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List of Acronyms

AIDS - Acquired Immune Deficiency Syndrome.
AGOA - African Growth and Opportunity Act.
AMICAALL - Alliance of Mayors and Municipal Leaders on HIV/AIDS in Africa.
ANC - Anti Natal Care.
ARV - Anti Retroviral.
ART - Anti Retroviral Therapy.
BNLS - Botswana, Namibia, Lesotho, Swaziland
CANGO - Coordination Assembly of Non Governmental Organizations.
CEDAW - Convention on the Elimination of All Forms of Discrimination Against Women.
CSO - Central Statistical Office (Swaziland).
CCA - Common Country Assessment.
CMTC - Multi Sectoral Crisis Management and Technical Committee.
CITES - Convention on International Trade in Endangered Species.
CMA - Common Monetary Area.
COMESA - Common Market for Eastern and Southern Africa.
CSO - Central Statistic Office
EFTA - European Free Trade Association
ESRA - Economic and Social Reform Agenda.
FDI - Foreign Direct Investment.
FLAS - Family Life Association.
GER - Gross Enrolment Rate.
GSP - Generalized System of Preferences.
GDP - Gross Domestic Product.
GoS – Government of Swaziland
HIV - Human ImmunoVirus.
ICT - Information and Communication Technologies.
ILO - International Labour Organisation.
JICA - Japanese International Cooperation Agency.
LMIC - Low Middle Income Country.
MAP - Millennium Action Plan.
MDGs - Millennium Development Goals.
MDGR - Millennium Development Goals Country Report.
MICS - Multiple Indicator Cluster Survey.
MMR - Maternal Mortality Rate.
MOE - Ministry of Education.
MOHA - Ministry of Home Affairs.
MOHSW - Ministry of Health and Social Welfare.
MTCT - Mother to Child Transmission.
NEPAD - New Partnership for African Development.
NER - Net Enrolment Rate.
NERCHA - National Emergency Response Committee on HIV/AIDS.
NDS - National Development Strategy.
NHDR - National Human Development Report.
NGOs - Non Governmental Organizations.
ODA - Overseas Development Assistance.
OVCs - Orphans and Vulnerable Children.
PLWHA - People Living with HIV/AIDS.
PMTCT - Prevention of Mother to child Transmission.
PPCU - Public Policy Coordinating Unit.
PRS - Poverty Reduction Strategy.
PRSAP - Poverty Reduction Strategy and Action Plan.
RBM - Roll Back Malaria.
RICA - Royal Initiative to Combat HIV/AIDS.

RSA - Republic of South Africa.
SADC - Southern Africa Development Community.
SACU - Southern African Custom Union.
SCOGWA - Swaziland Committee of Gender and Women's Affairs
SEA - Swaziland Environmental Authority.
SEAP - Swaziland Environmental Action Plan.
SHIES - Swaziland Household Income and Expenditure Survey.
SIPA - Swaziland Investment Promotion Authority.
SNAP - Swaziland National AIDS Programme.
SME - Small and Medium Scale Enterprises.
SNC - Swazi National Council.
SNL - Swazi Nation Land.
SPS - Sanitary and Phyto-sanitary measures
SRH - Sexual and Reproductive Health.
TASC - The AIDS Information Support Care.
TB - Tuberculosis.
TBT - Technical barriers to trade
TDCA - Trade, Development and Cooperation Agreement (TDCA)
TVET - Technical Vocational Education and Training
UN - United Nations.
UNAIDS - Joint United Nations Programme on HIV/AIDS.
UNCCD - UN Convention to Combat Desertification.
UNCBD - UN Convention on Biodiversity.
U5 - Under five years (children below 5 years).
UNDGO - United Nations Development Group Office.
UNDP - United Nations Development Programme.
UNESCO - United Nations Educational Scientific and Cultural Organisation.
UNFPA - United Nations Fund for Population Activities.
UNGASS - United Nations General Assembly's Special Session.
UNICEF - United Nations Children Fund.
UNCCC - UN Convention on Climate Change.
VCT - Voluntary Counselling and Testing.
WB - World Bank.
WFP - World Food Programme.
WHO - World Health Organisation.

I EXECUTIVE SUMMARY

The adoption of the new Constitution marks the preliminary end of a ten year drafting and consultation process and a significant change of Swaziland's political framework. On 8 February 2006 the Constitution of the Kingdom of Swaziland entered into force and with it a new era has started where effort will be made to reconcile requirements of modern law with traditional Swazi law and customs.

Swaziland's economic performance remains weak. Poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS infection rate. In 2006, Growth slowed to around 1.8 %, down from 2.7 % in 2004; inflation is rising; and the current account surplus is narrowing. Growth is hampered by substantial real appreciation of the lilangeni during 2002-04, and recurrent droughts. Over that same period, rising government expenditures, especially on the wage bill, undermined fiscal sustainability and reduced foreign reserves to critically low levels. The forecast decline in SACU tariff revenues as import demand slows in South Africa, and Swaziland's limited diversification are likely to contribute to slowing growth to about 1 % in the medium term.

Swaziland has one of the highest income inequality rates among low-middle-income countries. Poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS infection rate. The World Food Program estimates that about 20 % of the population required food aid during 2006. The high prevalence of HIV/AIDS seriously undermines human development prospects. The combined effect of the above developments has led to a deterioration of public service delivery to such an extent that the country might become dysfunctional in the respective areas unless appropriate remedial measures are taken

Government and donors' action in the fight against HIV/AIDS appears to start curbing the epidemic, the 2006 sero-prevalence surveillance survey results released in December 2006 found a 39.2% HIV/AIDS prevalence level, a decline of 3.4% from the 42.6% reported in 2004. Nevertheless the country still reports the highest HIV/AIDS prevalence in the world and the dramatic effects of the present level of seropositivity cannot be overestimated. Many traditional social safeguards are being eroded while the demands made on health services are putting additional stress on the government budget and public services.

The low revenue base, weak public expenditure management, and wage pressures inhibit the effective execution of the government's Poverty Reduction Strategy and Action Plan and the mobilization of much-needed development assistance.

Against this background the Country Strategy Paper and National Indicative Programme for 2001-2007 singled out Human Resource Development as the focal sector which attracts 65% of the resources of Envelope A. The Financing Agreement for the 9th EDF programme for the Support of Education and Training with an allocation of € 20 million was signed in April 2005. Outside the focal sector, the EU action under the 9th EDF is undertaken under four programmes: Capacity Building for Development Planning Project (€ 2.7 million), Micro-projects Programme (€ 4.7 million), Cooperation Facility (€ 2 million) and the second phase of HIV/AIDS Prevention and Care Programme (€ 2 million). A number of projects from the 8th EDF, namely the major multi-donor small-holder irrigation project (LUSIP, € 11.45 million from EDF), the first HIV/AIDS Prevention and Care Programme (€ 1.96 million), the Private Sector Support Programme (€ 5.9 million), the Fiscal Restructuring Programme (€ 5.6 million) are still ongoing. Implementation of Sugar Accompanying Measures to assist the country to better respond to the EU sugar regime reforms has also started, and a National Adaptation Strategy (NAS) adopted in 2006. The NAS focuses on several aspects, mainly: (i) Competitiveness of the Sugar Industry, (ii) Trade Policy, (iii) Promoting Smallholder Cane Growing, (iv) Diversification, (v) Social Services and Welfare, (vi) Enhancing a sustainable socio-economic environment, and (vii) Institutional support (see annex XX for further details on the NAS).

After extensive consultations among stakeholders, EC and the Government of Swaziland have agreed on two focal sectors of support to contribute to the objective of poverty reduction under the 10th EDF: firstly, promotion of human development through support to the health and education sectors, and secondly improvement in the supply of essential services to the poor of water and energy. Outside the focal areas, support will consist notably of an allocation to EPA support, Governance initiatives, Non-State-Actors and a Technical and Cooperation Facility. Gender, HIV/AIDS, capacity building and environment will be the main cross cutting issues. Across all areas of EC support, it is expected that NSA will be able to contribute

to the design, implementation and/or monitoring of the interventions. The overall indicative allocation for programmable aid under the 10th EDF amounts to € 63 million.

II. UPDATE ON POLITICAL, ECONOMIC AND SOCIAL SITUATION

II.1 Update on the Political Situation

The entry into force of the Constitution of the Kingdom of Swaziland, on 8 February 2006, marks undoubtedly the most remarkable political development of the year. Signed by the King on 26th July 2005 the adoption of the new Constitution marks the preliminary end of a ten year drafting and consultation process and a significant change of Swaziland's political framework. The Constitution tries to reconcile requirements of modern law with traditional Swazi law and customs. It contains a bill of rights with all essential rights and freedom including equal rights for women and men; it further strengthens the role of the Parliament and ends the possibility to rule by decree; it clearly cut sets the Independence of the Judiciary while reserving an important role for Swazi Law and Customs and traditional institutions.

The constitution dispensation has been received with mixed feelings both from the conservative circles and the progressives respectively. The progressives feel that the process was not fully exclusionary and participatory and thus not all views of society informed the document whilst the conservatives view the constitution as bringing new elements which interfere with cultural practices and the role of the Monarchy.

The Government is currently implementing its Constitution rollout programme to allow full absorption of the implications by the respective line ministries as well as the necessary alignment of the pieces of legislation and policy reform. Initial Consultations between the Constitution Drafting Committee (CDC) and key government and traditional bodies (such as the Swazi National Council, Cabinet, Principal Secretaries and Heads of Departments, Heads of the security forces, Parliamentarians and Chiefs) were completed in June 2006. A nation-wide civic education on the constitution followed the initial consultation; by April 2007, the CDC had been able to cover a total of 47 Tinkhundla centers.

One key area which is still outstanding is the issue of reviewing the existing laws to be in conformity with the constitution. (Section 268). A number of legalisations are either outdated or no longer relevant to the challenges faced by the country today. Some law reform initiatives have been undertaken in reviewing the marriage act, deeds registry act and the administration on estates act. This, however, has been done with a focus on addressing the gender imbalances in them and there is need to undertake a holistic audit and review of all laws to be compatible with constitution.

The year 2006 saw the establishment of the new Ministry of Regional Development and Youth, which is tasked with implementing the Decentralisation Policy approved in late 2005 in line with the Constitution provisions on the introduction of local government structures (*Tinkhundla*)¹. The main goal of the policy is to provide an enabling environment for promoting sustainable and participatory local and national development within a decentralised governance framework. It will involve the establishment of distinct local Government levels with clearly defined operating structures, systems and procedures, and financial independence. In line with the Constitution, the Poverty Reduction Strategy and the Action Plan also call for decentralization and strengthening of the *Tinkhundla* centers in order to allow communities to participate in the identification of their priorities.

Non State Actors (NSAs) participation in the country's policy making has improved following the adoption, in 2006, of a NGOs policy that aims at creating an environment conducive to NSA's involvement. Progress in the implementation is still partial and concrete action to reduce bureaucracy, improve service delivery and provide finance training and guidance still very much in the need. NSAs say to be pleased with the NGOs Policy and the government increasing effort to enhance cooperation, but advocate for the adoption for legal instruments that will reinforce the policy provisions and for greater access to funding.

¹ Art. 218, Constitution of the kingdom of Swaziland: "*Parliament shall within five years of the commencement of this Constitution provide for the establishment of a single country-wide system of local government which is based on the tinkhundla system of government, hierarchically organized according to the volume or complexity of service rendered and integrated so as to avoid the urban/rural dichotomy*".

Political parties were banned in Swaziland in accordance with the resolution of the House of Assembly proclamation number 7 of 12 April 1973 issued by King Sobhuza II. The newly adopted constitution makes no mention of political parties, but does include a clause guaranteeing freedom of association. As a result, it is not clear whether or not Swaziland has moved from non party state to multi-party democracy. Presently there is no legislation in Swaziland governing aspects of political party life such as registration, regulation, funding and financial control. Political parties like the Ngwane National Liberation Congress (NNLC) and the African United Democratic Party (AUDP) have taken Government to court seeking registration. The case is still being contested in court. In light of the uncertainty, some political parties with the belief that they are free to operate, have positioned themselves for power while others holding a different view have intensified the pressure for recognition of political party activity in line with modern democracy.

II.2 Update on the Economic situation

(The following analysis is based on core economic data provided in Annex 12)

II.2.1 Macro-economic changes and structural reforms:

Economic performance:

Swaziland continues to experience weakening economic performance, with estimated growth rate of 1.8% for 2006 (down from 2.7 % in 2004 and an average of approximately 9 % in the 1980s) which is far below the SADC average of 5.4%. The main drivers of the weakening growth performance are low investment, deteriorating terms of trade and competitiveness, coupled with poor governance ratings. Growth is hampered also by institutional factors. Poor labour productivity, the high cost of doing business, and low governance and transparency indicators deter new investment. The high prevalence of HIV/AIDS seriously undermines human development prospects. The low revenue base, weak public expenditure management, and wage pressures inhibit the effective execution of the government's Poverty Reduction Strategy and Action Plan and the mobilization of much-needed development assistance. In addition fiscal imbalance has widened in the last two years. Policy choices and external shocks such as prolonged droughts, high oil prices, the loss of textile quota in 2005 and an appreciating currency explain this poor growth and poverty records.

In the medium term, the country's economy is susceptible to a range of potentially permanent shocks. According to a 2007 assessment by IMF, trade liberalization, especially, the possible removal in 2007 of the AGOA provision allowing the use of third-country fabrics, the forecast decline in SACU tariff revenues as import demand slows in South Africa, and Swaziland's limited diversification are likely to contribute to slowing growth to about 1% in the medium term¹. Furthermore the HIV/AIDS epidemic is also causing high mortality rates, a loss of productivity and real income, and mounting fiscal pressures.

Public finance

The Government last enjoyed consistent yearly budget surpluses during the 1980's. However, the situation changed drastically as in the early 1990's as Government fiscal position came under severe pressure due to a slowdown in revenue growth compared to expenditures. Fiscal policy's expansionary trend has worsened dramatically since 2000, the fiscal deficit deteriorating from 1.4 % of GDP in the 2000/01 financial year, to 4.6 % in 2004/05, to 5.2 % of GDP in the year 2005/06². Large SACU receipts will lead to a surplus for the 2007/08 budget. SACU receipts are estimated to be about 56% of Government revenue. These revenues are expected to remain high until tariff reductions take effect (not before 2010) or the SACU revenue sharing formula is changed. South Africa currently believes that the SACU members are relying too heavily on South Africa for their revenues and want the formula to be reviewed. However, this has so far been a verbal indication and no formal discussions have taken. However, this change in regime will cause a drop in the SACU receipts enjoyed by Swaziland.

Escalating current public expenditure - mostly to pay for the unsustainable wage bill - have been the root cause of the rising fiscal deficit and domestic debt, and the emergence of budgetary arrears. Total government expenditure increased by an average of 16 % over the period spanning 2000/01 to 2004/05. Public Expenditure increased from 29% of GDP in 2000, to 35% in 2005. The fastest increase in

expenditure is in the area of general payments, which include personnel, the purchase of goods and services by the Government and transfer payments. The civil service wage bill of Swaziland is the highest in SACU, both as a percentage of GDP (15% of GDP in 2005/06) and as a share of the (recurrent) budget. Personnel costs which had accounted for over 50% in the past decade of the Government's recurrent budget, increased to about 61% of the budget in 2005 due to the upward civil service salary adjustments and rescaling granted in 2004. This massive increase of the wage bill was the main driver of the loss of expenditure control. The debt service increased as well and went from 1.2% of GDP in 2003/04 to 1.6% of GDP in 2005/06.

In 2006, additional SACU revenue reduced the 2005/06 fiscal deficit, despite few policy measures. For 2006/07 the slight restraint in consumption expenditures and control in releasing funds for capital projects, applied to improve cash-flow problems, is expected to contribute positively to the improvement in Government budgetary position for the current financial year. But it is affecting heavily the implementation of capital programmes, as cost overruns will be realised. Also it is causing a serious contraction of growth because of the crowding out of the private sector as Government expenditures are concentrated more on consumption than on investment for capital formation.

Public debt

Over the period 2000/01-2006/07, there are signals of significant increases in total public and publicly guaranteed external debt, as challenges continue to intensify. According to current figures, total public and publicly guaranteed debt stock has increased from E1.6 billion in 1999, to E2.42 billion by June 2006. Public debt is still relatively at levels of around 20% of GDP.

Prices

Inflation has been rising throughout 2006 mainly due to substantial raise in the food price indices, with an upward trend increasing from 3.2% in January to 6.3% in December, against a typically moderated inflation maintained below the mid-point of the 3-6 % for the period 2000-2004. The low inflation environment of the past was a result of the sound macroeconomic policies, prudent monetary policy, and disciplined fiscal policy, the significant recovery in the external value of the Rand/Lilangeni and the moderation in food price increases.

Social macro-economic factors: Employment and unemployment and HIV/AIDS

Employment projections in 2006 indicate a contraction in formal employment due to the erosion in AGOA preference, the restructuring in the sugar industry together with shedding of workers by companies (mainly private textile companies). The situation was exacerbated by the strength of the lilangeni/rand exchange rate², which continued to exert pressure on competitiveness of export commodities. The formal sector absorbs approximately 30 % of the labour force. Currently unemployment in Swaziland is estimated at more than 30 % of the economically active population, but if the definition included discouraged job seekers, the rate would be over 40 %. The situation is likely to get worse with company closures, and it is projected that private sector employment will decline at -0.2 percent per annum over the foreseeable future, and that the overall standard of living will worsen as the subsistence livelihoods are also being affected. It is expected that beginning 2006/07 government will start implementing the recommendations of the Labour market survey undertaken by the African Development Bank in 2005 with the guidance of the Ministry of Enterprise and Employment. This is aimed at addressing issues of unemployment, particularly among the youth, development of SMEs, strengthening and improvement in quality and production of statistics.

In addition to its humanitarian and social consequences, **HIV/AIDS** costs the country severely in economic terms, as it constrains output growth, eliminates work skills and knowledge, shrinks the tax base, raises health-related costs, reduces disposable incomes, and increases financial imbalance in the public pension funds. Life expectancy declined from 54.4 years in 1990 to 29.6 years in 2005, with the consequence of

² Since December 2005, the real effective exchange rate has depreciated by 8.4 %, primarily reflecting movements in the rand-U.S. dollar exchange rate. Consistent with the peg to the rand, the Central Bank of Swaziland (CBS) has maintained its interest rates in line with South Africa's; in December, the CBS increased the discount rate by 50 basis points to 9 %.

15% of households headed by children. HIV/AIDS has impacted negatively on government capacity to deliver services, because of the death rate of its workforce.

Structural reforms

Fiscal performance during 2003/04 and 2005/06 was not good with both the aggregate and primary deficits deteriorating during the period. Personnel costs still continue to crowd out public investment and thus limit Government's ability to fund pro-growth public investments. Against this background **reforms to strengthen fiscal sustainability** have been limited since the 2005 Article IV consultation. In 2006/07, progress towards reorienting expenditure and rightsizing the civil service by a partial freeze on filling vacancies has been offset by the creation of an additional ministry and new positions. A public expenditure management reform project became operational in 2006 but has yet to be extended to all line ministries. Parliament has, however, approved an anti-corruption act and a strategy for privatizing public enterprises that are a burden on the budget.

Public authorities agree that current fiscal policies cannot be sustained and jeopardizes the credibility of the exchange rate peg. Baseline estimates for 2006/07 show too small a surplus to be consistent with the build-up of international reserves targeted by the authorities. Moreover, the authorities' medium-term budgetary framework allows for a spending increase of 3% of GDP in 2007/08, and is based on overly optimistic domestic revenue forecasts. Staff indicated that this expenditure level was not sustainable in the face of the expected SACU revenue decline. Financing for the implied large fiscal deficits would erode international reserves under the current exchange rate arrangement given Swaziland's lack of access to concessional external resources and limited scope for domestic financing without incurring arrears.

The Ministry of Finance has stated in 2006 Medium Term Budget Policy Statement that it intends to aim to **cut down the fiscal deficit to 2% of GDP** in the next two years and achieve a balanced budget in 2008/09. This will require implementation of measures aimed at controlling expenditures and strengthening revenue mobilisation – through tax administration reforms. Moreover, Cabinet has approved the Revenue Authority Bill which seeks to establish the unified Revenue Authority through combining the Departments of Customs and Excise and that of Income Tax. The Bill has been sent to parliament for enactment. In addition, Government is undertaking preparatory work for the introduction of a broad based Value Added Tax (VAT).

Government has had some success in creating an environment that actively **supports private sector** investment. Efforts are underway to implement the **Small and Medium Enterprise Development Policy**, approved in 2005. Progress has been achieved in the provision of necessary infrastructure including the building of factory shells and upgrading of major transport routes. However labour costs in Swaziland are higher than in many competing African and Asian countries. Swaziland's competitiveness has also been weakened by low investor confidence, cumbersome business regulations especially concerning trade licensing and entry permits, unreliable power supply and expensive telecommunications. Efforts therefore will have to be made to boost labour productivity, reduce domestic costs, and improve the investment climate.

The following table shall complete this updating by providing key economic data for the recent years:

Table 1: Key Economic Indicators³

	2000	2001	2002	2003	2004	2005
Population	1 000 000	1 002 900	1 024 500	1 100 000	1 100 199	1 130 000
GDP At Factor Cost in 1985 Prices (E 'Mln)	1480.0	1504.5	1445.9	1591.1	1629.5	1648.3
GDP Growth Rate (%)	2.0	1.5	2.8	2.9	2.7	1.8
GDP per Capita (E 'Mln)	9597.6	10 531.7	11693.6	13 339.6	15 254.9	n.a
Total Debt/GDP (%)	28.12	31.88	24.67	19.17	26.1	22.9
Public Debt Service/GDP (%)	1.8	2.4	2.9	2.1	2.3	2
Deficit/GDP (%)	1.3	6.8	4.6	2.9	3.6	4.3
Interest (Discount) Rate (%)	11	10.5	13.5	8	7.5	7
Inflation	7.3	7.5	11.7	7.4	3.4	4.8
Employment Growth Rate (%)	3.3	-0.8	3.4	-0.2	-3.2	n.a
BOP Deficit/ GDP (%)	0.5	4.5	2.73	2.3	0.7	n.a
Trade Balance (E 'Mln)	-1195.3	-760.2	-613.4	-764.7	157.2	n.a
Share of Education & Health in Tot. Budget (%)	27.2	25.9	21	23.8	19.8	20.2
Share of Defence in Rec. Budget (%)	4.2	4.5	4.6	6.5	5.4	6.0
Trade Openness (X/GDP) %	65	83	85	84	75	n.a.
Trade Balance (as a share in GDP)	-0.098	-0.066	0.076	0.062	0.01	n.a
Export Concentration (UNCTAD Index)	n.a.	0.28	n.a	n.a.	n.a.	n.a.

