthen Policy Monitoring, Evaluation, and Institutions - TPM	
Outcome(s)	Indicator(s)
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	Tax policy and analysis unit is strengthened or set up.