Source: Central Bank of Swaziland and Ministry of Economic Planning and Development, 2006

II.2.2 Quality of management in public finances and budgetary expenditure

In December 2006, an EU funded **preliminary evaluation of the Public Finance Management (PFM)** in the Kingdom of Swaziland has been carried out by an international consultant in view to assess the eligibility of Swaziland for EC Budgetary support. The report measured the performance of the country public management on the basis of the recently adopted Performance Measurement Framework of the PEFA (Public Expenditure and Financial Accountability) that has been developed by the World Bank, the IMF, the European Commission and other donors⁴. The key outcomes of the report - which are spelled out in annex 13 - indicate that PFM in Swaziland does not support the achievement and maintenance of aggregate fiscal discipline and the strategic allocations of resources in a satisfactory fashion. In fact the exercise in the Kingdom of Swaziland indicates a limited capacity for budget preparation and forecasting and shows that the budget is only partially credible, not comprehensive and transparent enough and policy-based to some extent only. Moreover internal control, public procurement, internal and external audit systems and data accuracy remain a matter of serious concern⁵. These systems are found to be far from

³ Date provided in Table 1 is total budget (recurrent and capital)

⁴ The PEFA method measures progress against 6 key indicators: 1) Credibility of the budget 2) Comprehensiveness and transparency; 3) Policy-based budgeting; 4) Predictability and control in budget execution; 5) Accounting, recording and reporting; 6) External scrutiny and audit.

⁵ The use of the performance indicators on accounting, recording and reporting indicates that periodic information on budget execution is missing because there is no in-year budget reporting. In addition differences in data lead to think that there are serious concerns regarding data accuracy. Moreover data on state assets are not comprehensive.

meeting international standards and are currently under-performing. As a result, serious doubts remain on the ability of these systems to ensure efficiency in service delivery.

Reports by the IMF and the World Bank have also, repeatedly, underlined the need for public finance management reform in order to create the fiscal space to support poverty reduction. The latest assessments reveal that the current fiscal stance will be soon unsustainable as SACU revenues begin to fall. Deficit financing has relied on draw downs of government financial assets closely connected with international reserves, a practice which risks undermining the exchange rate parity in the Common Monetary Area (CMA). Recommended reform measures include among others a more pro poor composition of public expenditure, improve budget management, right sizing of the public service, reduction of unproductive expenditure, introduction of a revenue authority and a broad based VAT as well as improved audits of public entities. Over the medium term, this would permit a build-up of international reserves and create fiscal space to fight poverty.

Government expenditure is heavily skewed towards consumption with 78% allocated for recurrent expenditure, whilst only 22% is allocated towards capital investment. Unless more expenditure is targeted towards public investment, economic growth will continue to decline in the medium term.

Prospects of PFM reform: The most important PFM reforms (past and on-going) were financed externally (mainly through the EC-financed Fiscal Restructuring Project). In this context, the sustainability of the reforms will depend upon the ability of the Government to politically support the needed PFM reforms (and/or to show ownership during the reform process). It is evident that curbing personnel costs through implementation of the civil service reforms and privatisation will be crucial to controlling recurrent expenditure and restoring fiscal sustainability. Weak expenditure controls, especially of expenditure commitments on the level of line ministries, have resulted in budget overruns and accumulation of domestic arrears. An **Integrated Financial Information** System, expected to become operational by the beginning of 2007, would provide the information base for improving expenditure management. The deepening process of implementing the medium term expenditure framework (MTEF) will result in enhanced fiscal transparency and quality of the budgeting process for ministries and departments would help prioritize expenditure, increase accountability and strengthen fiscal discipline. It is envisaged that by beginning 2007/08 financial year, the process of implementing a computerised commitment system and the review of Government procurement procedures, will be finalised. Moreover, strengthening of the audit system will further enhance transparency and accountability.

Swaziland performs badly and clearly below the Southern African region average, in terms of fight against **fraud and corruption**. The corruption perception index published by Transparency International for 2006 gives the country a value of 2.5 out of 10 (deteriorating from 2.7 in 2005), which ranks 121 out of 163 countries. The Ministry of Finance, in its most recent budget speech (March 2007) has reported that an estimate of 40 to 60 million Emelangeni (approx. 4,5 – 6,5 million €) is being lost to corruption every month. However important progress has been made in 2006 to curb the negative trends: a first adequate legislative framework was finally put in place with the adoption in June of the **Prevention of Corruption Act**. Furthermore an anti-corruption summit in August 2006 to mark the high commitment by the Government and give momentum to the fight against corruption in government, the private sector and civil society. There is now a need to ensure that the Anti-Corruption Unit, created in 2003, is allocated adequate resources to enable it to function effectively.

II.2.3 Integration into the world economy and negotiation positions with regard to EPA

Swaziland's membership of the WTO provides, through multilateral trade negotiations, an opportunity for greater integration into the world economy. WTO membership allows Swaziland the opportunity to lock in trade liberalization and bind tariffs on goods and services at levels that serve the interest of the country. For this to be feasible Swaziland will have to capitalize on the new and more democratic structure that SACU's new agreement offers the BLNS countries and make a case for the reshaping of the SACU tariff structure in line with its trade interests. This will of course involve difficult negotiations at both SACU and WTO level.

Consultations are ongoing within SACU in view to resume the negotiations under the Doha Development Agenda which were suspended in July 2006. Extensive preparation, both at country and regional level, is undergoing to enhance regional consensus on global trade reforms, and, in particular on issues related to international industrial tariff system, market access, trade in services and trade facilitation.

An important development in 2006 was the decision, by the SADC Extraordinary Summit of Heads of State and Government, to fully implement a SADC Free Trade Area by 2008 and to establish a SADC Customs Union by 2010. The road map and model of the SADC Customs Union are currently being elaborated by a Ministerial Task Force, expressly created at the Summit. The outcome of the SADC Extraordinary Summit has very important implications for Swaziland and the region. Swaziland needs to have a serious rethink about the future of SACU post 2010 and the role that can be played by SACU to assist the SADC integration process. At the 9th SACU Council of Ministers, SACU reaffirmed its commitment to speed up its internal consolidation process in order to offer SACU as an attractive model for the SADC Customs Union. It was agreed that SACU should have its own strategy to contribute its experience to the SADC debate. A task team of senior government officials has been established to assist SACU in developing its position towards the proposed SADC Customs Union.

With regards to the bilateral trade negotiations agenda, SACU Member States signed, in August 2006, a Free Trade Agreement with the EFTA countries, namely Norway, Switzerland, Liechtenstein and Iceland. The Agreement is currently being ratified.

In line with the provisions of the Cotonou Agreement, Swaziland is negotiating, together with six other SADC members, an Economic Partnership Agreement (EPA) with the European Union to replace the current trade regime of WTO waiver, which is set to end in December 2007. Developments in this area were slow due to the Republic of South Africa-EU TDCA. The TDCA was cited as a central impediment to any trade regime that Swaziland can negotiate with the EU and along with the other SACU members agreed that the SA-EU TDCA be used as a baseline/pre-condition for the resumption of region's negotiations. At the moment, SADC countries have agreed on SPS and TBT issues as first issues for negotiation. Swaziland's status with regard to COMESA is still under derogation (which is expected not to be renewed in 2007).⁶ Alternative markets for the products presently traded with COMESA countries need to be sought.

The 2007 work programme for regional negotiations was finalised during the 5th meeting of the Regional Preparatory Task Force (RPTF) held on the 14th of November 2006 in Gaborone, Botswana. Swaziland decided to negotiate within the SADC framework⁷. South Africa was eventually roped into these negotiations, using the TDCA as a basis for the SADC position. The GoS is currently discussing the conclusions of the draft final report on "Impact and Sustainability of the EPA with the EU". The political debate has centred on the need to fast track the creation of the SADC Customs Union for the SADC EPA configuration. This is envisaged to solve the issue of overlapping membership and determine how future resources under the SADC-EU cooperation will be allocated.

Under consideration for 2007, are negotiations with China and India for a preferential trade area. Also, studies commissioned by SACU are undergoing to identify the African country/group of countries that can be strategic for a Free Trade Agreement with SACU. Upon the outcomes of these assessments negotiations might begin in 2007.

On a broader basis, a more active participation in the world economy through closer regional integration and full exploitation of relevant trade agreements, are essential elements in Swaziland's economic policies. Unfortunately weak trade analysis and negotiating capacities and lack of effective policy coordination, limit the country's capacity to adopt a coherent trade negotiating agenda, to implement an effective trade policy, and to affirm its rights and obligations in international and regional trade. The country lacks of a clear overall trade and investment strategy, and of the necessary coherence between the trade policy agenda and the overall macroeconomic strategy. Against this background, the development of medium and long-term policy planning and implementation capacity becomes essential.

2006 External trade and the balance of payments

The current account has been in surplus since 2000 mainly thanks to improvements in the income account and net current transfers⁸. Nevertheless its stability is at stake as both trade in goods and services and

⁶ Information included in this section date May 2006 and is subject to change due to the ongoing negotiations.

⁷ The SADC framework comprises of four SACU members (Botswana, Lesotho, Namibia and Swaziland) plus Angola, Mozambique and Tanzania.

⁸ The improvement in net current transfers is caused by transfers of SACU receipts, which increased from E1.4 billion in 2000/01 financial to over E3 billion in 2005/06 financial year. However, the rising deficits in the services account reduced the current account surplus from a peak of E747.8 million in 2004 to an estimated E178.6 million in

transfers may not be sustained into the future. Trade liberalisation is most likely to come with reduced competitiveness of Swaziland's exports and a reduction in SACU receipts. Sugar exports are the first to be affected by the trade liberalization if additional exports will not compensate for lower prices. Industry restructuring has started, primarily in response to the reforms introduced in July 2006 in the European market (which accounts for over 50% of export revenues in this industry). An industry action plan to respond to the developments in the EU markets was developed in June 2005 and the national adaptation strategy completed in 2006. (For more background info about the strategy and how this will confront the challenges ahead please see annex XX).

II.3 Update on the Social Situation

The achievement of the MDGs is central to Government's poverty reduction programme. The Ministry of Economic Planning and Development (MEPD) elaborated in October 2004 a Poverty Reduction Strategy and Action Plan, which aims at improving good governance, economic growth social and human development with the overall objective of halving the poverty rate by 50% from its 1995 level by 2015.

However, despite the encouraging policy pronouncements, and the fact that a policy framework is indeed in place in all focal sector, the accompanying measures to implement the policies are not evident and the distribution of national resources does not reflect the dramatic social challenges faced by the country. The share of budget allocation to social sectors, even though increasing, remains low, and inadequate, most notably in the health sector. The share of GDP invested in the education and health sectors continue to be lower than the regional average while allocations to public order and safety increased to 4% of the GDP (against an international convention recommending a maximum threshold of 3% and the fact that Swaziland is a peaceful and stable country with relatively low crime rates).

ACTUAL BUDGETARY ALLOCATIONS BY FUNCTIONS & ECONOMIC CATEGORIES (2003/04 - 2005/06) (% total budget expenditure)

I. MAIN SECTORS (MINISTRIES)	2003-2004	2004-2005	2005-2006
Agriculture, Forestry & Fisheries	4,78%	4,80%	5,82%
Education & Training	23,01%	23,89%	21,06%
General Public Service	28,49%	27,71%	24,14%
Health	5,8%	5,8%	7,8%
Public Order Safety an Defense	17,82%	16,89%	19,26%
Transports & Communication	6,66%	6,99%	10,42%
TOTAL ALL SECTORS	100%	100%	100%
II. MAIN ECONOMIC CATEGORIES	2003-2004	2004-2005	2005-2006
Wages and salaries	38,6%	35,4%	44,45%
Debt service payments	4,13%	2,97%	4,27%
Capital expenditures	19,0%	22,66%	23,25%
TOTAL ALL CATEGORIES	100%	100%	100%

Source: THE PUBLIC FINANCE MANAGEMENT PERFORMANCE REPORT (PEFA), January 2007.

Progress towards the achievement of the MDGs has been only partial and projections are not promising. Based on available statistics and on the latest MDGs progress assessment⁹, Swaziland will not meet the MDGs. HIV/AIDS, wide-spread poverty, low economic growth; low rates of Government revenue and high unemployment rate are the main causes behind the discouraging assessment of MDGs. At the contrary the current deterioration of Swaziland's HDI and the increasing number of job losses in the formal sector, will result in an increasing number of households facing conditions of extreme poverty.

2005. Other factors contributing to the decline in the current account surplus was the appreciation of the exchange rate which weakened export trade and rise in imports. However, in the second half of 2006, the exchange fell to R7/US\$1

⁹ UNDP, December 2003

The table below provides key indicators to measure progress towards the MDGs and poverty reduction objectives. The MDG's Reporting (MDGR) exercise for Swaziland highlighted a number of important achievements in the country, e.g. the implementation of the National Development Strategy (NDS), the completion of the national poverty reduction strategy and the establishment of a poverty-monitoring unit.

It is to be noted that the MDGR process in Swaziland also highlights serious data paucity. Data gathering capacities, quality of recent survey information, statistical tracking and analysis capacities, capacity to incorporate statistical analysis into policy, planning and resource allocation mechanism, monitoring and evaluation mechanism are extremely weak. The effective tracking of progress towards the achievement of the MDGs requires the availability of statistics that are reliable, valid and up to date. At the time being, persistent unavailability of data and critical underperformance of monitoring and evaluation mechanisms constitute a major obstacle in the in monitoring the achievement of the MDGs as well of the EU action.

Indicators related to the Millennium Declaration

MDGs INDICATORS	2000	2001	2002	2003	2004	2005	2006	TARGET
1. Proportion of population below \$0.8 per day	66	66	65	66	69	69	69	35
2. Prevalence of underweight children (under 5 years of age)	10	10	10	10	20	n.a	n.a	5
3. Under-five mortality rate	n.a	142	149	153	156	n.a	n.a	30
4. Net enrolment ratio in primary education	78	78	75	75	85	85	82	100
6. Ratio of girls to boys in primary education	1:08	1:08	1:09	1:01	1:01	1:01	1:01	1:01
Ratio of girls to boys in secondary education	1:08	1:09	1:09	1:09	1:08	1:01	1:01	1:01
7. Proportion of births attended by skilled health personnel	70	70	72	74	86	n.a	n.a	
8. Proportion of 1 year old children immunized against measles	72	n.a	n.a	n.a	70	n.a	n.a	
9. HIV prevalence among 15-24 year old pregnant women	35,4	n.a	39,4	n.a	39,4	n.a	34,6	< 35,4
HIV prevalence among 25-29 year old pregnant women	40,7	n.a	47,7	n.a	56,3	n.a	48,9	< 40,7
10. Proportion of population with sustainable access to an improved water source	50	n.a	51	n.a	48	n.a	n.a	79

Sources:

- 1 CSO Household Income and Expenditure Data
- 2 Southern Africa Regional Poverty Network (SADC) statistics,
- 3 UNICEF Social Indicators, state of the world's children 2004
- 4,5,6 Education Statistics, CSO
- 7 Ministry of Health and Social Welfare 2002
- 8 Health Statistics, CSO
- 9 7th, 8th, 9th and 10th HIV Sentinel Sero Surveillance Survey in women attending antenatal care, STI and TB patients.
- 10 UNICEF Social Indicators, state of the world's children 2004

MDG 1 – Eradicate Extreme Poverty

Target: Halve the proportion of people living in extreme poverty by 2015

Indicator: the proportion of the population living below the national poverty line of E 69/month

GoS's Poverty Reduction Strategy (PRS) aims at reducing the incidence of poverty from the 2000 rate of 66% of the population to 30 % by the year 2015, and to eliminate extreme poverty by 2022. Deteriorating trends indicate that these goals are unlikely to be met. In 2006, 69% of the population of Swaziland was living below the poverty line (which is set at E129 per month or US\$ 0.8 per day) and 37% of the Swazi population has income below the extreme poverty line (E 69 per month or US\$ 0.44 per day). The problems of hunger and homelessness persist, and the living standards of a number of Swazis, particularly in rural and peri-urban areas, continue to deteriorate.

Poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS infection rate. Human Development in Swaziland kept worsening since 1990 with the Human Development Index (HDI) declining from 0.622 in 1990 to 0.500 in 2006 (thus ranking 146th out of 177 countries)³. According to the World Bank classification⁴: Swaziland is a lower-middle-income economy

with per capita GNI at US\$ 2.280 in 2005, performing better than most members of SADC. However, as confirmed by the 2007 IMF Country report, Swaziland has one of the highest income inequality among low-middle-income countries and is characterised by significant regional disparities. The Gini coefficient¹⁰ which had improved from 0.61 in 1994 to 0.51 in 2004⁵, declined again to 0.61 in 2006⁶. The latest census¹¹ revealed that the richest 10 % of the population control almost 50.2%⁷ of total earned income, in contrast, with the poorest 40 % of the population benefiting of only 14 % of total earned income. Economic inequality is found to be high in both the rural and urban areas of Swaziland.

With a population of about 1.2 million people growing at a rate of about 2.2%, the country's per capita GNP has been in growing by only about 0.9% in 2006 - very marginal if contrasted to the social problems facing the country and the targets of the Millennium Development Goals. It is estimated that Swaziland's economy needs to grow by 9% to reach the 50% poverty reduction target by 2015⁸. Despite the unpromising scenario, Government remains committed to the fight to halve poverty by 2015.

Major Challenges:

- **Gender Inequality:** Gender inequality is at the centre of Swaziland's poverty problem, as suggested by the fact that the majority of poor households are those headed by women.
- **Strengthening NGOs:** NGOs must be strengthened through government support. The government must also effectively utilize the NGOs close proximity to the poor and their relative efficiency in service delivery. An NGO policy has been developed but enacting legislative framework needed.
- **Agricultural Productivity:** Challenges include: lack of credit facilities for rural households in the communal Swazi Nation Land (SNL); poor infrastructure; limited opportunities for product marketing; out-of-date technology; inadequate extension services, reoccurring drought and the absence of a policy on Agriculture.
- **Domestic resource mobilization:** The success of the PRS depends in large part on its ability to mobilize mass support and participation of the poor, as these people understand the nature, causes and possible solutions to socio-economic challenges that their communities face.
- **Policy Coordination and Implementation:** Limited institutional arrangements, poor capacity building, and weak information dissemination and monitoring inhibit effective policy coordination in Swaziland. There is a need to strengthen the Public Policy Coordinating Unit.

Supportive Environment:

- The New Constitution entered into force in February 2006 addresses issues relating to the first MDG, including resource allocation and adoption of pro-poor government expenditure patterns.
- The National Development Strategy (NDS) places poverty reduction at the centre of the country's development effort. The government also acknowledges that meaningful improvement in the lives of rural Swazi people lies in their ability to access and make optimum use of land as their major productive resource. There is a draft land policy that was approved by cabinet and is awaiting approval from other government structures.
- Part of government's broad policy objective has been to increase efforts to attract FDI, which has been declining in the past decade. Tangible efforts in this area were seen in the establishment of Swaziland Investment Promotion Authority.
- The government's efforts at reducing poverty have revolved around the creation of micro-projects in the form of credit schemes, that are geared towards entrepreneurship, and income generation for the poor and the establishment of an SME unit within the Ministry of Enterprise and Employment.

MDG 1 – Eradicate Hunger

Target: Halve the proportion of people who suffer from hunger by 2005

Status and Trends: A survey undertaken by the MOHSW & WHO in 2004, indicates that 20% of children under the age of five are severely stunted and 5.1% severely underweight, indicating a worsening of the

¹⁰ The Gini coefficient is a measure of inequality of a distribution. It is often used as an income inequality metric. A Gini index of 0 represents perfect economic equality, and 100 perfect inequality.

¹¹ The 1994-95 Swaziland Household Income and Expenditure Survey (SHIES). The next nation-wide census was carried in May 2007 and figures are expected to be published at the end of 2007.

situation compared to the respectively 10% and 2% rates reported by the 2000 CSO national survey. The interactions between nutrition and HIV/AIDS are complex, and malnutrition among adults is a growing concern.

Maize is the dominant crop and the staple food grown by the majority of SNL farmers and it accounts for about 86% of the area planted. Although national sources¹² report that, during 2006/07 the National Maize Corporation (NMC) has been able to purchase more than 14 thousand metric tonnes of locally grown maize compared to 8,354 metric tonnes bought the previous year, thanks to an improved access to irrigation facilities by the small-scale maize producers, per capita maize consumption is falling without being substituted with other foods. Global crop production is on a downward trend, due to the series of consecutive years of adverse climatic conditions that are hitting the Country. Also the impact of HIV/AIDS on the agricultural workforce is beginning to show its adverse effect on production. As a result access to adequate food supplies remains a serious issue for poor and, particularly, HIV/AIDS affected rural households.

According to World Food Programme figures, about 20% of the population (200.000 direct beneficiaries) required food aid during 2006, and 40% of the population is set to directly benefit from food security and food aid in 2007¹³. FAO and WFP estimated a decline of up to 60% in the agricultural 2006 harvest in the entire country, which negatively affected the maize prices and the income of Communal farmers, who represent 80% of the population. Due to the delayed rainfall, heavy winds and hailstorms suffered by the country during the 2006 rainy season which was followed by severe dry spells with large maize crops failing, the situation is expected to critically worsen in 2007, with a decline in the harvest up to 75-80%.

Major Challenges

- The main challenge is for government to find innovative ways to change rigid inhibiting attitudes towards alternative drought-resistant food-crops. GoS, FAO and other donors have recently started to encourage farmers in planting crops adapted to the local weather conditions; unfortunately, the surface covered is still minimal. In the present circumstances, the continuation of drought conditions may mean that humanitarian and emergency aid may have a higher priority in development planning for the near future.
- Change the land tenure system which currently prevents individuals from using SNL as collateral for securing loans.
- Provide access to irrigation water for SNL smallholders.
- Disaster preparedness - improve the functioning of the national disaster task force.
- Inaffordability of agricultural inputs, lack of savings, unemployment, limited capacity building for SNL farmers leading to a vicious circle of food insecurity.

Supportive Environment

- The NDS recognizes the need for making the attainment of food security a central objective of government policy. The government's policy on food production/agriculture aims to achieve food security in the rural sector through a combination of home grown food, proper food storage and cash generated from other activities.
- Government is encouraging improved cropping methods like rotation of crops such as legumes, with cereals and growing high value crops to address food shortages in the country. However, maize remains the staple food for Swaziland, accounting for around 73 % of apparent total cereal consumption and 63 % per capita calorie intake. Until recent years, the Government's policy objective was to improve self-sufficiency in the production of maize. The policy involved intervention to control the marketing, milling and importation of maize, and a guaranteed minimum territorial, seasonal price for producers designed to maintain the producer price around the import parity level.
- In 2006 government has taken a major stride by completing a **National Programme for Food Security**, which is an integral part of the Comprehensive Agriculture Sector Policy and the National Food Security Policy. The policy has introduced the status and framework of food security that is in line with the internationally accepted definition and components of food security. The

¹² Ministry of Finance, budget speech 2007/2008, March 2007.

¹³ ECHO Mission Report on Drought in Swaziland and Lesotho, June 2007.

programme is aimed at supporting related initiatives on poverty reduction, improving agricultural production and marketing, enhancing environmental management, strengthening disaster preparedness and broadening access to water and sanitation. Implementation of the programme will ensure that development is guided and facilitated within a structured and balanced framework that respects physical limits, equity concerns, and institutional capacities. This national programme for food security is planned to be implemented through a consultative and participatory process with all stakeholders, maximizing the linkages between food security and other relevant policies, strategies and action plans. The programme's specific purpose is to provide clear guidance regarding the strategies and measures that must be adopted in order to improve the country's food security status.

- A **Disaster Management Bill** will establish a permanent inter-governmental structure at national and regional levels, linking government ministries with the administrations of the four regions. It will ensure an integrated, coordinated and common approach to disaster management, and it will also streamline the process for declaring a national disaster. This in turn will make it easier for international donors to provide needed aid in a timely manner. There is a need for Government to further strengthen the capacity of the National Disaster Management Task Force Secretariat particularly in relation to human resources.

Priorities for Development Assistance

- Food Aid agencies are encouraged to source their maize supplies through the local structures (such as the National Maize Corporation in charge of import and marketing of maize) in order to avoid destabilising the Swazi maize industry. It is encouraging to note that the National Disaster Task Force, responsible for food aid distribution in the drought affected area sources virtually all its maize supplies from NMC. Accurate targeting of food aid beneficiaries is also crucial so as to avoid the food aid dependency syndrome. Food aid maize should only be accessible to people who are destitute and surplus producing areas within the Kingdom should be given the opportunity to trade with the deficit producing areas. Locally produced maize should not be displaced by imports.
- More financial assistance is required to address the multi-faceted nature of the problem of poverty and food security.
- In view of the drought-prone situation, the government needs up-scaled financial and technical support towards intensifying the campaign for diversification to drought-resistant food crops and seed multiplication.
- Research and training institutions must be strengthened and deepened.
- Promotion of high value crops for exports like organic cotton, vegetables, Soya beans, beans, alfalfa, etc. It must be noted anyway that many of these crops present some drawbacks, mainly linked to global market prices (cotton), considerable production in nearby South Africa (vegetable), non habit to grow them (soya), and they will be considered also as one of the measures for diversification foreseen in the NAS
- Support for diversification into animal farming for small-scale farmers, such as rearing fish, chickens, pigs, goats, etc, for income generation. Investigate and implement other innovative approaches to agriculture.

MDG 2 - Achieve Universal Primary Education

Target: Achieve universal access to primary by 2015

Indicator: net primary enrolment rate; proportion of children starting grade 1 who reach grade 5; literacy rate of 15-24

Trends:

It is to be noted that 2006 education statistics have so far not been processed/published so that at the moment no reliable information is available pertaining to the main performance indicators, i.e. maintenance at 95% of net enrolment of 6-13 year olds; increased access for Early Childhood Development facilities; the survival rate at primary school and reduction of repeaters at primary level; reduced drop-out rates; expanded quality and capacity of TVET institutions.

PRIMARY ENROLMENT INDICATORS								
Primary		1990/91	1998/99	2000/01	2002/03	2004/05	2005/06*	2002/03 Regional average
GER (%)	MF	98	104	102	98	98	110	91
	M	99	107	106	102	102	114	98
	F	97	101	99	94	94	106	84
NER (%)	MF	77	77	78	75	85	82	63
	M	76	76	77	75	85	82	67
	F	79	78	78	75	85	82	60

Source: UNESCO Institute of Statistics 2005

* Source: Ministry of Education

Enrolment rates in Swaziland are clearly above the Sub-Saharan average (which is of 58.2% for net enrolment and 81.5% for gross enrolment). The country net enrolment rates has increased from 75% in 2002/03 to 85% in 2004/05, although information received from the MOE suggests that the net enrolment rate (NER) for 2005/06 stands at 82% which might indicate a slight drop from the previous year. Gross enrolment rate stabilised at 98% between 2002/03 and 2004/05. Nevertheless primary completion rates are very low and declining: from 25.8 % in 1997 to 21.6 % in 2001 and **repetition rates** are also very high, around 15 % for the past 7 years, with no signs of improvement. Although this ranks far behind international standards (the FTI benchmark is 10 % or less), it is better than the Sub-Saharan average of 18% for the year 2000. Drop-out rates at primary level have stagnated around an average of 7-9 %, while increased into double digits as pupils enter their teens, i.e. 10.8 % in grade 6, increasing to 15.2 % in grade 7. The average student takes 13 years to complete the 7-year primary education cycle. The exam-driven focus of teaching and the fact that pupils are tested every year contributes to an increase in repetition and/or drop-out. These figures reflect both the **lack of quality and relevance** of primary education and the **inefficiency of the system**.

The **pupil teacher ratio** in primary school stayed at around 33:1 throughout the 1990s and on to 2001. This is well within the international standards (FTI benchmark is 40:1). However, the ratio varies considerably (high ratios of 1:45/70) depending on the school's location. However, as **HIV/AIDS incidence** is critically high within the teachers' age profile (40.3 for age group 20-24; 48.9 % for age group 25-29; and 45.6 % for age group 30-34)¹⁴ Swaziland is likely to face acute shortages in meeting the future demand for teachers. As for **gender parity**, Swaziland stands out as the only country in SADC to have achieved gender parity in both primary and secondary education when reviewed in 2005.

Over the past decade, government spending on education has increased substantially suggesting a firm national commitment to education. **Education receives the largest sectoral share of the budget after General Public Service**. In 2005/6 budget allocation for the MOE accounted for 21% of the total budget expenditure and for 7.3% of GDP. However, the Ministry of Education claims that in real terms, the recurrent budget is declining over time given increases in the cost of supplies, utilities and salaries. The Education budget is unevenly distributed across sub-sectors with financing clearly more in favour of tertiary education needs. **System equity in the education sector** needs to be strengthened and more financial resources should be channelled into primary education. Despite the consistent budgetary allocations there are in fact great disparities in terms of quality and access, between rural and urban areas, and between the rich and poor.

A major policy measure to be taken by Government to ensure a successful implementation of the response strategy in the education sector is to increase the share of education budget resources going to non-salary related expenditure. The following table is based on budget information available from the MOE.

Although the Constitution has set the objective of **“free primary” education from grade 1 to grade 7 by 2009**, the Ministry of Education has selected to promote the concept of affordable education instead and

¹⁴ 10th HIV Sentinel Sero Surveillance Survey in women attending antenatal care and STI and TB patients.

avoids any reference to ‘free.’ Primary education fees do still apply and constitute a serious obstacle to equal access. The government of Swaziland has acknowledged the above challenges and is addressing them now in its policies. As a start, textbooks and workbooks for primary schools are supplied by the Government while orphans and vulnerable children are exempt from paying fees and a feeding scheme is presently operational in all primary schools.

Primary Education (E millions)¹⁵

	2005/6 Actual	2006/7 Actual	2007/8 Estimate	2008/9 Estimate
Salaries & emoluments (personnel costs)	370.7	353.7	455.3	491.8
Non-salary costs (eg. .travel, professional services, consumable materials & supplies),	24.3	33.7	43.4	41.3
Total	395.0	387.4	498.7	533.1
Non-salary as % of total	6.2	8.7	8.7	7.7

Source: Table excludes elements of Ministry Administration, Curriculum Development and Career Guidance & Psychological Services which benefit the primary sub-sector as these may not be clearly disaggregated from the published Ministry estimates.

To improve the standards and reverse the negative trends of declining enrolments, high repetition and dropout rates, the GoS is in the process of developing strategies to reverse the trend. , since 2006, a EU funded capitation grant scheme which allows all schools to receive a fixed grant for the education of children in exchange for improved quality and equity indicators such as increases in enrolment of **orphans and vulnerable children (OVCs)**, retention of girls and children with special needs while simultaneously cutting down on repetition and drop out rates.

The government needs to accelerate the pace of implementation of the reforms and identify plans for the introduction of informal education at primary level.

The **HIV/AIDS pandemic** poses serious concerns for the education sector: (1) the growing number of **orphans and vulnerable children (OVCs)** (presently estimated at 90,000, i.e. 30 % of children, and forecasted to grow up to 120.000/140.000 in 2010)⁹, who need to be provided with full primary education; (2) the very high HIV/AIDS prevalence rate in the adult population will further reduce the number of qualified teachers and education personnel; (3) growing poverty rate will result in an increasing number of household unable to pay fees.

Supportive Environment

- The country subscribes to the Universal Declaration on Human Rights, which stipulates that everyone has a right to education;
- Swaziland is a signatory to the Dakar 2000 Declaration on Education for All;
- The Constitution sets the objective of “free primary” education from grade 1 to grade 7 by 2009;
- Since 1999 National Education Policy formalizes the government’s position as firmly supporting the importance of consolidating past achievements as well as addressing crucial issues of quality, relevance and affordability of education. It also underlines the importance of vocational education and special education;
- Swaziland signed the convention on the rights of the child in 1990 (ratified in 1995) and in 1992 produced the National Programme of Action for the Children of Swaziland (1993-2000). In doing so, the country renewed its commitment to ensuring the improved standards for the education and welfare of children;
- The PRS aims to provide free primary education and reduce subsidies on post secondary expenditure.

¹⁵ Comments: 1) between the first and second years of the four year period, the most reliable as it deals with actual figures, there is an increase of 1.5 percentage points in the allocation to non-salary components of the primary sub-sector. 2) In the middle years the allocation to non-salary components remains constant at 8.7%. 3) In the last year there is a predicted drop of 1.0 percentage point for non-salary allocations. 4) Inflation in April 2007 has increased to 8.2 %

MDG 3 – Promote gender equality and empower woman

Target: Eliminate gender inequality in primary and secondary education by 2005 and in all level of education by 2015

Indicator: Ratio of girls to boys' primary education.

Status: Mid-term goal met. In 2005 gender parity was achieved in both primary and secondary education.

The adoption Constitution of the Kingdom of Swaziland marks a great achievement on gender issues. The new provisions abolish the traditional legal system which saw women as legal minors, and their rights (e.g. the right to inherit, to have the right to own property) severely undermined. The new legal status is a considerable achievement which comes after the country ratified, in March 2004, the UN Convention on the Elimination of all forms of Discrimination against Women (CEDAW). The Government has ratified the CEDAW and established a Law Reform Commission to examine discriminatory legislation but steps have to be taken to revise and adapt the legislation in order to fully endorse the new regime of equal rights.

Many Swazi women participate in business life or are working in the public sector. Ironically, despite the adverse implication of customary practices and tradition on women productive capacities, women in Swaziland are the major income providers for their family accounting for the bulk of agricultural product.

Swaziland stands out as the only country in SADC to have achieved gender parity in both primary and secondary education when reviewed in 2005. The Ministry of Education provides support to the Forum for African Women Educationalist (FAWE) which ensures that school books developed and produced locally are gender sensitive and promote gender equality while eliminating all known gender stereo types. The Guidance and Counselling Unit of the Ministry produced Life Skills training manuals in 2005 to empower girls in choosing subjects and making occupational, health and lifestyle choices. FAWE saw the placement of numerous girls in professions that 'traditionally' are viewed as for men both in manufacturing, industry and business.

Certain customary practices which pose serious threats to women capacity to assert their sexual rights have a dramatic impact on women safety and health, particularly in the light of AIDS/HIV pandemic. Feminisation of HIV/AIDS is an emerging issue of deep concern; gender inequality has been identified as one of the drivers of the epidemic in the country and measures are being taken to mainstream gender issues in all EU action in the field of health to counter the escalating culture of violence against women and the stigmatisation of women living with AIDS. For this purpose the HAPAC programme has a gender component and AIDS is a cross-cutting theme in all facets of the EU-UN Gender Programme that was launched in March 2007. The Gender Programme in Swaziland will also aim to 1) develop and implement a Plan of Action based on shared international, regional and national commitments aimed at providing a framework for common action to fight discrimination against women and strengthen their full and equal participation in political, social, economical, educational and cultural spheres; 2) enable key State and Non State actors to implement and monitor the implementation of the UN Convention for the Elimination of All forms of Discrimination against Women (CEDAW) through a multi-sectoral and integrated approach (see infra section III.3).

MDG 4 – Reduce child mortality

Target: Reduce under-five mortality ration by 75% by 2015

LIFE EXPECTANCY AT BIRTH AND INFANT MORTALITY RATES (1990-2010)

INDICATORS	1990	1995	2000	2005
Life expectancy at birth	54.4	49.6	35.5	29.6
Infant mortality rate (per 1000 live births)	94.4	95.3	97.3	108
Child mortality (under five) (per 1000 live births)	110	n.a	124	156
Crude death rate (per 1000 live births)	13	n.a	n.a	26.2

Source: Vulnerability Assessment Committee, in World Bank, 2006

Trend: Deteriorating. According to UNICEF child mortality increased from 110 per 1,000 in 1990 to 156 in 2005¹⁰. The increase in child mortality is mainly accounted for by increased mother-to-child HIV infections

and the continued prevalence of childhood and waterborne diseases and other infections. Increasing trends have also been observed in the country's Infant Mortality (IMR) per 1,000 live births, which raised from 94.4 per 1,000 in 1990 to 108 in 2005 and in the Crude death rate per 1,000 population, which increased from 13 in 1990 to 26.2 in 2005¹¹.

MDG 5 – Improve maternal health

Target: Reduce maternal mortality ratio by 75% by 2015

Deteriorating trends indicate that the goal is unlikely to be met. Maternal mortality has increased from 110 per 100,000 live births in 1990 to 218 in 2000 to 370 in 2003¹². The high maternal death rate is attributable mainly to diseases such as hemorrhage, hypertensive diseases, unsafe abortion and lack of clinical skills in handling obstetric and HIV/AIDS¹³.

MDG 6 – Combat HIV/AIDS, malaria and other diseases

Target: Halt and reverse the spread of HIV/AIDS by 2015

Swaziland is among the countries most severely hit by the HIV epidemic. The HIV/AIDS prevalence has dramatically and steadily escalated in intensity over the past 20 years, with HIV prevalence rates raising from 3.9% in 1992 to 16.1% in 1994, 26% in 1996, 31.6 in 1998 to 42.8%, the highest in the world, in 2004. Fortunately the last HIV Serial Sentinel Surveillance carried in the period August to October 2006 among pregnant women, STI and TB patients, aged 15-49, indicated for the first time a positive trend. HIV prevalence rate has decreased from a rate of 42.8% in 2004 to 39.2%¹⁴. The spread of HIV/AIDS appears to have halted and reversed in all four regions, among urban and rural areas, and across all age groups.

Analysis per age group shows signs of hope among young women aged 20-24 and teenagers, where a significant decline of the infection rate is recorded. Women aged 25 to 29 are still the most affected by the infection (48.9% compared to 56.3 in 2004) followed by those aged 30 to 34 (40.3% compared to 46.3% in 2004)¹⁵. The indicated shift may be attributable to old infections and/or a cohort effect, as well, as reduction in new infections, especially among the youth.

According to the 2006-2008 National HIV/AIDS Strategic Plan, the main drive of the epidemic are: a) inadequate public awareness; b) denial of existence of the epidemic by many infected people who hide their status; c) the acceptance of multiple concurrent partners; d) low condom usage, especially among teenagers; e) a continued high incidence of sexually transmitted infections (STI) across the country; f) cultural beliefs and practices with negative implications; g) high mobility of the population; h) abuse of gender power relationships by men. Unfortunately the existing system of governance and weak Public Finance Management performance with limited accountability and transparency has hampered effective response to HIV/AIDS, economic decline slow implementation of policies, including PFM policies. Most of the initiatives launched have not been brought to an end due to corruption and lack of accountability.

Socio-economic impact of the epidemic

Several studies have shown the impact of the epidemic to be dramatic. Previous gains on the health status are being eroded by the advent of HIV/AIDS. Life at birth increased from 44 years in 1966 to 54.4 in 1990 but as result of the HIV/AIDS epidemic fell to 29.6 years in 2005. Worsening trends have been observed in Crude Death Rate (CDR), Infant Mortality Rate (IMR), Under Five Mortality rate (U5MR) and Maternal Mortality Rate (MMR). The total population of Swaziland is projected to increase to 1.58 million by 2015, 41% below the expected number in the absence of AIDS.

The health sector which was already facing a certain number of challenges before the hit of HIV/AIDS, has been further weakened. The burden affects all services in hospital including laboratories, allied medical staff and catering. The demand for hospital beds has increased dramatically with patients suffering from HIV/AIDS related syndromes taking up more than 50% of the total beds in 2005.

Given that casualties from HIV/AIDS mainly affect the age group 25-40, the segment of the population which is key pool of labour supply, the epidemic poses a substantial threat to economic growth. It is estimated that the country will experience, in the next 20 years, a loss of 32% of its labor force, including the most highly trained and educated human resources, and, most notably, qualified health workers. The

combined effect of the HIV/AIDS pandemic has led to a deterioration of public service delivery to such an extent that the country might become dysfunctional unless appropriate remedial measures are taken.

UNDP studies show that in 2006 about 84.000 children (other sources speak of over 95.000) are orphaned and made vulnerable as a result of HIV/AIDS, poverty and drought. Further, the recent forecast is that by 2010, there will be 120.000 to 140,000 OVCs¹⁶ and that about 15% of the households will be child-headed.

National Response to HIV/HEALTH

The government of Swaziland responded to the epidemic with the creation of the Swaziland National AIDS Programme (SNAP) within the MoHSW in 1987. The declaration in 1999 that HIV/AIDS was a national disaster led to the formation of a Crisis Management and Technical Committee (CMTC) charged with drawing up a national strategic plan. The CMTC was replaced by the National Emergency Response Council for HIV/AIDS (NERCHA) in 2002, an intersectoral public-private body with the mandate to coordinate and assist the implementation of all activities dealing with the HIV/AIDS epidemic, and a National Multisectoral Strategic Plan (2000-2005) was developed. With the expiry of the 2000-2005 National Multisectoral Strategic Plan for HIV/AIDS at the end of 2005, the GoS developed a national multisectoral policy on HIV/AIDS for the period 2006-2008. Development of the plan was based on findings of a Joint Review Report, community focus groups and stakeholder interviews.

Government spending on **health** in 2005/2006 is estimated to be 7.8% of total general government expenditure. Although this corresponded to an increase of about 41% from the Public expenditure earmarked on health in the period 2002-2005 (5,8% of GDP)¹⁷, Swaziland still ranks lower than many African countries with respect to total health expenditure of GDP. Spending also falls short of the African Heads of State (Abuja Declarations) target of increasing health spending to 15% of public expenditure. In addition the composition of public expenditure on health is skewed towards wages/salaries and curative activities.

Access to primary health care is free since 2002 but the quality of service delivery is very low and, as said above, deteriorating. Staff shortages, across all cadres, are widely acknowledged to be a key challenge to the provision of quality health care in Swaziland.

The private health sector in Swaziland is relatively large. In addition to 2 mission hospitals there are 73 other mission facilities including health centres, clinics and outreach services, as well as 22 industry-supported health centres and clinics, 53 private clinics and 4 NGO's providing health care. Even though a small minority of people in Swaziland has medical aid benefits, the private sector has almost 50% of all doctors in Swaziland, and about half of all nurses in Swaziland work in the private sector.

In 2006, Government has embarked on the expansion of primary health care by including a major programme of rehabilitating, upgrading, and equipping primary health facilities in the country. Over the medium term, 54 clinics will undergo major rehabilitation as part of the national 5-year Health sector development programme. The childhood immunisation programme has been expanded in the remotest areas through mobile clinics. More care is also given towards the reproduction and maternal health care in all the primary health facilities. At the tertiary level, HIV/AIDS treatment programmes are also being rolled out to the rural health clinics as part of the efforts of halting and reversing the spread of HIV/AIDS.

Swaziland has **made progress towards provision of antiretroviral treatment (ART)**. Since 2003 ARV's have been gradually introduced in public institutions and are now accessible in Mbabane Government Hospital, five other sites in regional hospitals and in four other large clinics. It is estimated that 26,000 AIDS patients in Swaziland qualify for ART's. In line with the *WHO's* "3 by 5" initiative, the Government committed to provide ART to 13,000 people by the end of 2005. According to the National Emergency Response Council the target has been met, however the progress made and the provision of ART is hampered by the shortage of human resources, high attrition rate, data management, patient tracking, nutrition of patients on treatment and quality of care¹⁸.

Swaziland Universal Access Working table of indicators¹⁹

		Year 2006	Year 2008	Year 2010
ART	# of people with advanced HIV infection receiving ART	17,160	28,021	38,882
	# of people with advanced HIV infection	61,332	82,179	99,706
	% of people with advanced HIV infection receiving ART	27.98%	34.1%	39%
OVC	# of OVCs aged under 18	83,786	92,788	140,000
PMTCT	# of HIV+ pregnant women receiving ART to reduce MTCT	8,221	9,470	10,720
	# of HIV+ pregnant women in the last 12 months	12,310	12,830	13,400
	% of HIV+ pregnant women receiving ART to reduce MTCT	66.78%	73.81%	80%
VCT	# of people aged 15+ receiving an HIV test, the results and post-test counseling in the last 12 months	69,245	282,134	370,175
	# of people aged 15+	692,453	705,334	740,271
	% of people aged 15+ receiving an HIV test, the results and post-test counseling in the last 12 months	10%	40%	50%

Source: UNDP 2006

Swaziland won Round 2 and Round 4 of the **Global Fund** (US\$ 54M for HIV and AIDS, US\$ 1.8M for Malaria, US\$ 2.5M for TB under Round 2 and US\$ 48M under Round 4 for HIV/AIDS only) but lost the call under Round 6 in 2006. Fortunately the Country Coordinated Global Fund Proposal for Round 6, which was submitted in August 2006, classified as a category 3-proposal eligible for re-submission in June 2007. The round seven is now at the proposal submission stage. It is to be noted that donations by Global Fund have depreciated by about 30% due to the appreciation of the exchange rate between the Rand/Lilangeni and the US\$.

II.4 Update on the Environmental Situation

The European Union has commissioned a Country Environment Profile (CEP) at the beginning of 2006. It provides a clear picture of the state of environment and major challenges. An executive summary of the environmental review and assessment is included in annex XIV. The main conclusions is that undesirable environmental trends related to land and water management, land degradation and pollution, ecosystem and biodiversity degradation, climate change, and living conditions in human settlement have led to combined negative impacts on the society, in a sequence where the components are interactive and impacting on each other.

Challenges concerning Land and Water resources

The current area under crops is decreasing from 1980s and 1990s levels, and it is now estimated at about 120,000 ha (70,000 ha rain fed and 50,000 ha irrigated). An important competition for soil and water exists between crops and weeds: the invasive weed *Chromolaena odorata* is severely impacting on crops, mainly maize, because of its avidity for water. Poor land management has caused human-induced erosion and has accelerated existing natural erosion. Climate change is also expected to cause further land degradation through reduction in vegetation cover, changes in species composition, increased deforestation, desertification and disaster hazards.

Challenges concerning Ecosystems and biodiversity

Approximately 25% of each of the terrestrial ecosystem has been converted to some form of other land use. A total of 4,280 km² of biodiversity rich ecosystems have been converted to industrial forestry, sugarcane, urban area and others. By 2030 a total of 870 km² is projected to have been converted to other land use. Climate change is also expected to have a significant impact on ecosystems in Swaziland. Projected ecosystems from selected global climate models show a westward shift and shrinking of both the grassland and savannah ecosystem types. A tropical very dry forest type of ecosystem is expected to develop in the eastern part of the country replacing half of the current subtropical ecosystem.

Climate change

Swaziland does not have sufficiently long instrumental climate data to reliably construct past climates. As a result the wider temperature record for Africa south of the equator is used to present the climate of the twentieth century for the sub-region. Such an analysis shows a warming of almost 1°C between 1900 and 1980. Climate change models suggest that Swaziland will suffer of a **temperature increase of 3-6°C** and substantial decrease in annual rainfall compared to the baseline of 1961 – 1990, likely with larger differences between summer and winter and greater intensities of rainfall. This is likely to result in more frequent flooding conditions in the summer and more prolonged drought in the winter. During 2006, two major and atypical storms have affected Swaziland, respectively during the winter and in summer; the latter was accompanied by heavy hail and flooding. Climate change will negatively impact on land degradation and ecosystems, and hence reduce productivity and livelihood possibilities, in particular in Lowveld and Lubombo, unless adaptation measures to climate change are introduced.

Swaziland has developed since 1950s an extensive policy framework related to the environment. Significant environmental protection measures include the establishment of soil erosion control measures and the establishment of institutions charged with the conservation of the natural and cultural heritage. In recognition of the important role that sound environmental management plays in the development of the country. Swaziland has prepared a Swaziland Environment Action Plan (SEAP) to ensure proper integration of environmental management concerns into the national development planning process. The Government has to ensure the allocation of resources to make possible its implementation. Swaziland has also participated regularly in all international and regional forums dealing with environmental issues and has ratified the main conventions on the matter. However, the environmental legislative framework is currently still largely fragmented and outdated, although several essential pieces of legislation have been provided. Several policies and strategies still exist in draft form, or have not been developed, e.g. a Water Policy and a Biodiversity Policy and all have had only limited implementation or integration into institutional mandates and activities. Furthermore the lack of administrative capacity and budget does not allow the implementation of an effective environmental policy.

III OVERVIEW OF PAST AND ONGOING COOPERATION

The table below summarizes the financial performance under 7th, 8th and 9th EDF :

EDF No	Global Commit.	Individual Commit.	%	Total Paid	% Exp.	2006 Disbursement
9th EDF	33,122,000	11,375,854	34%	5,629,409	49%	2,944,706
8th EDF	24,535,354	24,502,596	100%	19,876,326	81%	2,579,236
7th EDF	25,154,806	25,092,708	100%	23,937,047	95%	210,869
TOTAL 7th, 8th & 9th EDF	82,812,160	60,971,158		49,442,782		5,734,811

On major positive issues and results achieved as well as obstacles encountered

The financial performance under the 9th EDF has improved, although remaining average. At the end of 2006, 94 % of the A envelope plus transfers have been committed (€ 33.1 million of global commitments), while the level of individual commitments amounted to 32 % of the A envelope plus transfers. The level of individual payments reached 16% of the A envelope plus transfers. The number of years to complete EDF payments has dropped from 17.56 (end 2003) to 11.2 (end 2005). The financial performance has improved although the EC office in Swaziland suffers from the fact that it depends from the Finance and Contract Section of the EC Delegation in Lesotho which is remote. The NAO office is also understaffed and it has difficulties ensuring a close follow up of the projects and application of EDF procedures. All funds remaining unused from the 9th EDF (around € 4.8 million) have been de-committed by March 2007 and recommitted

with an addendum to the ongoing Financing Agreement on Education (€ 3.0 million), and a project on trade (€ 1.8 million).

The Financing Agreements for two new projects, Gender and the Sugar Reform Unit, have been signed respectively in December 2006 and January 2007 and the implementation has started. The new Financing Proposal for the Trade project was sent to Brussels in February 2007. The Delegation concluded the mid term evaluation of LUSIP, Micro-projects, Capacity Building and the Final Evaluation of the Fiscal Restructuring Program.

The results achieved are:

- 100% of Global commitments foreseen in 2007.
- 101% of individual financial commitments. The forecast was 5.9 MILLION € and the contract signed amount 6 MILLION €
- 137% for payments. The forecast was 4.7 MILLION € and the payments made amount 6.4 MILLION €
- Decommitments on global commitments: 49%

One must take into account that although the figures seem excellent, the Delegation is very cautious in its forecast due to difficulties explained below. With a more satisfactory structure, forecasts could be significantly higher.

On constraints and problems encountered in the reporting period

As for many regionalized Delegations, the devolution process has been painful for Swaziland. The Delegation in Swaziland is one of the few Delegations where operational initiation/verification and financial identification /verification are not within the same Delegation. The disadvantages of the physical distance between Operation section in Swaziland and FCS in Lesotho are still clearly felt. There has been some improvement since financial initiation for payments is carried out in Swaziland; however the situation remains far from optimal and long-lasting solutions ought to be adopted. It should also be highlighted that, with the important funds to be provided under the sugar reform accompanying measures (14.8 million €), the large increase of the 10th EDF NIP allocation and the ongoing implementation of the 9th EDF programmes, the 'cruising speed' disbursements will dramatically scale up, from a currently modest 5-7 million € up to 25-35 million € per year. This situation would be aggravated by the fact that the funding under the accompanying measures be managed directly by the Delegation (centralized) putting additional pressure on our less than optimal set up. Clearly, it will be no longer possible to manage these amounts with current resources and structures. However, although headquarters have acknowledged the pressing need for a Finance and Contract Section to be operative in Swaziland, this has not been implemented yet.

The Delegation has noticed difficulties to retain qualified Long Term Assistants for our projects. The team leaders for the education projects and the TA to the NAO have resigned for different reasons and need to be replaced in the next weeks. The Delegation also faces high turn over of local staff at the level of project manager mainly due to low salaries. The local education task manager has resigned and left the Delegation in April 2007.

On the development of quality of assistance

Swaziland is currently not eligible for budget support. There are no agreements with the Bretton Woods institutions. A Public Expenditure Finance Assessment (PEFA) exercise was conducted by the Delegation in December 2006. The report (whose key findings are included in annex XIII) was shared with WB, IMF UN Agencies, USA Embassy and EU Member States accredited in Swaziland in view of defining a coordinated joint response and will serve as basis, provided the political commitment, for a most needed Public Finance Reform Programme in Swaziland.

The programmes targeted to directly support local communities (Microprojects, HIV/AIDS and Education) are seriously affected by the high complexity of the 9th EDF procedures for the award of small contracts. It is regrettable that EC procedures are hampering good development actions. It is becoming more and more difficult to meet the needs of the final beneficiaries following the rules.

Due to the impact of HIV/AIDS and the slowdown of the economy, the country's administrative capacity, which is already low, may even further decrease in the medium-term with a negative impact on project

implementation and government ownership of cooperation programmes. Bad governance and corruption are having negative consequences on the quality of our assistance.

The Delegation is taking measures to ensure that gender, environment and HIV/AIDS issues are duly mainstreamed across all projects, but capacity and action needs to be strengthened.

III.1 Focal sectors

9th EDF Focal Sector: Support to Education and Training

9 SW 003 – started April 2005 – duration 7 years

Funds :€ 20.0 million

a) Results

It should be recalled that education is the sole focal sector under the 9th EDF NIP and that the Support to Education and Training (SET) Programme will largely be implemented during the 10th EDF period. The 9th EDF programme, to which € 20 million have been allocated, started only in April 2005, due to the difficulties encountered by the EC to agree to the NAO's request for derogation from the N+3 rule. The proposal was revised a number of times until a derogation was granted in December 2004 and the Financing Agreement signed in April 2005.

The objective of the project is to improve access to and quality of education with the aim of achieving *education for all* by 2015. The project, through a team of four long-term international experts and a number of short-term consultants, provides support to the Ministry of Education to improve the national Education Management and Planning and implement education-focused policy measures. The project aims at increase access and quality in education at pre-primary, primary, and at technical and vocational education levels. The main area of support, in terms of financial volume, is primary education, in view to promote free primary education and to bring the OVCs into schools through the introduction of a capitation grant scheme. Furthermore the Programme is set to supply of materials and equipment, training, the construction and rehabilitation of buildings, (schools, staff houses and teacher training centres).

Coordination in the education sector is critical at both the technical level as well as the donor coordination level to support substantive policy dialogue. As a result, the key stakeholders from Government, Non State Actors and United Nations and the EC assembled in 2006 to formulate the Terms of Reference for an Education Sector Technical Working Group (ESTWG). The first meeting was held in November 2006 and the Delegation has played a key and leading role in this exercise.

b) Progress in activities

The EDF 9 Support to Education and Training (SET) Programme only entered into its operational phase in mid November 2006 and has not yet achieved any tangible results that would allow an assessment of its effectiveness. Most of the activities planned under PE No 1 (16th January 2006 to 15th April 2007) had not at all or only rudimentary been implemented. As a result no direct impact of the SET programme on areas identified for interventions in the NIP (Annex XV) and/or the Financing Agreement is yet to be expected.

The Financing Agreement was signed in April 2005, and a consultant was recruited in June 2005, to assist the Ministry of Education with pre-implementation programme assessments and planning activities in order to speed-up the subsequent programme implementation in 2006. Following an international tender launched in April 2006, the Programme has been provided with four long-term international experts, short-term consultants. Until May 2007 only three of the four could be mobilised. The team has, so far, assisted the Executing Agency preparing Programme Estimates (PE) No2 for the implementation period 15th April to 15th November 2007. The **Capitation Grant scheme** ran its first pilot-phase, involving 10 primary schools, in the academic year 2006/2007. An evaluation of the Capitation Grant pre-pilot phase is currently been carried by the TA team of international experts and will be incorporated into the 10th EDF programming for this sector. A call for interest for schools to take part to the second phase of the scheme has been published in May 2007. A policy document on **pre-schooling** and **curriculum guidelines** are in the pipeline and expected to be finalised by the end of 2007.

c) Degree of integration of cross-cutting themes (gender issues, environmental issues and institutional development and capacity building).

Gender issues have been core in the Education Strategy of the MoE which led to achievement, in 2005, of the gender parity in both primary and secondary education. The response strategy in education under the 10th EDF will also take account of the role and linkages with the private sector and other **NSAs** (i.e. vocational training institutes, community skill development centres), and it will build on the achievements of the EDF 9 Support to Education and Training Programme.

8th EDF Focal Sector: Rural Productive Development: Lower Usuthu Smallholder Irrigation Development Project

a) Results

Lower Usuthu Smallholder Irrigation Development Project (LUSIP)

7 SW 046+047, 8 SW 020+021 – started March 2003 - duration 8 years

Funds: € 11.45 million.

a) Results

LUSIP is a large-scale irrigation project, which will allow smallholder farmers to shift from risky rain-fed agriculture and low-productivity extensive cattle grazing, to high-value irrigated crops. The shift shall foster crop diversification, improvement in terms of agricultural productivity, trade, rural incomes as well as food security. Phase I project cost is estimated at SZL 1.3 billion over an 8-year period and is being co-financed through loans by six other donors (African Development Bank, European Investment Bank, International Fund for Agriculture and Development, BADEA - Arab Emirates Development Bank, ICDF – Taiwan Development Funds, Development Bank of South Africa). The GoS is also contributing.

Initially, the design and implementation of the works faced serious delays, and absorbed funds more slowly than originally envisaged. This was due to the complexity of the irrigation scheme and the geomorphology of the area, as well as difficulties in coming to an agreement with the local traditional authorities on issues related to land relocation and distribution of the water scheme.

The initial obstacles have been successfully overcome, and works implemented swiftly according to revised timelines. Nevertheless the assessment of the project results at this point in time of its implementation is still somehow premature and partial. Results on the basis of the performance indicators originally identified by the CSP¹⁶ (Annex XVI) can mostly be measured only upon completion of the downstream irrigation component. Overall, the facilities for providing irrigation have not been completed yet so the impact on poverty reduction is limited. However, currently the contractors are employing about 1,000 local people and it is estimated that about 100 additional jobs have been created in the area in the fields of catering and other services. A table with revised Indicator is included as annex XVII.

b) Progress in activities

The EC grant is aimed to strengthen project management and co-ordination including design and supervision. A project Director and two contractors have been mobilized in 2003 and 2004. The downstream development team of consultants were mobilised by IFAD in March 2005; this component of the project is actually the one that is far behind the deadlines, due to the complexity of the task; this implies that the survey, geotechnical investigations, design work and procurement for the phase I tertiary Distribution System, to be done by the Design and Supervision Component, is on hold, pending the agreement with Farmers Associations Organization.

Four lots of works, supervised by the Design and Supervision Component, are executed by 3 groups of contractors; the table in annex XXVIII details the progress achieved by each contract.

During 2006 a Mid Term Review and a Monitoring Mission took place, respectively in August and September. Both assessments acknowledged that the project is developing well concerning its supervision and engineering, but expressed concerns regarding finalisation of the ‘downstream’ elements of the project (land allocation, Water Users Groups, Farmers Associations, etc.). It has also been recommended that the TA (Project Director, PMU) should be extended for the four final years of project implementation, and the

¹⁶ *Performance indicators identified under 8EDF CSP*: reduction in the percentage of poor people, change in the production system from extensive rain-fed farming to intensive irrigated, increased on and off-farm employment, increased diversity and nutritional content in household diet, reduction in rate of illiteracy, reversal in the rate of out-migration, reduction in the prevalence of chronic malnutrition among children under five years, increased commodity trade.

Engineering Management until July 2010; to this end, the Project Director's Contract, expiring at the beginning of 2007, is under renewal for a further 4 years period.

c) Degree of integration of cross-cutting themes (gender issues, environmental issues and institutional development and capacity building).

Environment: Comprehensive Mitigation Plans have been prepared for Construction, Resettlement and Development of the Command Area. These have been submitted to the Swaziland Environmental Authority for approval and the CMPs for Construction and Resettlement have been approved. An independent Environmental Review Panel evaluates the project annually and reports to all stakeholders. A full time environmental monitoring team is base in the offices of LUSIP in Siphofaneni. Furthermore all construction contracts include environmental specifications.

Gender: Committees representing the community at all levels are encouraged to include female members. A report on Land tenure, Legal and Gender issues has been prepared under the project.

III.2 Macro-economic support

Swaziland is currently not eligible for budget support and has signed no agreements with the Bretton Woods institutions. As a form of assistance for the macro-economic stance of the country, a Public Expenditure Finance Assessment (PEFA) exercise was conducted by the Delegation in December 2006. The report will be one of the bases, provided the political commitment, for a most needed Public Finance Reform Programme in Swaziland. For more details on the key outcomes of the assessment please see intra II.2 and Annex XIII.

III.3 Projects and Programmes outside Focal Sectors

9 EDF - The Micro-projects Programme

9 SW 001 – started October 2003 – duration 4 years

Funds:€ 4.7 million

The overall objective of the Micro-projects Programme is support to the social and economic development of the most disadvantaged communities. The project aims at empowering local communities, foster their productive capacity, respond to their needs and contributing to environmental conservation and gender equality.

The Micro-projects Programme implements community projects in partnership with a range of NGOs, various Government Departments (namely the Ministries of Development and Planning, of Rural and Natural Resources and Energy, Regional Development and Youth Affairs, Works and Transport and Agriculture and Cooperatives), the Japanese Government, small business entrepreneurs and the beneficiaries communities themselves. The projects are in fact designed at the request of, and for, the communities which are bound to a 20% contribution (either financial or in terms of workforce). Appropriate training and capacity building are provided for each intervention at the start of operations. Once interventions have been initiated they are totally embedded within the communities concerned.

Activities focus on rural infrastructure projects and embrace a wide range of sectors, namely education, water, industries and markets, rural electrification, and agricultural infrastructure.

The key objective of the 2006 work plan consisted in the construction of two water and sanitation schemes for a total value of approximately 440.000 €, which was rescheduled to be implemented in 2007. To this end a call for proposal was launched in November 2006.

The project ensures the integration of cross-cutting issues and the involvement of Non State Actors (NSA). A total of 17 EU funded projects had been approved and completed from January to September 2006, for a total amount of € 336.000. These allowed for the construction and/or restructuring of schools, which ultimately lead to improvement of teaching and schooling conditions for 106.88 pupils in the rural areas. In 2006 two rural infrastructures projects were implemented by NGOs with grants below 10.000 € and a calls for proposal for grants below 10.000 was launched in November 2007 which

will benefit 12 projects to be implemented by NSA (mainly local NGOs, Associations, city councils, and rural clinics) in 2007. A call for proposal for building and restructuring of schools was launched in October 2006 for grants below 10.000 € which will benefit 11 schools projects to be implemented by the local communities in the rural areas by 2007.

A monitoring mission undertaken in October 2005 found that the Programme had achieved outstanding results and made a great contribution to the development of infrastructure in the country. Taking from the recommendations of the same mission, which also identified the need to re-align the programme regulations to 9th EDF policies and procedures, a framework contract was launched in 2006 and a long-term technical assistant hired to support the Programme Coordination Unit in September 2006.

EU funding to Microprojects is complemented by Government contributions of € 530.000 and funding by the Japanese Governmental donor Agency and the Kellogg Foundation. The intervention by the Japanese Government in 2006 totaled €387.000 and focused on supply of farm inputs for Orphan and Vulnerable Children (OVCs) and construction of Neighboring Care Points for OVCs. The 2006 Kellogg Foundation contribution of € 211.000 supported projects on leadership training for chiefs' councils, women's self-help groups and youth groups. All the projects are approved by a Technical Steering Committee which ensures aid effectiveness and coordination among donors.

9 EDF - Capacity Building for Development Planning and Programme Management

9 SW 002 – started April 2004 – duration 5 years

Funds: € 2.7 million

The programme supports MEPD by providing capacity building for priority areas of development planning. It is to improve the capacity of External Assistance Unit staff to co-ordinate donor support, and more effective project management will lead to stronger links between MEPD and line ministries. Improved planning and monitoring tools and enhanced capacity will produce much improved analysis of the impact of ongoing projects, particularly on economic growth and poverty reduction.

The project Financing Agreement entered into force in February 2004 and implementation commenced with the recruitment of an advisor to the External Assistance Unit in April 2004. Support under a framework contract was provided to assist EAU staff with donor and project/programme management with particular support for the management of EDF programmes in 2006.

In 2004/05 a total of seven economists undertook long-term post-graduate training in the UK and an officer from the Central Statistics Office began a diploma in computer studies in Botswana. In 2005/06 a further nine economists are undertook post graduate training, and an additional six economists are being trained in the UK in 2006/07. Another framework contract to provide for long term training in EDF Procedures for 2007/08 was due to be launched in February 2007.

A mid term review of the Programme undertaken in August 2006 concluded that the Programme had successfully achieved two of its four results, (i.e. an improvement in Programme/ Donor Management and Professional Capacity Building), whilst the other two results dealing with Support to NSAs and Support to CSO have been only partially achieved.

Consequently the TA advisor to the EAU assisted with the preparation of the terms of reference for short term technical assistance to define the performance gaps, with emphasis on gaps in the collection, analyses and reporting of current survey data related to poverty indicators by the Central Statistical Office (CSO). The Capacity Audit for CSO & Poverty Section on poverty related data was due to start on the 4th January 2007.

The Programme also aims to promote co-operation with and reinforce capacities of Non State Actors (NSA). A Mapping Exercise of the NSA's in Swaziland was completed in June 2005 and further support, including a one day workshop with NSAs was undertaken in the course of 2006 (see infra sect.)

Training on EDF procedures for ACMS staff and Project Staff in line ministries was undertaken by a short term consultant in November 2006. Finally the MTR recommended that a tender be prepared for a new TA adviser for MEPD/EAU to provide technical assistance to the Programme during its final 22 months of implementation. The new TA adviser was mobilised in April 2007.

9 EDF - HIV/AIDS Prevention and Care Programme (HAPAC) II

9 SW 006 – started January 2006 - duration 3 years.

Funds: € 2.0 million

This is a continuation of the 8th EDF HAPAC Programme, and its overall objective is to contribute to a reduction in the transmission of HIV and to alleviate the impact of AIDS in Swaziland. The project purpose is to improve access and use of quality *Voluntary Counselling and Testing (VCT)* and to provide *Home Based Care (HBC)* services in the Lubumbo, Northern Hhohho and Southern Shiselweni regions and improved management of *Sexually Transmitted Infections (STI's)* services nationally.

The Programme Financing Agreement was signed in November 2005 and the programme started in January 2006. The second phase of the project places more emphasis on mechanisms for integrating all HAPAC supported activities into public health care system in view of ensuring its long-term sustainability. Following the recommendations of the final evaluation of 8 EDF HAPAC I, the coordinating unit was reallocated to the Government Public Health Unit and coordination strengthened with the components of the National Strategic Plan and other related programmes (HBC, ART services), thus enhancing good planning of national initiatives and minimising the risk of duplication of efforts. The second phase of the project includes a new component on *health care waste management* and reinforces, as a support to the over-stretched national health services and as an exit strategy, the home based care family approach where people living with HIV/AIDS can receive quality care in their home environment.

An EC monitoring mission undertaken in the later half of 2006 underlined that to date the impact has been compromised by a number of operational constraints associated with the start-up phase of the intervention and also a failure to scale up the intervention to meet potential demand which can be created through a more aggressive outreach programme. Delays in the implementation of activities have persisted throughout 2006, due to the difficulties/ lack of capacity encountered by the coordination unit in planning and timely managing the financial resources and in complying with the EU administrative deadlines. Coordination meetings with the Delegation and NAO, as well as a number of training on EDF contracting and payment procedures, have addressed the issue and recommendations are being successfully implemented (reallocation of competences and responsibilities within the 2-persons coordinating unit, revision of management of payment requests).

A tender for the supply of three vehicles, which will allow for the delivery of the outreach HBC and VCT services and an effective monitoring and supervision of the activities, and a call for proposal for out-servicing the management of a new stand alone VCT site as well as the HBC component, have been launched in 2006 and finalised at the beginning of 2007. As a result three NGOs (Nhlango AIDS Training, Information and Counselling Centre (NATTIC), Finnish Red Cross and World Vision) have been granted contracts totalling to 120.000 €. A call for proposal was also launched for the provision of STI care management for the high risk groups. Unfortunately the only one applicant which responded was not administratively compliant and the tender had to be cancelled. Direct implementation under the MoHSW is currently being considered.

The Programme the health sector response plan of reducing the prevalence of sexually transmitted infections by 20% by 2008, the project has incorporated capacity building for service providers, development of STI management guidelines and manuals for nurses and health providers and of an operational STI surveillance system. Under the STI component the Programme provides funding for the training of health care providers, for the procurement of essential STI drugs (ex. Reagents for syphilis screening of pregnant women) and for the equipment of reference laboratories (ex. by procuring necessary supplies to perform gonorrhoea culture, syphilis and trichomonas culture).

The main activity undertaken by the project in terms of financial investment (750.000 € out of the 2 million of the EC contribution) is the support to GoS in the effort to strengthen the HIV/AIDS prevention system, improve HIV testing and counselling services and increase, as set in the National Strategic Plan against HIV/AIDS, the proportion of people who have been tested and know their status from the current 10% to 40% in 2008. A total of approximately 39.000 people have benefited of the counselling services provided through out the three VCT sites integrated in national health facilities and three stand-alone sites, of which 16.000 have requested to be tested. Of these clients a remarkably high proportion of about 41% were in the age of 20-29, giving hope of behaviour change.

The project is also assisting the GoS in achieving the objective of increasing by 70% the number of people receiving quality Home Based Care (HBC) by 2008, and it has been successful in initiating a comprehensive Home Based Care programme by training, in 2006, a total of 709 family and community care givers. Each care giver is given guidelines for health care in local language, a tool kit and health care products (such as napkins, gloves, syringes) and trained in waste management.

Feminisation of HIV/AIDS is an emerging issue of deep concern; gender inequality has been identified as one of the drivers of the epidemic in the country. The HAPAC II Program has budgeted gender issues in the Programme Estimates. Coordination has been strengthened in 2006 with the Gender Unit responsible for the national gender policy within the Ministry of Social Affairs, but no concrete outcomes have been achieved yet, mainly due to the lack of human resources within the Gender Unit.

9 EDF - Technical Cooperation Facility

<p>9 SW 005 – started November 2005 - duration 4 years Funds: € 2 million The overall objectives of the programme are: - The implementation of the Government’s Development Strategy through the support of sound development programmes financed by the European Development Fund. -The fostering of a more coherent and informed approach to general issues related to development cooperation, trade, etc.</p>	<p>main stages of the time and other EC tives of the ACP- ort term and long s, formulate and</p>
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implement projects.

- c) CS - Conferences and Seminars – these include: (a) more general training activities for ACP officials and/or non-state actors on topics related either to the priorities of the ACP-EU Partnership Agreement (structural adjustment, democracy, environment, trade, etc.) or to EDF or other EU administrative and financial procedures and (b) participation by ACP officials or non-state actors in international meetings or seminars on development, trade themes, and cooperation issues, etc and (c) the organisation of these events by the Commission, governments, NSA and the UN bodies.

During 2006 mid term and final evaluations of several programmes took place under the TCF. Framework contracts were also signed in relation with the preparatory work of the Sugar Accompanying measures for a) Technical Assistance for the Elaboration of the Swaziland National Adaptation Strategy in Response to the EU Sugar reform; b) Identification mission for the establishment of a Unit to coordinate the implementation of the Swaziland National Adaptation Strategy. The use of funds under the TAF of the TCF has been quicker than originally foreseen. An addendum to the Financing Agreement to internally reallocate funds and to increase the TAF will be necessary. The Programme Estimate 1 was prepared at the end of 2006.

9 EDF - Gender Programme

9 ACP SW 012 – 4,5 years until 31 December 2012.

Funds: The EC contribution amounts to Euro 1.4 million and UNDP's Euro 315,000

The project financing agreement was signed by the EC in 21 December 2006 and will last until 31 December 2012. Its purpose is to implant and monitor the UN Convention for the Elimination of all forms of Discrimination against Women, and build the capacity of state and non state actors in eliminating gender discrimination. The project will be implemented by the UNDP through a contribution agreement which was signed in March 2007. The Gender Unit in the Ministry of Home Affairs is the implementing agency.

The Gender Programme in Swaziland will aim to achieve the following objectives:

1. To develop and implement a Plan of Action based on shared international, regional and national commitments aimed at providing a framework for common action to fight discrimination against women and strengthen their full and equal participation in political, social, economical, educational and cultural spheres.
2. To enable key State and Non State actors to implement and monitor the implementation of the UN Convention for the Elimination of All forms of Discrimination against Women (CEDAW) through a multi-sectoral and integrated approach.
3. AIDS is a cross-cutting theme in all facets of the programme for the purpose of countering an escalating culture of violence against women and the stigmatisation of women living with AIDS.

The Gender Programme in Swaziland will be implemented through a Contribution Agreement with UNDP for € 1,000,000. UNDP is already making a significant contribution towards the implementation of aspects of CEDAW together with the Gender Unit, in the Ministry of Home Affairs and the Non State Actors' Gender Consortium. The balance of € 400,000 will be allocated for use by the Ministry of Economic Planning and Development towards the mobilisation of technical assistance, conducting external evaluations, monitoring, studies and audits.

The role of the Tripartite Partnership between the EC, UNDP and the Government of Swaziland cannot be overemphasised as strategic and effective in the coordination and implementation of this programme, therefore, they are part of the key stakeholders and are involved in every aspect of programming

8 EDF - Private Sector Support Programme

8 SW 016 – started November 2001 - duration 3 years extended to March 2006

Funds: € 5.9 million

The overall objective of this project was to create new employment opportunities through private sector expansion leading to a reduction in poverty and improved standards of living. Its purpose is to develop a conducive institutional and policy environment in order to attract both domestic and foreign investment for sustainable private sector growth focusing on labour intensive sectors, in particular tourism, and to facilitate the development of small-scale enterprises. Final evaluation of the project was done in August 2006, and project closure measures will be completed during the course of 2007.

This project includes components in support of small and medium enterprise development, tourism sector development and extension of the EU support for investment promotion. A request to extend the period of performance of the Financing Agreement for 15 months, to March 2006 was submitted and subsequently approved.

The project went through a number of difficult phases especially during the first two years when the contractor failed to provide a stable team of experts able to deliver the anticipated results. The activities undertaken during the year were constrained by the fact that Programme Estimate No. 4 was only approved in July 2005. Since then activities have included financing the entrepreneur of the year award, strengthening micro-finance institutions, the development of proposals for the commercialisation of SNTC Parks, the commencement of two community projects, and the upgrading of the National Museum, and the Ngwenya Mine visitor information centre.

The Final Evaluation report was issued in August 2006 and concluded that the PSSP had visibly advanced the private sector agenda in SWZ, and the leading actors are better equipped to effectively take that agenda forward. In brief, support was given for the SWZ Investment Promotion Authority (SIPA), an enhanced policy and regulatory environment for growth of SMEs with support from business counsellors, and the establishment of a sustainable tourism authority. Project closure measures will be completed during the course of 2007.

8 EDF - Fiscal Restructuring Programme

8 SW 017 – started June 2002 - duration 4 years.

Funds: € 5.6 million

The overall objective of the project was the achievement of sustainable economic growth and the reduction of poverty. The purpose of the project is to assist the Government of Swaziland in building up its capacity to formulate and implement a sound and equitable fiscal policy within a continued stable macro-economic environment. Project closure will be completed during the course of 2007.

Following a Mid-Term Review (MTR) of the programme undertaken in April 2004, it was redesigned with a focus on Tax Policy and Legislation and Public Expenditure Management.

The programme continued to support the MTEF budgeting software by training and developing manuals for trainers, administrators and users. It also supported the budget process, including the Medium Term Policy Statement, and short term consultants were mobilised in November 2005, to enhance capacity for implementing the privatisation policy and to forecast and manage revenues. A new Income Tax Bill, incorporating revenue and equity enhancing measures, was prepared by a short term consultant, and the SACU/US free trade agreement was modelled and is being utilised by GoS officials during trade negotiations.

The Programme came to an end in June 2006. The Final Evaluation Report was issued in September 2006 and commented on the difficulties encountered during implementation. There seems to have been a limited use of project management tools such as management information systems, output tracking systems and indicators. No significant impact at the level of overall project objectives has been achieved. There was a failure by the project to propose an overall fiscal strategy to policy makers which contributed to the low level of sustainability of the TA provided. Failure was mainly due to the late ‘take-off’ of the programme as a whole and internal TA issues (e.g. replacements of team leaders) during the initial stages of the programme, which resulted in the programme falling short in its goals. However the disappointing results lead the government to carry an internal assessment and take on board the recommendations of the evaluation in order to avoid further failure in this critical domain. Particularly new procurement processes have been adopted and a revenue Authority is being set up; the Public Expenditure Management is now increasingly becoming a concerted exercise between Central Bank and line Ministries and the Government is reinforcing its commitment in setting up a Public Enterprise Agency which with the aim to foster privatisation of Public Enterprises.

III.4 Utilisation of Resources for Non State Actors

The Delegation has so far utilised three channels for encouraging the participation of Non State Actors (NSAs) in development cooperation with Swaziland:

1. **Capacity Building for Development Planning and Programme Management** which aims to promote co-operation with Non State Actors (NSA), build the NSAs’ capacity to dialogue with the Government of Swaziland and to participate in the Cooperation programming, joint annual plans, mid-term reviews and even in the country Strategic Paper (CSP/NIP) process.
2. **Microprojects programmes** which implements (mostly rural infrastructure) community projects in partnership with a range of NGOs as well as with the beneficiary local communities themselves, various Government Departments, donor agencies and small business entrepreneurs.

3. **HIV/AIDS prevention and care programme (HAPAC)** which is implemented both directly through the Ministry of Health and Social Welfare, and by contracting out services to NGOs.

In addition to this:

Approximately €2.0 million (10% of the total EC contribution to the project) is available for financing contracts with NGOs under the **Education Support Programme** (i.e. for the creation and running of vocational training institutes, community skill development centres).

4. The **Gender Programme** signed in December 2006 foresees a significant participation of NSAs in the implementation, monitoring and reporting of the UN Convention on the Elimination of All forms of Discrimination against Women (CEDAW).

The EU funded “mapping study” on the situation of NSAs in Swaziland, which was completed in June 2005 assisted the participatory process and facilitated the preparation of specific programs in support for NSA’s. A platform for NSAs to communicate with each other and with the Government of Swaziland has been discussed as a follow-up to recommendations made in the Mapping Study. The Mapping Study highlighted that in order for NSAs to improve levels of participation in policy discussions and fora with Government they needed grants to support training and work in the area of information sharing, media and internet access.

NSAs have expressed their satisfaction with the initiatives taken by the Delegations to increase their participation in EC development programmes. However, the national response from NSA is still at this early stage, not encouraging because many NSAs are not familiar with the processes involved, the forms to fill and the supporting documents to include. Consequently, the participation of NSAs is often lower than anticipated eventually resulting in the Government of Swaziland doing direct implementation in areas where NSAs would have the comparative advantage on the ground.

In an effort to raise awareness of NSA participation, **capacity building initiatives** were offered to all NSAs in the poverty alleviation line under the 9 EDF Capacity Building for Development Planning and Programme. One day workshop with NSAs was held in November 2006 with the objectives to: a) Raise the understanding and awareness of the role and place of NSAs in the Cotonou Agreement; b) Identify structures of dialogue with NSAs that can be strengthened to enable increased participation of NSAs in development processes; c) Identify specific interventions aimed at strengthening the capacities of NSAs in order to strengthen their effectiveness in the implementation of 10th EDF Country Strategy programme; d) provide information on the use of EDF resources for NSAs. This training also emphasised the Government of Swaziland’s commitment to providing capacity and opportunities for NSA participation and it resulted in a commitment by NSAs to form a Forum of NSAs for greater involvement under 10th EDF.

NSA have proven to play an essential role in cooperation programmes as service providers, in particular within the activities of HAPAC II and Microprojects. Under the **HAPAC II Programme** a call for proposal for the management of the Voluntary Counselling and Testing (VCT) and Home Based Care (HBC) components of the HAPAC II Programme was concluded in 2006. The three successful NGOs (Nhlanguano AIDS Training, Information and Counselling Centre (NATTIC), Finnish Red Cross and World Vision) will benefit of grants globally amounting to 120.000 €. Under the **9th EDF Micro-projects Programme** a total of 17 EU funded projects have been approved and completed by September 2006 (for a total amount of € 336.000) to the benefit of local communities. These allowed for the completion, restructuring and /or construction of schools infrastructures which ultimately lead to improvement of teaching and schooling conditions for 106.88 pupils in the rural areas. A new call for proposal for building and restructuring of schools was launched in October 2006 for grants (globally amounting to 140.000 €) which will benefit 11 schools projects to be implemented by the local communities in the rural areas by 2007. In November 2006 a second call for proposal for grants below 10.000 was launched which will allow the completion of 12 rural infrastructures projects to be implemented by NSA (mainly local NGOs, Associations, city councils, and rural clinics) in 2007.

It is to be noted that NSA are also eligible for funding under a number of **community budget lines**. Opportunities for funding under this instrument are published internationally on the EU Official Journal and on the AIDCO website. The NGO Finnish Red Cross was awarded a grant in November 2006 under the **budget line for Co-financing with European Development NGOs** to implement a

project on Integrated HIV/AIDS and livelihoods. The EC contribution (75% of the total eligible costs of the project) amounts to 750.000 €.

The Italian NGO Cooperazione per lo Sviluppo de Paesi Emergenti (COSPE) was awarded in 2007 a grant contract for 2.153.850 € under **the budget line for “poverty-related diseases”**. The action, which aims at enhancing the community-based response to HIV/AIDS in rural areas of Lubombo Region, is to be implemented over the period 2007-2009.

Following the **revision of the Cotonou Agreement**, new provisions have been included to facilitate NSA access to indicative programme resources. NSAs can henceforth benefit directly from financing via grant contracts drawn up between the Commission and the body in question. However, as the primary objective is clearly to encourage better cooperation between government and local NSAs, and also given the positive recent developments in the relationship, direct funding should be taken only as a fallback option.

Under the 10th EDF Country Strategy Paper and National Indicative Programme (CSP/NIP), it is envisaged that the allocation under ‘Other Programmes’ for NSAs will be mainly focused on coordination and capacity building to maximise participation of NSAs identified and approved by cabinet as eligible partners in the implementation of programmes in the focal sectors. The 10 EDF CSP/NIP earmarks 1 million € for institutional support for non state actors over the period 2008-2013, the double compared to the figures of the ongoing 2002-2007 CSP/NIP .

III.5 Utilisation of Envelope B

The B-envelope is destined to cover unforeseen needs as emergency assistance, contribution to debt relief initiatives as well as support to mitigate adverse affects of instability in export earnings. So far Swaziland (and a large number of other countries) did not qualify for support under the B-envelope.

III.6 Other Instruments

III.6.1 Regional Cooperation and Trade

Being a member of both COMESA and SADC Swaziland participates in both the ESA and SADC Regional Indicative Programmes, but these are being managed by the EC Delegation in Gaborone. Swaziland benefits from the following EC regional projects including the EU-SADC Investment Promotion Programme (ESIPP) (€ 16,300.000), the Statistical Training Project (€ 4,800.000), Promotion of Regional Integration in the SADC Livestock Sector- PRINT (€ 7,900,000) and the Implementation and Coordination of Agricultural Research & Training –ICART project (€ 15,000,000).

III.6.2 Intra ACP Programmes

Swaziland is also eligible for intra ACP programmes such as PROINVEST, TRADE.COM, the ENERGY FACILITY and the WATER FACILITY. Under the Trade.Com programme, Swaziland is currently enjoying the benefits of having a “Spoke” from the Commonwealth Secretariat “Hubs and Spokes” Programme funded under Trade.Com.

Following the First Call for **WATER FACILITY** of 2004, the Project “An Integrated Sustainable Water and Sanitation Intervention in Swaziland” (component C), implemented by the Swazi NGO ACAT, has been approved. The project started in September 2006, with a duration for 5 year and an EC contribution of € 294,433. The Project specific objective is to increase access to water, improve basic sanitation and promote food security in 10 rural communities of Swaziland; it is located in the Lubombo and Shiselweni Regions. During the first three months of implementation, efforts have been concentrated on the logistic and community mobilization and selection. Following the evaluation of the second call for proposal, whose results have been communicated in December 2006, a project for the component “A” proposed by the Ministry of Natural Resources and Energy has been approved. The grant contract procedures will be started during 2007; the contribution required is 335,434.00 €.

III.6.3 Accompanying Measures for Sugar Protocol Countries (AMSPC)

Following the EU sugar reform of February 2006, Swaziland has elaborated its National Adaptation Strategy in response to the EU sugar sector reform (NAS), with the contribution of an ad-hoc consultation.

The EC Response Strategy followed a few months later; it aims to support the effective implementation of the NAS in specific areas, selected on the basis of added value, eligibility under EC financing policies, EC development policy guidelines and comparative advantages: a) Institutional support, including the establishment of a Restructuring and Diversification Management Unit (RDMU), for NAS implementation and a pool of experts to provide expertise in all relevant areas; b) Restructuring the provision of social services in the sugar belt; c) Support for improving the productivity and efficiency of smallholder sugarcane growers to ensure their long-term viability (including co-funding of the LUSIP programme where funding gaps appear); d) Infrastructure improvements in the production centres, sugar estates and transport chain; e) Support for diversification in the form of alternative agricultural products (cane-based or others) and non-agricultural uses; f) Cross cutting issues (mainly environment, gender and HIV/AIDS) which will be mainstreamed in the interventions.

The Restructuring and Diversification Management Unit, that will assist the GoS in the implementation of the 60 measures of the NAS and will coordinate NAS' different donors, will be financed under the 2006 Accompanying Measures for Sugar Protocol Countries (budget line B21.03.09 SUGAR). The financing Agreement, for a value of 4.7 Million €, has been signed by the EC in December 2006 and by the Government of Swaziland at the beginning of January 2007.

The AMSPC will be into force until 2013. Other measures included in the EC response strategy will be financed under the financing instrument for development cooperation (DCI). For the period 2007-2010 a budget of almost 70 millions € is foreseen.

In October / November 2006, an audit has taken place to verify the conformity of the legal texts of Swaziland with the requirement to article 164 of the Financial Regulation concerning the decentralized management of the funds for the Accompanying measures; the mission was not satisfied with the findings and centralised management of the programme has been recommended.

III.6.4 EIB

Under the Second Financial Protocol to the Lomé Convention, the Bank had envisaged making available an amount of about EUR 10 million for projects in Swaziland. The actual volume of operations in fact greatly exceeded this amount, with signatures of just under EUR 93 million (EUR 53.5 from the Bank's own resources and EUR 39.45 million from risk capital resources), demonstrating the Bank's continuing substantial support for the Kingdom's economic development.

EIB's activities in Swaziland under this Protocol were focused on the following main areas:

- SME support: A follow-up Global Loan facility of EUR 10 million (signed on 02/05/2000) to the Swaziland Industrial Development Company (SIDC), providing for loan and indirect equity finance for small and medium-sized private sector investments in productive activities in eligible sectors (industry, agro-industry, mining, tourism, transport and related service sectors). A total of EUR 7.3 million was allocated and disbursed under this facility and the remaining balance was cancelled in 2004.
- Electric power infrastructure: A total of EUR 32 million (EUR 21.95 million from risk capital and EUR 10 million from own resources) were made available, either directly or indirectly, to the Swaziland Electricity Board (SEB), to co-finance the reinforcement of the national electricity grid and regional inter-connection as well as the construction of the Maguga hydropower station.
- Agro-industry: In 2000, two loans for a total amount of EUR 15 million were provided to the Royal Swaziland Sugar Corporation (RSSC) for the expansion and upgrading of the Simunye sugar plantation and mill, including the replacement of the on-farm irrigation systems. Both loans were fully disbursed and repayment started in 2004.

In 2003, the Bank signed a loan for EUR 36 million for the Lower Usuthu Smallholder Irrigation Project (LUSIP), co-financed by the EC under the 8th EDF (cf. page 17 of this report). The project (which will primarily facilitate smallholder sugar-cane development) is in one of the poorest areas of Swaziland and is expected to have a significant poverty alleviation impact. Given the significant resources required for the completion of this project on the one hand and the increasing pressure on public finances on the other, the Government's continued maintenance of a prudent fiscal policy is of utmost importance

Under the Cotonou Agreement / Investment Facility, EIB support to the economic development of the Kingdom of Swaziland will continue to focus on essential infrastructure, such as power or water supply,

continued support to SIDC or other intermediaries to support small and medium scale enterprises and direct funding of large individual projects, such as for example in the tourism sector, where the Bank can contribute value added in the technical and/or financial structuring of the investment.

III.6.5 Community Budget Lines

ECHO Contracts

The following contracts were signed in 2005 directly with ECHO:

Beneficiary	Title of the project	Implementation time	EC contribution
Finnish Red Cross	Food aid to vulnerable people in Northern Hhohho.	11 months from 1/7/2005	€ 407,700
UNICEF	National community care for highly vulnerable children in Swaziland through Neighbourhood Care Points (NCP's).	10 months from 1/8/2005	€ 450,000

IV. ASSESSMENT OF PERFORMANCE INDICATORS

Although the performance indicators originally foreseen are considered appropriate and sufficiently defined, data availability and quality remain a great concern which hampers our capacity to assess results and measure performance. The JAR 2006 process in Swaziland highlights, in fact, serious data paucity. Data gathering capacities, quality of recent survey information, statistical tracking and analysis capacities, capacity to incorporate statistical analysis into policy, planning and resource allocation mechanism, monitoring and evaluation mechanism are extremely weak. The effective tracking of progress towards the achievement of the objectives of the EU cooperation, as well as of the MDGs, requires the availability of statistics that are reliable, valid and up to date. At the time being, persistent unavailability of data and critical underperformance of monitoring and evaluation mechanisms constitute a major obstacle in the in monitoring the achievement of the MDGs and the EU programmes.

In view to support the GoS' statistic capacity a short term training and technical assistance to the Central Statistics Office was provided in March 2007 under the Capacity Building programme. The needs resulted to be so significant that the impact of the mission in the short term almost irrelevant.

The Central Statistical Office (CSO) is currently conducting, under the auspices of the Ministry of Health and Social Welfare, the first Swaziland Demographic and Health Survey (SDHS). The survey is a long-awaited response to the critical situation of data paucity and it is unique in its nature as – for the first time – it will provide a general population-based estimate of anemia and HIV prevalence in the country¹⁷. The Final report, expected to be published in the first semester of 2008, is set to provide policy makers and donor agencies with a new reliable tool to define and monitor health, nutritional and demographic indicators and measure the impact of policies and progress towards MDGs, NDS and PRSDP (as well as UNGASS, MICS/WfFC and UNAIDS/PEPFAR).

Furthermore, the GoS, under the leadership of the Ministry of Enterprise and Employment, is set to take action in 2007 to strengthen and improve the quality and production of statistics, on the basis of the conclusions and recommendations of the Labor market survey undertaken by the African Development Bank in 2005.

V. DONOR COORDINATION AND HARMONISATION

EU coordination and policy harmonisation in the field of development cooperation, is a relatively simple exercise since there are almost no member states' projects, virtually all EU assistance being confined to that of the EC. In 2006 only two Member States (Italy and UK) undertook poverty reduction intervention in Swaziland. The Italian Cooperation is supporting the Ministry of Health and Social Welfare in rehabilitation and expansion of laboratories. The assistance is intended for the improvement of quality

¹⁷ Unlikely the Antenatal Clinic (ANC) Sentinel prevalence surveys carried since 1992 which provided with HIV prevalence rates among pregnant women only.

control. This includes rehabilitation, expansion and supply of medical equipment and furniture for the expanded laboratories.

The UK's Rural Water Supply Sanitation and Hygiene Institutional Support Project (GBP 330,000) which was co-financed by the Government of Swaziland and DFID ended in 2006. The aim of the programme was to establish and institutionalise processes and systems that are pro-poor, participatory and holistic. The pilot projects in the programme assisted in meeting the urgent demand for immediate service delivery voiced by poor communities.

Since the departure of the British High Commission in 2005 there is no MS diplomatic mission in Swaziland. EU member states conduct their relations - if any - with Swaziland through their embassies in South Africa or Mozambique, although Italy, Portugal, Cyprus, The Netherlands and Germany do have Honorary Consuls in the country.

Coordination among EU Member States consists therefore principally of ensuring that member states are kept well informed of EC plans and programmes and are able to provide their input and comments at the appropriate stage. This is largely ensured through the annual review process, as well as through less formal contacts whenever the occasion arises.

Beside the EU Member States, Swaziland benefited in 2006 of assistance by the Global Fund, USAIDS, the Japanese International Cooperation Agency, the Republic of China (on Taiwan) and UN agencies (for more details please see the Donor Matrix in annex XIX).

General donor coordination takes place at irregular intervals and can be considered to be open and reasonably effective.

The HIV and AIDS specific high-level coordination forum, which used to convene under the auspices of UNDP and NERCHA has not met since December 2005 and a need is perceived to re-actualise the coordination and follow up mechanisms. Technical working groups of international donors Swaziland in the fight against HIV/AIDS have convened at irregular intervals, and coordinated the intervention of implementing agencies as follows to avoid duplication of efforts, and enhance aid effectiveness: WHO gives support for technical guidelines, capacity building, advocacy, care and support, information sharing and policy advice; UNICEF's Child Health and Nutrition Project aims to strengthen primary health care services and community care capacities, in order to improve infant and young child feeding, reduce iron deficiency anaemia and improve management of diarrhoea; UNFPA provides support for youth activities, prevention and gender issues; UNDP provides support for multilateral capacity building, policy support and communication; The Italian Cooperation is supporting the Ministry of Health and Social Welfare in rehabilitation and expansion of hospital laboratories; DFID provides support to bilateral behavior change programme, capacity building and USAID provides support to Prevention of Mother to Child Transmission (PMCT).

VI. DIALOGUE IN COUNTRY WITH THE NAO AND NSAs

EC relations with **Government of Swaziland** are friendly and open. Relations are close and constructive and the level of cooperation is generally good. The National Authorising Officer (NAO) is personally involved in preparation and implementation of all EC cooperation, both at NIP and project level. Contacts between the NAO and the delegation are business-like and frequent. Relations with other ministries are also close and friendly, but not always as fruitful or effective as with the MEPD. Relations with the Ministry of Education, a key Ministry for the 9th EDF focal sector, are good, however sometimes suffering from the low capacity of this Ministry.

Laudable progress has been achieved from the NAO side in terms of quality of dossiers and speed in processing and submitting requests. The NAO's Office has been reinforced with additional staff. Operational manuals, check lists and circuits for his Office have been established. A Technical Assistant (TA) has been providing training to the projects and the NAO on the 9th EDF procedures.

As regards **Non State Actors (NSAs)**, EU cooperation is a more recent development and it is increasingly appreciated by all parties. NSA are regularly consulted on various aspects of EU cooperation and involved in the implementation of cooperation projects and programmes in areas that concern them. However, while their role is well established at the level of project implementation, this has not been the case with their

involvement in the programming and assessing the EC- Swaziland cooperation policy. Recent efforts to involve NSAs more in the cooperation have been made with variable success. A wide range of NSAs were involved during the preparation of the 9th EDF Education and Training programme, including investigation of the potential and effective role of NSAs particularly in the TVET sector. This was carried-out with a view to propose specific activities and resources to support NSA in exercising their role. NSA are routinely involved in project reviews and evaluations, and were extensively consulted during the evaluations of the HIV/AIDS Prevention and Care Programme the Fiscal Restructuring Programme and the Strengthening Capacity in Trade Promotion and International Trade Management project. However, a strategy for regular dialogue with NSAs needs to be set out and agreed.

NAO and NSAs consultation process for the Joint Annual Report

NAO: The first draft report was produced jointly by NAO and the Delegation. This final draft was circulated and further discussed with NAO's representatives attending the consultation meeting together with NSAs. No comment was submitted.

NSA: A meeting was held between the EC, representatives of civil society umbrella organisations¹⁸ and two representatives from the Ministry of Economic Planning and Development (MEPD). The framework of the EC's co-operation with Swaziland was outlined, as well as the content and context of the JAR. The draft JAR 2006 was disseminated few days before the meeting and comments were requested in writing within a week from the consultation meeting. No comment nor feedback was received.

VII. CONCLUSIONS

➤ key political, economic, social and environmental developments over the past year

The adoption of the new Constitution marks the preliminary end of a ten year drafting and consultation process and a significant change of Swaziland's political framework. On 8 February 2006 the Constitution of the Kingdom of Swaziland entered into force and with it a new era has started where effort will be made to reconcile requirements of modern law with traditional Swazi law and customs.

Swaziland's economic performance remains weak. In 2006, Growth slowed to around 1.8 %, down from 2.7 % in 2004; inflation is rising; and the current account surplus is narrowing. Growth is hampered by substantial real appreciation of the lilangeni during 2002-04, and recurrent droughts. Over that same period, rising government expenditures, especially on the wage bill, undermined fiscal sustainability and reduced foreign reserves to critically low levels., the forecast decline in SACU tariff revenues and Swaziland's limited diversification are likely to contribute to slowing growth to about 1 % in the medium term.

Swaziland currently has the highest rate of HIV infection in the world, estimated at 39.2% according to a antenatal sentinel surveillance survey conducted in 2006. Although there has been a slight decline from the previous level of 42.6% in 2004, rates remain unacceptably high, and if not immediately and resolutely addressed threaten the very viability of the Swazi nation. There are a variety of factors that have exacerbated the spread of the pandemic, including poverty (although Swaziland is classified as a Middle Income Country, 69% of the population are below the poverty line), demographic structure of the population (approximately 70% of the population is under the age of 30), migration patterns, stigma and denial and pervasive gender inequality. All of the above has been heavily influenced by prevailing cultural attitudes and practices. Swaziland is a very rural (70% of the population reside in rural areas) and traditional society. It is governed by Africa's last absolute monarchy, and the institution of the chiefs is integrated into the governance structures at local and national levels. It is thought that a number of cultural practices facilitate vulnerability to HIV infection, particularly among women.

The dramatic effects of the present level of sero-positivity cannot be overestimated. Many traditional social safeguards are being eroded while the demands made on health services are putting additional stress on the

¹⁸ Civil Society participants included: Musa Hlophe, Coordinator, Swaziland Coalition of Concerned Civic Organisations (SCCCO); Zodwa Mabuza, Director, Trade and Commerce Federation of Swaziland Employers and Chamber of Commerce; Lomcebo Dlamini, Women and Law in Southern Africa and Muzi Masuku, Open Society Initiative of Southern Africa

government budget and public services. The high prevalence of HIV/AIDS seriously undermines human development prospects. The combined effect of the above developments has led to a deterioration of public service delivery to such an extent that the country might become dysfunctional in the respective areas unless appropriate remedial measures are taken.

➤ **progress achieved in poverty reduction**

The low revenue base, weak public expenditure management, and wage pressures inhibit the effective execution of the government's Poverty Reduction Strategy and Action Plan and the mobilization of much-needed development assistance. Despite the encouraging policy pronouncements, and the fact that a poverty reduction policy framework is indeed in place in all focal sectors, the accompanying measures to implement the policies are not evident and the distribution of national resources does not reflect the dramatic social challenges faced by the country. Progress towards the achievement of the MDGs has been only partial and projections are not promising. Based on available statistics and on the latest MDGs progress assessment¹⁹, Swaziland will not meet the MDGs

Poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS infection rate. Human Development in Swaziland kept worsening since 1990 with the Human Development Index (HDI) declining from 0.622 in 1990 to 0.500 in 2006 (thus ranking 146th out of 177 countries)²⁰. Swaziland ranks as a lower-middle-income economy with per capita GNI at US\$ 2.280 in 2005, performing better than most members of SADC. However, the country has one of the highest income inequality among low-middle-income countries and is characterised by significant regional disparities. The World Food Program estimates that about 20 % of the population required food aid during 2006.

➤ **efforts in the refinement of indicators to measure performance in focal sectors**

Although the performance indicators originally foreseen are considered appropriate and sufficiently defined, data availability and quality remain a great concern which hampers our capacity to assess results and measure performance. Persistent unavailability of data and critical underperformance of monitoring and evaluation mechanisms constitute a major obstacle in the monitoring the achievement of the MDGs and the EU programmes and in assessing the adequacy of given indicators.

➤ **involvement of NSA, parliaments, local authorities + MS coordination and donor harmonisation.**

Local authorities and Non State Actors (NSAs) participation in the country's policy making has improved following the adoption, in 2005, of a Decentralisation Policy, and, in 2006, of a NGOs policy.

The Decentralisation Policy takes from the introduction, by the 2005 Constitution, of local government structures (*Tinkhundla*) with clearly defined operating structures, systems and procedures, and financial independence. In line with the Constitution, the Poverty Reduction Strategy and the Action Plan, it calls for decentralization and strengthening of the *Tinkhundla* centers in order to allow communities to participate in the identification of their priorities. A Ministry for Regional and Youth Affairs was created in 2006 to implement and mainstream the new policy.

The newly adopted NGO Policy aims at creating an environment conducive to NSA's involvement, marks the Government's increasing effort to enhance cooperation with civil society and recognise their important role in service delivery and public awareness campaigns. A legal framework enabling the implementation of the policy provisions is still in the need.

For the Government
Of the Kingdom of Swaziland

For the European Community

¹⁹ UNDP, December 2003

Principal Secretary
Ministry of Economic Planning
and Development

Peter Beck Christiansen
and Head of the EC Delegation in the Kingdom of
Swaziland

ANNEXES

ANNEX I - COUNTRY AT A GLANCE

1.1 Table with Macroeconomic indicators

	2000	2001	2002	2003	2004	2005	2006	2007
Basic Data								
1. Population ('000)	1,003	1,030	1,056	1,081	1,105	1,126	-	-
Annual Change in %		2.7	2.5	2.4	2.2	1.9	-	-
2a. Nominal GDP (€ Million)	1522	1377	1297	1530	1986	2165	-	-
2b. Nominal GDP per capita (€ Million)	0.00152	0.00134	0.00123	0.00141	0.00180	0.00192	-	-
2c. Annual Change in %		-12.9	-15.6	23.7	13.8	32.1	-	-
3. Real GDP (Annual Change in %)	2.0	1.7	2.8	2.9	2.7	2.0	-	-
4. Gross Fixed Capital Formation (in % of GDP)	23.7	30.6	25.8	27.3	20.6		-	-
International Transactions								
5. Exports of Goods and Service (% of GDP) -of which the most important (in % of GDP)	81.1 64.2	98.8 83.6	87.6 84.1	91.6 91.9	89.4 79.0	77.8 54.1	- -	- -
6. Trade Balance (in % of GDP)	-14.9	-10.3	-2.0	2.2	-1.1	-4.4	-	-
7. Current Account Balance (in % of GDP)	-3.3	0.9	2.9	5.2	4.7	1.0	-	-
8. Net Inflows of FDI (in % of GDP)	6.9	3.7	3.5	-4.1	2.9	0.3	-	-
9. External Debt (in % of GDP)	21.3	24.9	28.1	22.9	18.5	20.1	-	-
10. Service of External Debt (in % of export of goods and non-factor services)							-	-
11. Foreign exchange Reserves (in months of imports of goods and no factor services)	4.9	4.2	3.2	2.0	2.0	1.9	-	-
Government								
12. Revenues (in % of GDP) of which grants (in % of GDP)	29.1 1.2	29.4 1.2	26.9 1.3	29.8 1.1	30.4 0.7	31.7 0.6	28.7 0.5	28.1 0.5
13. Expenditure (in % of GDP) of which capital expenditure (in % of GDP)	30.4 6.2	32.3 8.2	31.5 7.3	33.3 6.1	34.9 7.9	36.0 8.1	30.7 6.5	29.9 6.3
14a. Deficit (in % of GDP) including grants	-1.3	-2.9	-4.6	-3.5	-4.5	-4.3	-2.0	-1.8
14b. Deficit (in % of GDP) excluding Grants	-2.4	-4.1	-5.9	-4.6	-5.2	-4.9	-2.5	-2.3
15. Debt (in % of GDP) -of which external (in % of total Public Debt) -Other	17.8	19.5	21.7	17.5	16.0	17.7	0.0	0.0
16. Consumer Price Inflation (annual average change in %)	7.3	7.5	11.7	7.4	3.4	4.8	-	-
17. Interest Rates (for money, annual rate in %)	11.0	9.5	13.5	8.0	7.5	7.0	-	-
19. Unemployment (in % of labour force, ILO definition)	-	29.0	-	-	-	-	-	-
20. Employment in agriculture (% of total employment)	-	10.3	10.5	-	-	-	-	-

ANNEX II - INDICATIVE TIMETABLE FOR COMMITMENTS AND DISBURSEMENTS

Schedule of Commitments and Disbursements (€ million)

Title		2007		2008		2009		2010		2011		2012	
		S1	S2	S1	S2	S1	S2	S1	S2	S1	S2	S1	S2
Focal Sector:													
Education and Training	Com.												
	Disb.	5,0	5,3	2,0	2,0	2,0	1,0						
Smallholder Irrigation (1)	Com.												
	Disb.	1,2	0,7	0,7	0,6	0,6	0,4	0,4	0,5				
Decentralised Poverty Reduction	Com.												
	Disb.	0,6	0,5	0,3									
Trade and Regional Integration	Com.		1,8										
	Disb.		0,3	0,3	0,4	0,4	0,2	0,2					
Capacity Building for Development Planning and Non State Actors (2)	Com.												
	Disb.	0,4	0,4	0,3	0,2	0,2							
HIV AIDS Prevention and Care Programme	Com.												
	Disb.	0,2	0,3	0,4	0,4								
Technical Co-operation Facility	Com.												
	Disb.	0,2	0,2	0,3	0,3	0,2	0,3						
Gender Intervention Programme	Com.	1,0											
	Disb.	0,4	0,1	0,1	0,2	0,1	0,1						
Total													
		8,0	7,8	4,4	4,1	3,5	2,0	0,6	0,5	0,0	0,0	0,0	0,0

(1) includes 7.5 M€ from EDF 7 + 8

Annex III - FINANCIAL SITUATION FOR 9th EDF (grants)

Project No.	Project Title	Date committed	Primary Commit.	Secondary Commit.	Total Paid	Paid in 2003	Paid in 2004	Paid in 2005	Paid in 2006	Total
9 SW 001	Microprojects Programme	21.10.03	4.700.000	4.072.678	2.439.204	13.556	995.099	736.877	693.673	2.439.204
9 SW 002	Capacity Building	02.02.04	2.700.000	2.216.357	1.344.398	0	139.262	638.131	567.005	1.344.398
9 SW 003	Support to Education & Training	12.04.05	20.000.000	3.353.632	720.141	0	0	9.483	710.658	720.141
9 SW 004	HIV AIDS (Rider 11)	21.04.05	287.500	247.000	212.256	0	0	117.796	94.460	212.256
9 SW 005	Technical Co-operation Facility	16.08.05	2.000.000	588.688	418.280	0	0	0	418.280	418.280
9 SW 006	HIV AIDS (HAPAC) 11	18.08.05	2.000.000	863.000	460.629	0	0	0	460.629	460.629
9 SW 011	Gender Programme	05.09.06	1.400.000	0	0	0	0	0	0	0
9 SW 012	Competitvness and Trade Support	25.09.06	0	0	0	0	0	0	0	0
TOTAL ONGOING PAYMENTS			31.687.500	11.341.354	5.594.909	13.556	1.134.361	1.502.287	2.944.706	5.594.909

Annex IV - FINANCIAL SITUATION FOR 8th EDF (grants)

Project N.	Project Title	Date committed	Primary Commit.	Secondary Commit.	Total Paid	Paid in 1999	Paid in 2000	Paid in 2001	Paid in 2002	Paid in 2003	Paid in 2004	Paid in 2005	Paid in 2006
8 SW 002	Microprojects Programme	31.07.98	3.100.000	3.097.058	3.097.058	310.943	497.474	1.356.693	627.433	391.237	-86.723	0	0
8 SW 016	Private Sector Support	12.04.00	5.425.000	5.424.562	4.490.182	0	0	0	1.019.848	1.060.512	1.818.120	-612.676	1.204.378
8 SW 017	Fiscal Restructuring	09.06.00	4.350.000	4.343.734	3.135.707	0	0	0	251.996	781.337	696.495	618.834	787.045
8 SW 019	HIV/AIDS	01.01.01	1.960.000	1.936.888	1.835.935	0	0	0	126.015	575.387	796.515	294.615	43.404
8 SW 020	LUSIP	25.07.02	5.550.000	5.550.000	3.167.090	0	0	0	0	0	1.997.697	624.982	544.410
8 SW 021	LUSIP	25.07.02	4.000.000	2.330.594	1.134.832	0	0	0	0	0	686.127	145.392	303.313
TOTAL ONGOING PAYMENTS			20.385.000	20.352.242	15.725.972	310.943	497.474	1.356.693	2.025.292	2.808.473	5.222.104	925.756	2.579.236

Annex V - FINANCIAL SITUATION FOR 7TH EDF (grants)

Project No.	Project Title	Date Committed	Primary Commit.	Secondary Commit.	%	Total Paid	% Exp.	2006 Disbursements
7 SW 008	Institutional Strengthening	22.06.93	2.853.423	2.831.326	99	2.809.289	98	0
*7 SW 046	LUSIP	25.07.02	157.116	157.116	100	0	0	0
7 SW 047	LUSIP	25.07.02	1.742.884	1.702.884	98	569.260	33	210.869
TOTAL ONGOING PROJECTS			4.596.308	4.534.210		3.378.549		210.869
CLOSED PROJECTS			20.558.498	20.558.498		20.558.498		0
REGIONAL Projects-closed								
TOTAL 7th EDF			25.154.805	25.092.708		23.937.047		210.869

NIP Commitment	25.154.805
Uncommitted Balance	0
% NIP Committed	100%
% NIP disbursed	95%

Annex VI - FINANCIAL SITUATION FOR 7th EDF (grants)

Project No.	Project Title	Date Committed	Primary Commit.	Secondary Commit.	%	Total Paid	% Exp.
	TOTAL ONGOING PROJECTS		0	0		0	
	CLOSED PROJECTS		24.614.500	24.614.500	100	24.614.500	100
	TOTAL 6th EDF		24.614.500	24.614.500	100	24.614.500	100

NIP Commitment	24.614.500
Uncommitted Balance	0
% NIP Committed	100%
% NIP disbursed	100%

Annex XI EIB PROJECTS
SWAZILAND - Country Portfolio as at 31.12.2006

Loans from EIB Own Funds											
Loan No	Name	signed on	Evolution	Mandate	Amount signed	disbursed	to be disbursed	cancelled	Outstanding	1st repayment	last repayment
10731	SWAZILAND SUGAR	1/11/1978	fully repaid	Lomé 1	10,000,000.00	10,000,000.00	-		-	12/5/1982	12/5/1989
11183	NIDCS PG SWAZILAND	12/16/1980	fully repaid	Lomé 1	2,000,000.00	1,410,000.00	-	590,000.00	-	4/1/1985	10/1/1992
11293	SWAZILAND ELEC BOARD POWER	9/22/1981	fully repaid	Lomé 2	7,000,000.00	7,000,000.00	-		-	3/20/1985	9/20/1996
14117	SMI - ABATTOIR	8/2/1989	fully repaid	Lomé 3	1,000,000.00	874,360.00	-	125,640.00	-	7/31/1994	7/31/2004
14311	SPINTEX SWAZILAND	11/22/1989	fully repaid	Lomé 3	4,000,000.00	4,000,000.00	-		-	11/20/1993	11/20/1999
20453	SIMUNYE SUGAR A (SO)	1/27/2000	disbursed	Lomé 4 bis	7,500,000.00	7,500,000.00	-		3,567,935.94	4/30/2004	10/31/2009
20807	SEB II TRANSMISSION	11/21/2000	disbursed	Lomé 4 bis	10,000,000.00	10,000,000.00	-		8,582,000.00	4/15/2004	10/15/2020
21990	LOWER USUTHU SMALLHOLDER IRRIGATION	3/28/2003	signed	Lomé 4 bis	36,000,000.00	30,944,051.68	-		5,055,948.32	6/15/2008	12/15/2022
					77,500,000.00	71,728,411.68	-	715,640.00	17,205,884.26		

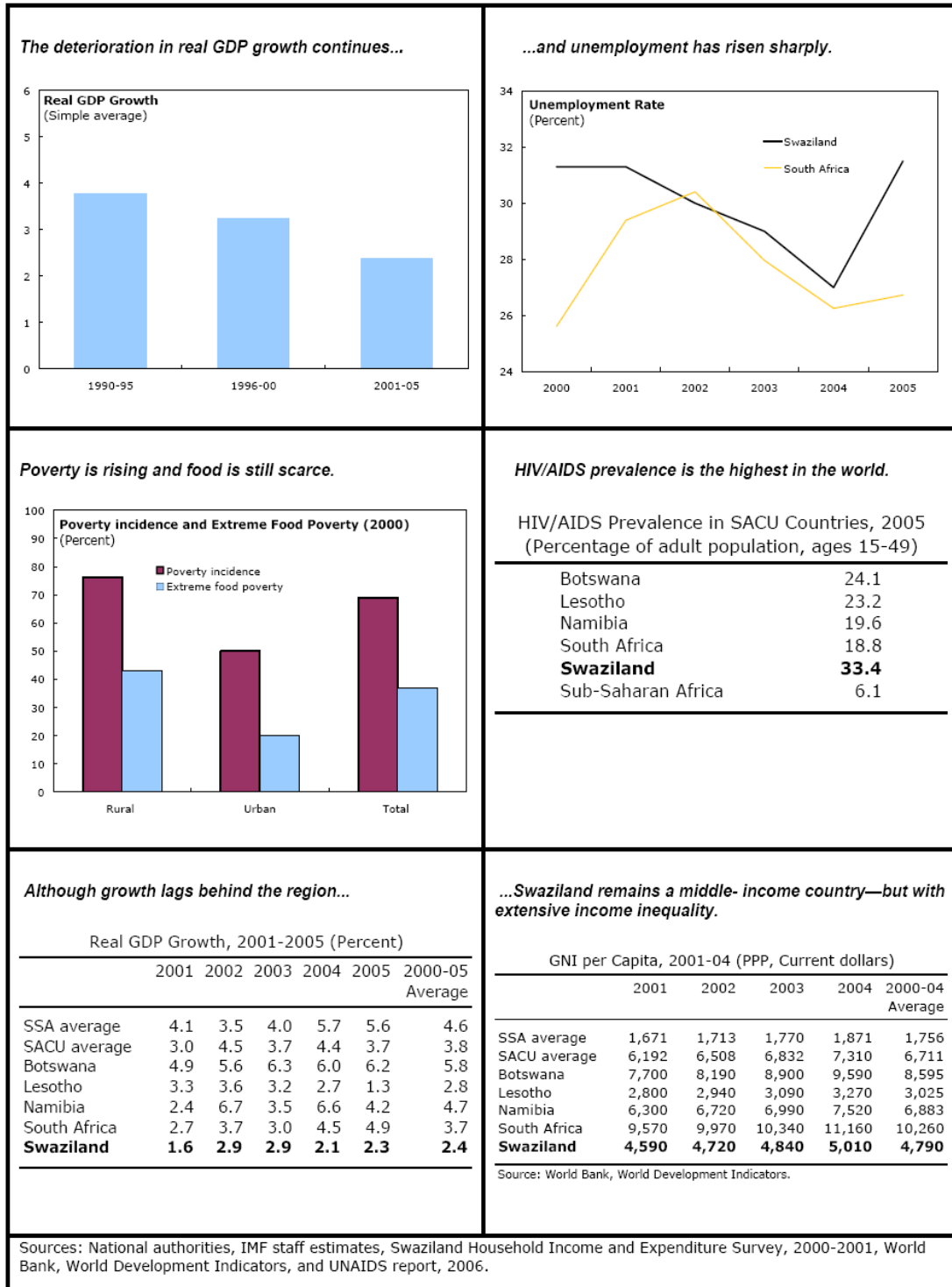
Loans from Risk Capital Resources											
Loan No	Name	signed on	Evolution	Mandate	Amount signed	disbursed	to be disbursed	cancelled	Outstanding	1st repayment	last repayment
70150	SWAZILAND NIDCS FEASIBILITY ST	10/3/1979	fully repaid	Lomé 1	153,000.00	105,654.62	-	47,345.38	-	6/15/1982	6/15/1986
70198	NIDCS PG	12/16/1980	fully repaid	Lomé 1	1,000,000.00	1,000,000.00	-		-	4/1/1983	4/1/2005
70558	NIDCS CONSULTANCY STUDY	7/16/1985	fully repaid	Lomé 2	37,000.00	37,000.00	-		-	6/5/1987	6/5/1991
70675	SIDC PROJECT	8/6/1987	disbursed	Lomé 3	1,650,000.00	1,650,000.00	-		1,510,683.43	4/15/2007	4/15/2011
70676	SWAZILAND - SIDC GLOBAL LOAN	8/6/1987	fully repaid	Lomé 3	1,350,000.00	1,350,000.00	-		-	9/30/1995	9/30/2002

70736	NATEX PROJECT	7/5/1988	fully repaid	Lomé 3	3,000,000.00	3,000,000.00	-		-	7/1/1991	7/1/2000
70786	SMI - ABATTOIR PROJECT	8/2/1989	fully repaid	Lomé 3	1,000,000.00	1,000,000.00	-		-	7/31/1995	7/31/2009
70902	SWAZILAND INDUSTRIAL DEV.COM.	12/17/1992	disbursed	Lomé 4	3,500,000.00	3,500,000.00	-		123,000.00	12/15/1998	12/15/2007
70925	SWAZILAND SUGAR ASSOCIATION	11/12/1993	disbursed	Lomé 4	4,500,000.00	4,500,000.00	-		900,000.00	11/10/1999	11/10/2008
71036	S.I.D.C. LTD IV	12/19/1995	disbursed	Lomé 4	5,000,000.00	5,000,000.00	-		1,769,000.08	12/5/1999	12/5/2010
71075	SWAZILAND SUGAR ASSOCIATION II	12/23/1996	disbursed	Lomé 4	3,000,000.00	3,000,000.00	-		666,900.00	12/1/2000	12/1/2008
20136	MOTRACO D	9/14/1999	disbursed	Lomé 4 bis	8,200,000.00	8,200,000.00	-		8,200,000.00	6/10/2019	6/10/2019
20454	SIMUNYE SUGAR B (SS)	1/27/2000	disbursed	Lomé 4 bis	7,500,000.00	7,500,000.00	-		3,742,500.00	10/31/2004	10/31/2009
20570	SWAZILAND INDUSTRIAL DEVELOPMENT COMPANY GL V	5/2/2000	disbursed	Lomé 4 bis	10,000,000.00	7,309,516.79	-	2,690,483.21	4,970,917.39	3/15/2005	3/15/2012
21174	SEB II TRANSMISSION	7/18/2001	disbursed	Lomé 4 bis	5,000,000.00	5,000,000.00	-		4,117,647.05	11/15/2004	11/15/2020
22104	MOTRACO II	6/18/2003	signed	Lomé 4 bis	1,750,000.00	-	1,750,000.00		-		
22105	SEB III MAGUGA HYDRO-POWER	6/18/2003	signed	Lomé 4 bis	7,000,000.00	-	7,000,000.00		-		
					63,640,000.00	52,152,171.41	8,750,000.00	2,737,828.59	26,000,647.95		

Mandat Commission											
Loan No	Name	signed on	Evolution	Mandate	Amount signed	disbursed	to be disbursed	cancelled	Outstanding	1st repayment	last repayment
80016	MAIN IRRIGATION CANAL	6/23/1978	disbursed	Lomé 1	3,500,000.00	3,496,674.56	-	3,325.44	1,465,456.28	12/1/1988	6/1/2018
80200	SMALLHOLDER SUPPORT	11/22/1985	fully repaid	Lomé 2	1,500,000.00	1,496,392.28	-	3,607.72	-	4/1/1996	10/1/2025
80206	VOCATIONAL TRAINING MANZINI	1/27/1986	disbursed	Lomé 2	3,200,000.00	2,567,303.71	-	632,696.29	1,733,443.53	7/15/1996	1/15/2026
80294	HUMAN RESOURCES DVLPT	10/31/1989	disbursed	Lomé 3	5,000,000.00	4,726,581.60	-	273,418.40	3,686,131.40	4/1/2000	10/1/2029
					13,200,000.00	12,286,952.15	-	913,047.85	6,885,031.21		

Annex XII – CORE ECONOMIC DATA & TABLES

Figure 1. Swaziland: Main Challenges

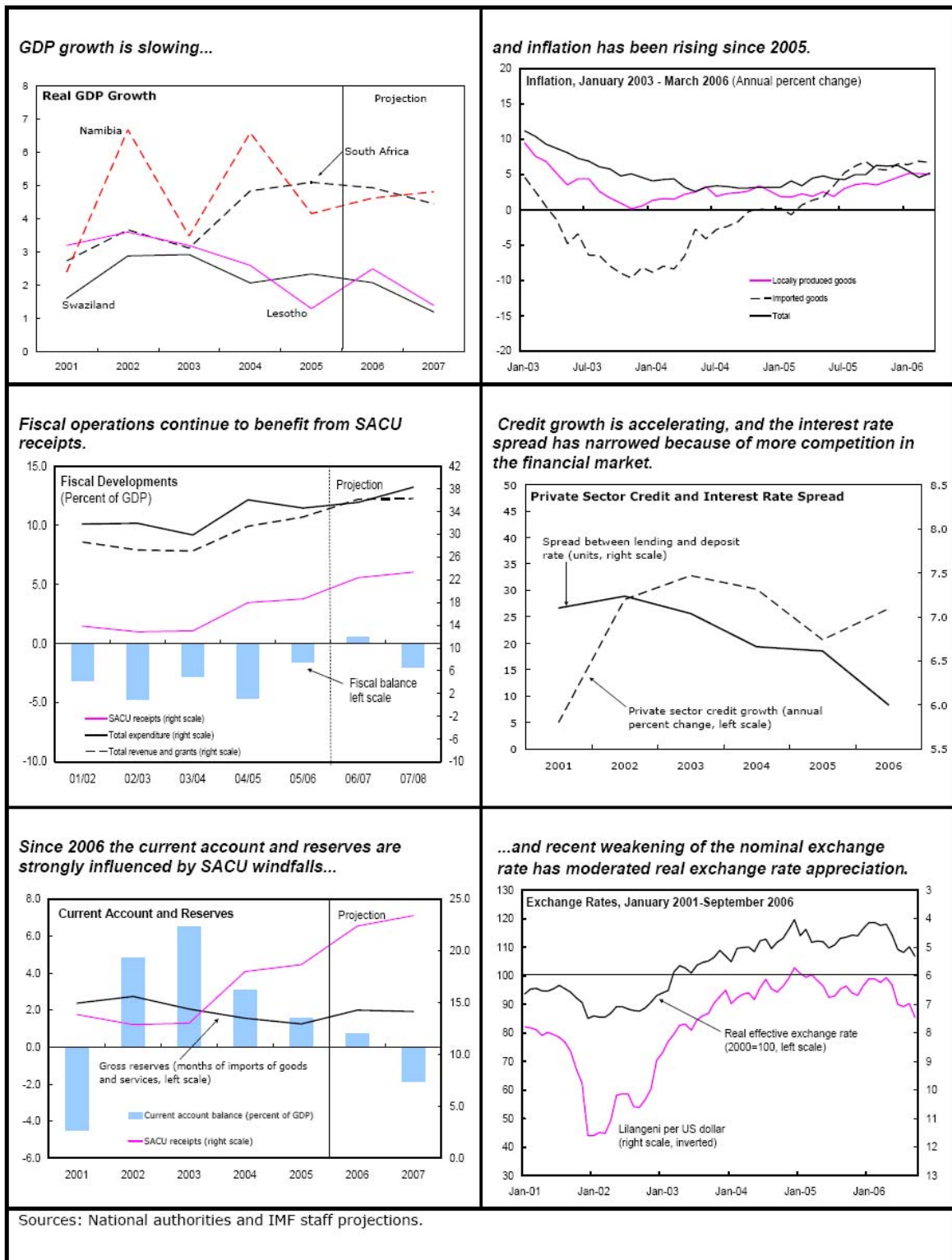


Swaziland: Medium-Term Scenario, 2005-2010
(Percent of GDP, unless noted otherwise)

	2005	2006	2007	2008	2009	2010
Main macroeconomic variables ¹						
Without measures						
Real GDP growth (percent)	2.3	2.1	1.2	1.0	1.0	1.0
Current account balance	1.6	0.7	-1.8	-3.0	-4.1	-4.0
Gross official reserves (millions of US dollars)	231	378	384	353	283	233
Gross official reserves (months of imports of goods and nonfactor services)	1.3	2.0	1.9	1.8	1.4	1.1
Government debt	15.6	14.1	14.4	16.7	19.9	24.0
Total Revenues and grants	32.5	35.5	35.9	33.7	32.2	31.7
<i>of which</i> : Domestic revenues	13.1	13.5	12.3	12.2	12.2	12.2
SACU	18.3	22.0	23.1	21.0	19.5	19.0
Total Expenditure and Net Lending	34.0	33.6	37.9	37.4	37.6	37.8
<i>of which</i> : Wages and salaries	14.4	15.6	15.4	15.4	15.4	15.4
Goods and services	5.9	5.2	6.0	6.0	6.0	6.0
Interest payments	1.1	1.8	1.3	1.0	1.2	1.5
Fiscal balance, including grants	-1.5	1.9	-2.0	-3.7	-5.4	-6.1
Reform policies scenario						
Real GDP growth (percent)	...	2.1	1.8	2.6	3.1	3.1
Current account balance	...	0.7	-0.3	1.5	2.2	2.4
Gross official reserves (millions of US dollars)	...	389	432	468	501	536
Gross official reserves (months of imports of goods and nonfactor services)	...	2.1	2.2	2.3	2.4	2.5
Government debt	...	14.1	9.8	9.0	7.3	5.8
Total Revenues and grants	...	35.5	36.3	35.1	33.7	33.4
<i>of which</i> : Domestic revenues	...	13.5	13.1	13.3	13.5	13.7
SACU	...	22.0	23.1	21.0	19.5	19.0
Total Expenditure and Net Lending	...	32.5	35.8	34.1	32.9	32.6
<i>of which</i> : Wages and salaries	...	15.6	15.0	14.4	13.9	13.4
Goods and services	...	4.5	5.5	5.5	5.5	5.5
Interest payments	...	1.8	1.2	0.7	0.8	1.0
Fiscal balance, including grants	...	3.0	1.3	1.0	0.8	0.8

¹ Fiscal year runs from April 1 to March 31.

Figure 2. Swaziland: Recent Economic Developments



Source: International Monetary Fund, IMF Country Report No. 07/132, March 2007

Table 1. Swaziland: Basic Economic and Financial Indicators, 2003-2010

	2003	2004	2005	2006	2007	2008	2009	2010
		Est.	Est.	Projections				
(Annual percentage change, unless stated otherwise)								
National income and prices								
GDP at constant prices	2.9	2.1	2.3	2.1	1.2	1.0	1.0	1.0
GDP per capita at constant prices	0.5	-0.1	0.4	0.3	-0.3	-0.4	-0.3	-0.4
GDP deflator	11.6	3.4	4.8	5.1	5.8	4.6	4.6	4.6
CPI (period average)	7.4	3.4	4.8	5.1	5.8	4.6	4.6	4.6
CPI (end of period)	4.6	3.2	5.0	5.4	5.2	4.6	4.6	4.6
External sector								
Current account balance (millions of U.S. dollars)	124.3	74.0	41.6	18.9	-49.9	-82.9	-118.6	-120.1
Export volume, f.o.b.	-3.1	4.2	2.3	2.7	-7.0	3.6	1.8	1.6
Import volume, f.o.b.	-19.1	3.8	-2.4	-3.4	-0.5	1.6	1.4	-0.9
Real effective exchange rate ¹	13.0	3.0	1.7	-5.2	...	...	...	...
Terms of Trade	0.6	-1.2	3.6	-3.0	...	...	...	...
Money and credit								
Broad money	14.1	10.4	5.9	15.3	...	...	...	...
Prime lending rate (percent; end of period)	11.5	11.0	10.5	10.5	...	...	...	...
Interest rate on 12-month time deposits (percent; end of period)	4.2	4.1	3.5	7.4	...	...	...	...
Discount rate (end of period)	8.0	7.5	7.5	8.0	...	...	...	...
(Percent of GDP)								
Gross national savings	24.5	21.5	19.5	14.7	13.8	12.1	10.5	10.1
Of which: government	3.3	3.6	6.5	8.2	6.2	4.4	2.7	1.9
Gross domestic investment	18.0	18.4	18.0	14.0	15.6	15.0	14.6	14.1
Of which: government	5.7	8.2	8.5	4.6	6.6	7.0	6.6	6.1
Central government finances (fiscal year) ²								
Total revenue and grants	26.7	30.8	32.5	35.6	35.9	33.7	32.2	31.7
Of which: South African Customs Union (SACU) receipts	12.8	17.7	18.3	22.0	23.1	21.0	19.5	19.0
Total expenditure and net lending	29.4	35.4	34.0	35.1	37.9	37.4	37.6	37.8
Current expenditure and net lending	23.4	27.4	26.1	27.5	29.8	29.4	29.6	29.8
Central government balance (including grants)	-2.8	-4.6	-1.5	0.5	-2.0	-3.7	-5.4	-6.1
Primary balance (including grants)	-1.6	-3.5	-0.4	2.4	-0.6	-2.7	-4.2	-4.7
Government debt	19.4	18.0	15.6	14.1	14.4	16.7	19.9	24.0
External sector								
Current account balance	6.5	3.1	1.6	0.7	-1.8	-3.0	-4.1	-4.0
Trade balance (merchandise goods)	5.4	5.9	2.8	2.5	-0.8	-3.0	-2.9	-1.5
Capital and financial account balance	-3.7	-8.9	-7.3	4.3	2.1	2.0	1.9	1.8
Overall balance	-2.3	-0.8	-4.5	5.1	0.3	-0.9	-2.2	-2.2
External debt	21.7	23.9	18.2	17.4	17.6	18.5	18.9	19.3
Memorandum items:								
GDP in current prices (millions of emalangeni) ³	14,422	15,390	16,616	17,931	19,084	20,073	21,083	22,157
Balance of payments (millions of U.S. dollars)	67	46	-30	142	8	-26	-63	-66
Gross official reserves (millions of U.S. dollars)	265	262	231	378	384	353	283	233
(months of imports of goods and nonfactor services)	2.1	1.6	1.3	2.0	1.9	1.8	1.4	1.1
(months of imports of goods)	2.5	2.0	1.6	2.5	2.4	2.1	1.6	1.3
Net official international reserves (millions of U.S. dollars)	212	257	228	374	381	351	280	231
(months of imports of goods and nonfactor services)	1.6	1.5	1.2	2.0	1.9	1.8	1.4	1.1
(months of imports of goods)	2.0	1.9	1.6	2.5	2.4	2.1	1.6	1.3
Total external debt (millions of U.S. dollars)	413	571	474	458	481	515	545	582

Sources: Swazi authorities; and IMF staff projections.

¹ IMF Information Notice System trade-weighted; end of period.² The fiscal year runs from April 1 to March 31.³ Under review by the CSO; data on indirect taxes used for estimation of GDP may contain errors and are subject to downward revision.

Source: International Monetary Fund, IMF Country Report No. 07/132, March 2007

Annex XIII – THE PFM PERFORMANCE REPORT

(Final version 25 January 2007)

Summary assessment

The good performance of institutions and systems of Public Finance Management (PFM) makes it easier for governments to reach the three interrelated objectives of budgetary management:

- Aggregate fiscal discipline;
- Strategic allocation of resources in accord with the priorities of public policies;
- Efficient service delivery.

This report presents an evaluation of PFM performance in the Kingdom of Swaziland based on an international reference framework (PEFA). With the use of high-level indicators, this framework contemplates six critical dimensions:

- (i) Credibility of the budget;
- (ii) Comprehensiveness and transparency;
- (iii) Policy-based budgeting;
- (iv) Predictability and control in budget execution;
- (v) Accounting, recording and reporting;
- (vi) External scrutiny and audit.

In conformity with the PEFA methodology this report does not include detailed recommendations (but only recommendations on potential areas of intervention for PFM reforms). Notwithstanding, after the discussions with the European Commission (regarding the outcome of the exercise), the Swazi Government with the assistance of the donors' community is welcome to elaborate a detailed action plan (of priority actions) with the objective of improving PFM performance. This would be an on-going effort together with the regular update of the assessment and the measurement of progress made.

Integrated assessment of PFM performance

Credibility of the budget The use of the PEFA performance indicators to assess the credibility of the budget has referred to both budget data in functional and economic classification. The overall execution of expenditures during the last three FY (2003/04-2005/06) was good and actual amounts spent were not very different from budgeted amounts. Despite this positive element, which appears to contribute to budget credibility, the distribution of expenditures among budget entities was far from uniform. This indicates a limited capacity for budget preparation and forecasting. If aggregate revenue out-turn compares well with budgeted revenues on the other side there are serious worries about domestic expenditure arrears.

Comprehensiveness and transparency The use of the PEFA performance indicators to assess the budget comprehensiveness & transparency shows that the budget information can be found in different classifications. However these classifications are being currently reviewed and the data reconciled. In addition, information included in the budget documentation is incomplete. Moreover, the fiscal risk of the public sector is not monitored through an aggregate approach. This is carried out for each single entity (Sub-National Governments and Public Enterprises). All items are captured in the budget and there are no extra-budgetary expenditures (including for PE). In general, the public has a relatively good access to key fiscal information.

Policy-based budgeting The use of the performance indicators for policy-based budgeting shows that there is a clear and detailed annual budget calendar. In practice however it is not followed. In addition budget ceilings are not respected. For the last three FY (2004/05 through 2006/07), the House has approved the budget before the start of the fiscal year only once (for the budget of 2006/07). With regard to medium term budgeting, the exercise is carried out without clear link between objectives (strategies), programs and budgeted amounts. None of the strategies that have been elaborated have substantially completed costing of investments and recurrent expenditures.

Predictability and control in budget execution The use of performance indicators to assess the predictability and control in budget execution shows that taxpayers' obligations and liabilities are transparent and well known. Taxpayer registration is not subject to any effective control or enforcement system for lack of capacity.

Expenditures are kept in line with revenues with the Treasury quarterly warrants prepared for ministries where expenditure ceilings are indicated. These ceilings are not respected in practice though. As a result MOF regularly releases additional funds when requested by ministries. These are disbursed by Treasury depending on cash availability.

Data on external debt are fairly good and internal control systems are better for salaries than for non-salary expenditures. Public procurement systems and internal audits are ineffective. They need major strengthening.

Accounting, recording and reporting The use of the performance indicators on accounting, recording and reporting indicates that periodic information on budget execution is missing because there is no in-year budget reporting. In addition differences in data lead to think that there are serious concerns regarding data accuracy. Moreover data on state assets are not comprehensive.

External Scrutiny and audit The use of performance indicators on external scrutiny and audit shows that external audit activities are very limited for lack of capacity. In addition the role of the legislature with regard to its capacity to review and adopt the annual *Appropriation Bill* is limited. However the scrutiny of actual and audited public expenditures guaranteed by law is fairly good but covers only activities of the Central Government.

Implications for budgetary outcome

The PFM system performance as briefly presented above does not support the achievement and maintenance of aggregate fiscal discipline and the strategic allocations of resources in a satisfactory fashion. In fact the exercise in the Kingdom of Swaziland shows that the budget is only partially credible. In addition, it is not comprehensive and transparent enough. Moreover, it is policy-based to some extent only.

Internal control, public procurement, internal and external audit systems (and data accuracy) remain a matter of serious concern. These systems are far from meeting international standards and are currently under-performing. As a result, serious doubts remain on the ability of these systems to ensure efficiency in service delivery.

Prospect for reforms

The most important PFM reforms (past and on-going) were financed externally (mainly through the EC-financed Fiscal Restructuring Project). In this context, the sustainability of the reforms will depend upon the ability of the Government to politically support the needed PFM reforms (and/or to show ownership during the reform process). In addition, it is important for the Government to capture additional resources to strengthen capacity through on-going training and through the gradual introduction of new up-dated information technologies. Moreover, the public servants should have the ability to cope with change and the ability to increase in professionalism in order to deal with new challenges in the PFM areas mentioned above.

Annex XIV – SUMMARY OF THE COUNTRY ENVIRONMENT PROFILE (CEP)

MAIN ENVIRONMENTAL FEATURES

Land and Water resources

Swaziland is located at the transition of the South African Plateau (reaching over 1500m) to the Mozambican coastal plain. The western part of the country lies in the escarpment zone, the eastern part in the coastal plains. The Lubombo Range separates the Swaziland coastal plain from the Mozambique coastal plain.

The main land use in Swaziland is extensive grazing: communal extensive grazing covers 50% of the country and commercial ranching 19%. Grazing takes places on natural grasslands, savannas and woodlands, which areas are also used for community forestry.

Land suitable for cultivation is limited to about 15-20% of the country. The current area under crops is decreasing from 1980s and 1990s levels, and it is now estimated at about 120,000 ha (70,000 ha rain fed and 50,000 ha irrigated). Land under irrigation is increasing annually of 1,000-2,000 ha, mostly driven by expansion of the sugar industry.

An important competition for soil and water exists between crops and weeds: the invasive weed *Chromolaena odorata* is severely impacting on crops, mainly maize, because of its avidity for water.

Land degradation is a very serious problem in Swaziland and a critical issue for continued sustainable social and economic development and poverty alleviation. The most common form of land degradation is soil erosion; poor land management has caused human-induced erosion and has accelerated existing natural erosion. Climate change is expected to have a further detrimental effect on land degradation through reduction in vegetation cover and changes in species composition, as well as through increased deforestation, desertification and disaster hazards.

Surface water resources of Swaziland are estimated at 4.5 km³/year. Swaziland's main rivers rise in South Africa and flow to Mozambique; the water that Swaziland can utilise from these river basins is limited by agreements with the two neighbouring countries, and a Tripartite Permanent Technical Committee has been established.

Groundwater resources are not available in sufficient quantity to allow large scale abstraction; hence virtually all irrigation in Swaziland is based on surface water.

Progressive industrialization has led to gradual deterioration of the quality of water resources in Swaziland. Industries that adversely impact on the river water quality are mainly situated in the Usuthu River Basin, in Matsapha and the pulp mill at Bhunya. The Usuthu and other rivers are affected by polluted drainage water from the irrigated sugar plantations and other cultivated land where fertilisers are inappropriately applied.

Ecosystems and biodiversity

Four ecosystems are present in Swaziland: (1) montane grasslands, (2) savannah-woodland mosaic, (3) forests, and (4) aquatic systems. The savannah-woodland mosaic is the dominant one, covering the central and lower parts of the country.

For a small country, Swaziland is extremely rich in biodiversity. Plants and animals are not uniformly distributed across the four ecosystems, and species composition varies greatly between ecosystems.

Approximately 25% of each of the terrestrial ecosystem has been converted to some form of other land use. A total of 4,280 km² of biodiversity rich ecosystems have been converted to industrial forestry, sugarcane, urban area and others. Extrapolation of the trend indicates that by 2030 a total of 870 km² is projected to have been converted to other land use.

Climate change is a global threat to biodiversity and is expected to have a significant impact on ecosystems in Swaziland. Projected ecosystems from selected global climate models show a westward shift and shrinking of both the grassland and savannah ecosystem types. The country is projected to see

the introduction of a tropical very dry forest type of ecosystem in the eastern part of the country replacing half of the current subtropical ecosystem.

A complex of factors including population growth, pressure on land, land conversions, growing poverty, inequities in land tenure and utilisation rights has led to deforestation and degradation in the natural forest and woodland areas. The lack of capacity to manage the indigenous forests has led to uncontrolled extraction of timber and non-timber forest products, including fruits, edible plants and vegetables, fuel wood, wood for utensils and craft, medicinal plants, materials for traditional attire, etc. Uncontrolled veld fires further contribute to forest degradation. This degradation is expected to exacerbate with climate change.

Climate

Swaziland lies at the transition of major climates zones, as it is influenced by air masses from different origin. The overall climatic characterization of Swaziland is subtropical with summer rains and distinct seasons. Higher and lower zones show different climatic conditions, ranging from sub humid and temperate in the Highveld to semi-arid and warm in the Lowveld. Lowveld zones have a dry and hot steppe climate. It is expected that this climate will expand to Lower Middleveld and Lubombo Area, thus giving the major part of the country a hot steppe type climate.

Swaziland does not have sufficiently long instrumental climate data to reliably construct past climates. As a result the wider temperature record for Africa south of the equator is used to present the climate of the twentieth century for the sub-region. Such an analysis shows a warming of almost 1°C between 1900 and 1980.

Climate change studies suggest that by 2050 temperatures and rainfall over southern Africa will be 2-4°C higher and 10-20% less than the 1961-90 baseline respectively. The projections from the models relevant to Swaziland indicate that there will be temperature increases of 3-6°C.

The mean annual rainfall (1961 – 1990) ranges from 1450 mm in the Highveld to 550 mm in the Lowveld, however substantial annual variations occur, leading to both drought and floods (drought has always been an inherent characteristic of the semi-arid climate).

Annual rainfall is expected to either remain the same or decrease, however most likely with larger differences between summer and winter and greater intensities of rainfall. This is likely to result in more frequent flooding conditions in the summer and more prolonged drought in the winter. During 2006, two major storms have affected Swaziland, respectively during the winter and in summer; the latter was accompanied by heavy hail and flooding.

Climate change will negatively impact on land degradation and ecosystems, and hence reduce productivity and livelihood possibilities, in particular in Lowveld and Lubombo, unless adaptation measures to climate change are introduced.

ANNEX XV - INTERVENTION FRAMEWORK FOR SUPPORT TO EDUCATION AND TRAINING
(AS FORESEEN IN 9TH EDF CSP AND NIP)

6.6.1 SUPPORT TO THE EDUCATION AND TRAINING SECTOR	Performance Indicators	Source of verification	Assumptions
<p>Long Term National Sector Target: (by the end of 2006)</p> <p>To improve access for all to better quality education and training aiming at increasing the human resources capacities of the country</p>	<ul style="list-style-type: none"> • Poverty reduction targets achieved • Employment created • Share of budget resources to non-salary related expenditures increased. 	<ul style="list-style-type: none"> • Central Statistics Office • Employment statistics 	
<p>EU Intervention objective:</p> <p>1. To contribute to consolidating the achievements of Education for all through equitable access to education at pre-primary and primary levels.</p> <p>2. To introduce a quality VET system of</p>	<ul style="list-style-type: none"> • Net enrolment of 6-13 year olds maintained at 95 %. • Access for ECD increased. • Survival rate at primary school and reduction of repeaters at primary level • Drop-out rates reduced. 	<ul style="list-style-type: none"> • Analysis of MOE statistics annually • Inspection of School and institutional performance records and indicators • Tracer studies for VET graduates 	<ul style="list-style-type: none"> • Availability of reliable baseline data • Continued collection and analysis of data • Sufficient numbers of Employers and graduates participate in the trace studies
<p>Result 1:</p> <p>Improved quality, access and equity of primary and pre-primary education ensured</p> <ul style="list-style-type: none"> • Equitable access and opportunities within a coherent and structured system of quality primary and pre-primary education increased. 	<ul style="list-style-type: none"> • New National Curriculum adopted by 2004. • Modern system of Inspection • Revised policy for assessment and testing adopted. • Regulatory and educational pre-school reforms adopted and implemented. • Capacity of teachers centers, NCC and INSET expanded and improved through construction of teachers centers, supply of ICT equipment to NCC and INSET, high quality INSET training development and delivery methods. 	<ul style="list-style-type: none"> • National Curriculum Documentation • Inspection framework • Inspection reports • Policy on assessment and Testing • Training Materials and manuals • Training records • Equal opportunities Policy adopted by MOE. • Enrolment statistics 	<ul style="list-style-type: none"> • Full support of Government and civil society • Appropriate legislation or amendments to statutory instruments are enacted • Arrangements are made to release teachers for training • Efforts are made to reduce class sizes to a maximum of 35 pupils • Security measures in place to safeguard computer equipment

	<ul style="list-style-type: none"> Identified barriers to access (gender, HIV/AIDS, social, geographical) reduced. ICT equipment and training to primary schools supplied. 	<ul style="list-style-type: none"> Training records Project reviews reports and records 	
<p>Result 2:</p> <p>Effective provision and expansion of Technical and Vocational Education ensured</p> <ul style="list-style-type: none"> More equitable access and opportunities within a coherent and structured system of post secondary vocational education increased by 2006 	<ul style="list-style-type: none"> National qualification framework and design rules for new qualifications adopted by 2003 Key skills framework for all qualification levels adopted by 2003 Quality assurance Policy Framework adopted by the examinations Council New Vocational Education Programmes developed to international standards and existing Vocational Education Programmes re-written according to new design rules Capacity of VET institutions expanded with 20% through physical facilities, expansion, refurbishment and supply of equipment. Improved management structure and institutional capacity to ensure improved utilization of training resources. Identified barriers to access (gender, HIV/AIDS, social, geographical) reduced. 	<ul style="list-style-type: none"> Feasibility Study National Qualifications Framework Design Rules and Qualifications blueprints Validation Documentation for all new and revised programmes Key Skills Framework Policy on Quality Assurance, Regulation and Certification of Vocational Education Programmes Admissions Policy Admissions records Equal opportunities Policy 	<ul style="list-style-type: none"> Proposal to Expand facilities is feasible Staffing levels maintained and expanded to ensure continuous curriculum offer Involvement of private sector Government make provision to provide establishment posts and staff for new programme areas Increased number of women will seek admission to all VET programmes The formal sectors will absorb the increased output of graduates The informal sector can absorb an influx of new entrepreneurs
<p>Result 3:</p> <p>Management and co-ordination of the education sector improved</p>	<ul style="list-style-type: none"> Management Performance and information System adopted by MOE. Activities and targets in development and strategic plans are implemented within stipulated timeframes and budget allocations Improved performance by senior managers in Vocational Education and Primary. Management and sector policy capacity strengthened and enhanced. 	<ul style="list-style-type: none"> Management Performance System Training records Reviews of development plans Appraisal of senior managers in Vocational Education and Primary Education Annual Reports from senior managers in Voc. Edu. and Primary Education 	<ul style="list-style-type: none"> Support from MOE Support from the Directorates Job descriptions are amended in accordance with new roles and responsibilities

ANNEX XVI - INTERVENTION FRAMEWORK FOR SMALLHOLDER IRRIGATION

**Lower Usuthu Smallholder Irrigation Development Project (LUSIP)
(AS FORESEEN IN 9th EDF CSP and NIP)**

INTERVENTION FRAMEWORK FOR SMALLHOLDER IRRIGATION – LOWER USUTHU Overall Objectives	Performance Indicators	Sources of Verification	Assumptions
Increase in living standards and reduction in absolute poverty of the population in the Lower Usuthu Basin area of Swaziland.	Income of approx. 2,000 farming households increased at least 5 times by 2010 as well as improved access to water, health, credit Prevalence of chronic malnutrition among children under five reduced	Baseline Studies Case studies Household surveys. Census reports Population survey (sampling)	
Project Purpose Integrate smallholder farmers into the commercial economy through the establishment of farmer-managed and self-financing irrigation schemes.	6,500 ha of intensive irrigated agriculture by 2010 By 2010 750,000 person days/year of on-farm employment created. By 2010 36,000 person days/year of non-farm employment created. By 2010 WUA paying 100% of on-farm O&M costs.	Quarterly and annual project reports. Quarterly and annual EDDMU reports. Farm surveys and annual farmer association/WUA accounts. Participatory diagnostic studies	World prices ensure sugar production remains profitable. Swaziland retains preferential sugar quotas. Swaziland sugar industry maintains its efficiency. Increased household income results in a reduction in poverty.
Results 1. Irrigation water provided to 6 500 ha. 2. Farmer owned and managed irrigation schemes established. 3. Appropriate legal framework established.	1.1. Water provided effectively and efficiently. 2.1. Farmers pay all on-farm water delivery charges 3.1. 130 WUAs operating by 2010. 3.2. Irrigation and catchments' authorities operating with WUA representatives by 2010	Quarterly and annual project reports. Water service provider and WUA records and reports Participatory diagnostic studies. MOAC records (extension service) Case studies; EDDMU reports. Trade & EDDMU reports. EDDMU & Auditor's reports	Average annual rainfall remains constant.

<p>4. Resettlement exercise and environmental mitigation plans implemented.</p>	<p>4.1. Compensation paid at universally acceptable rates. 4.2. Environmental mitigation measures implemented to the satisfaction of the SEA.</p>	<p>Quarterly and annual project reports. Legal/court records. Chieftom reports and interviews Cattle census and production data</p>	
<p>5. Household water supply and sanitation improved.</p>	<p>5.1. 2,600 households provided with potable water by 2010.</p>		
<p>6. Community-based natural resource management strategies established.</p>	<p>6.1 Numbers of hectares planted to local grasses/vegetation by 2010 6.2 Livestock activities intensified</p>		
<p>7. Effective project management structure established.</p>	<p>7.1 Quality of water delivery systems regularly verified 7.2 Disbursements made at rates acceptable to MOF</p>		

Annex XVII - REVISED INDICATOR RESULTS AND IMPACT MANAGEMENT SYSTEM

Lower Usuthu Smallholder Irrigation Development Project (LUSIP)

Activity clusters	Key Word	Indicator	Unit	Indicator level
Rural financial services	Rural financial services	Active borrowers (disaggregated by gender)	number	1st
Rural financial services	Rural financial services	Active savers (disaggregated by gender)	number	1st
Smallholder livestock development	Agric/Livestock	Animal water points improved/constructed	number	1st
Smallholder livestock development	Agric/Livestock	Animals distributed/ restocking (by type)	number	1st
Smallholder livestock development	Agric/Livestock	Animals vaccinated (by type)	number	1st
Rural community development	Community development	CAPs included in local government plans	number	2nd
Impact	Education	Children completing primary/secondary school (male/female)	number	Impact
Natural resources management	Infrastructure	Cisterns/water harvesting structures constructed	number	1st
Natural resources management	Land	Common property resources (area under improved management practices)	ha	2nd
Rural community development	Groups	Community management groups formed/strengthened	number	1st
Rural community development	Community development	Community projects implemented (by type)	number	1st
Rural community development	Infrastructure	Community projects operating after 3 years, by type	number	2nd
Human capital development for rural households	Community development	Community workers/volunteers operating after 3 years	number	2nd
Human capital development for rural households	Community development	Community workers/volunteers trained	number	1st
Rural infrastructure development	Irrigation	Days of water delivery/required	percentage	2nd
Research, extension and training for agricultural production	Agric/Livestock	Demonstrations held on farmers' land	number	1st
Smallholder livestock development	Agric/Livestock	Dipping facilities constructed/rehabilitated	number	1st
Institutional development (policy change, organizational change)	Policy	Enabling policies promulgated, by sector	number	1st
Rural enterprises development	MSE	Enterprises established/strengthened	number	1st
Rural enterprises development	MSE	Enterprises operating after three years	number	2nd

Research, extension and training for agricultural production	Agric/Livestock	Farmers participating in research trials	number	1st
Smallholder livestock development	Agric/Livestock	Farmers reporting increased herd sizes	number	2nd
Smallholder agricultural development	Agric/Livestock	Farmers reporting production/yield increases	number	2nd
Smallholder agricultural development	Agric/Livestock	Farmers using purchased inputs	number	1st
		Farmers with secure access to water	number	2nd
Rural infrastructure development	Irrigation	Farmers working on rehabilitated/new schemes	number	1st
Small-scale fisheries development	Fisheries	Fish ponds established/improved	number	1st
Small-scale fisheries development	Training	Fishers trained in new technologies	number	1st
Small-scale fisheries development	Fisheries	Fishers using purchased inputs	number	1st
Small-scale fisheries development	Fisheries	Fishers with secure access to resource base	number	2nd
Rural community development	Groups	Groups formed with women in leadership positions	number	1st
Rural community development	Groups	Groups operational/functional, by type	number	2nd
Institutional development (policy change, organizational change)	Groups	Groups with women leaders	number	2nd
Natural resources management	Land	HHs provided with long-term security of tenure of natural resources, including land and water	number	2nd
Rural infrastructure development	Drinking water	Households served by wells	number	2nd
All projects	Compulsory	Households that have improved food security	number	2nd
All projects	Compulsory	Households with improvement in household assets ownership index	percentage	Impact
Smallholder agricultural development	Agric/Livestock	Incremental crops grown (area of cereals, forage, fruit, legumes, vegetables, roots and tubers)	ha	2nd
		Infrastructure operating after 3 years (by type)	number	2nd
Institutional development (policy change, organizational change)	Groups	Interest groups formed by type	number	1st
Rural infrastructure development	Irrigation	Irrigation schemes constructed/rehabilitated	ha	1st
Rural enterprises development	MSE	Jobs generated by small and medium enterprises	number	2nd
Natural resources management	Land	Land improved through soil and water conservation measures	ha	1st
Impact	Literacy	Literacy rate (%) (by gender)	percentage	Impact
Marketing, storage and processing	Post production	Marketing facilities constructed/rehabilitated	number	1st
Marketing, storage and processing	Post production	Marketing, storage or processing facilities operating after 3 years (by type)	number	2nd
Impact	Education	Net enrolment ratio (%) in primary education	percentage	Impact
Marketing, storage and processing	Post production	On-farm (household) storage facilities constructed/improved	number	1st

Rural financial services	Rural financial services	Operating cost/loan portfolio	percentage	2nd
Rural financial services	Rural financial services	Operational self-sufficiency	percentage	2nd
Rural financial services	Rural financial services	Outstanding loans/agents (staff productivity)	number	2nd
Research, extension and training for agricultural production	Training	People accessing technical advisory services facilitated by project	number	1st
Research, extension and training for agricultural production	Training	People adopting technology recommended by project (by type and gender)	number	2nd
Human capital development for rural households	Literacy	People attending literacy classes (disaggregated by gender)	number	1st
Rural community development	Groups	People belonging to groups, by type of group	number	1st
Natural resources management	Training	People trained by gender and subject	number	1st
Human capital development for rural households	Training	People trained in health, sanitation, nutrition (disaggregated by gender)	number	1st
Rural enterprises development	Training	People trained in productive skills (disaggregated by gender)	number	1st
Impact	Sanitation	People with access to improved sanitation	number	Impact
Impact	Drinking water	People with sustainable access to an improved source of water (drinking water)	number	Impact
All projects	Compulsory	Persons receiving project services (direct, total project, m/f)	number	1st
Rural financial services	Rural financial services	Portfolio at risk (outstanding balance of overdue loans)	percentage	2nd
All projects	Compulsory	Prevalence of child malnutrition (boys/girls)	percentage	Impact
Marketing, storage and processing	Post production	Processing facilities established	number	1st
Institutional development (policy change, organizational change)	Decentralisation	Projects supporting decentralized processes	number	1st
Institutional development (policy change, organizational change)	Policy	Projects where new/changed pro-poor legislation or regulations are enforced at the local or national levels	number	2nd
Impact	Literacy	Ratio (%) of literate females to males	percentage	Impact
Impact	Health	Reduction in the incidence of infectious disease (HIV/AIDS, malaria, tuberculosis) (MDG 6)	percentage	Impact
Research, extension and training for agricultural production	Agric/Livestock	Research-for-development extension/dissemination events attended by target HHs	number	1st
Natural resources management	Land	Resource management plans enacted	number	1st
Rural infrastructure development	Roads	Roads constructed/rehabilitated	km	1st
Human capital development for	Infrastructure	Schools/clinics built/rehabilitated (disaggregate)	number	1st

rural households				
Natural resources management	Training	Trainers trained by gender and type	number	1st
Rural infrastructure development	Groups	User groups/water users' associations (WUAs etc.) formed	number	1st
Rural financial services	Rural financial services	Value of gross loan portfolio (loans outstanding – loans written off)	USD	1st
Rural financial services	Rural financial services	Value of savings mobilized	USD	1st
Rural community development	Community development	Village/community action plans (CAPs) prepared	number	1st
Human capital development for rural households	Infrastructure	Wells drilled/dug for drinking water	number	1st
Rural community development	Groups	Women on management committees	number	2nd

Annex XVIII - LUSIP WORKS PROGRESS

<i>Work</i>	<i>Objective</i>	<i>Contractor</i>	<i>Date contract award</i>	<i>Date work started</i>	<i>Foreseen end</i>	<i>Value of Contract Million R</i>	<i>Certified 31/12/06 Million R</i>	<i>% certified</i>	<i>Source of Funds</i>
Mhlathuzane, Golome, Saddle Dams	155 m3 reservoir + spillway 400 m	CGI Joint Venture	18/11/2005	09/01/2006	Apr-08	278.402	128.178	46%	DBSA; EIB; ICDF; GoS
Feeder Canal	21 km; 13.5 m3/sec	CMC	18/04/2006	30/05/2006	Nov-08	171.633	42.638	25%	BADEA; GoS
Weir, intake and sandtrap	218 m weir	Group 5	09/06/2006	26/06/2006	Jun-08	34.733	8.053	23%	ADB; GoS
Main canal South and secondary canals	21.9 km; 6.4 m3/sec	CMC	18/09/2006	16/10/2006	Sep-08	224.119	13.572	6%	EIB; GoS

Annex XIX DONOR MATRIX

	SECTORS/AREAS/THEMES (Grants and Loans, T.A. and Capital Expenditure)										
	Education & Training	Governance, Policy & Management	Poverty Reduction	Health	Social Services Welfare	Water & Sanitation	Agriculture & Forestry	Environment	Community Development	Roads/Transport/ Communications & Energy	SME & Private Sector
European Donors											
Sweden	X									X	
UK						X					
Italy				€ 200.000						X	
EIB							€ 15 M			€ 32 M	€ 10 M grant loan facility
Other Bi-Lateral Donors											
Japan	X		X	X			X			X	
Taiwan	X	X	X	X		X	X	X	X	X	X
DBSA							X				X
Kuwait										X	
USA				\$7.1 M							
Multi-Lateral Donors											
CFTC	X	X									
UNDP		X	X					X	X		X
UNICEF	X				X						
WHO				X		X					
UNAIDS				X							
ADB	X			X			X			X	
BADEA							X				
IFAD							X				

Key areas of donors' intervention in Swaziland

- The **United States of America** donates a significant amount to Swaziland's fight against HIV/AIDS through contributions to the Global Fund and assistance to international and local NGO's. Other areas of assistance include democracy and the rule of law, food aid and humanitarian assistance as well as private sector support.
- The assistance provided by the **Japanese International Cooperation Agency** focuses on Food Production, Medical Equipment, Environmental Management and Rural Water Supply, technical assistance and capacity building.
- Swaziland and **Republic of China (on Taiwan)** entered into Technical Cooperation Agreement in 1997, whereby the government of ROC contributes US \$10,000,000 per year for a period of ten years. Projects for the year 2005/06 include the formulation of a Resettlement Policy, Enhlambeni Water Supply Project, purchasing of Groundwater Drilling machines, provision of computers for Government Ministries, and high schools, and National Handicraft & Agricultural missions.
- The **UNICEF** Country Programme Action Plan (2006 – 2010) (US\$25 million) embraces the following components, Education and Life Skills, Child Survival and Development, Safety Nets for Child Protection, Advocacy and Communication.
- The **UNDP** Country Programme Action Plan (2006-2010) (US\$5 million) will deal with are poverty reduction and HIV/AIDS, governance and gender mainstreaming.

Swaziland continues to receive assistance from the **Global Fund** to finance HIV/AIDS programmes. However this will decline in 2007 until 2010 when the final tranche will be disbursed. Swaziland won Round 2 and Round 4 of the Global Fund but lost the call under Round 6 in 2006. Fortunately the Country Coordinated Global Fund Proposal for Round 6, which was submitted in August 2006, classified as a category 3-proposal eligible for re-submission in June 2007. The round seven is now at the proposal submission stage. It is to be noted that donations by Global Fund (US\$54M for HIV and AIDS, US\$1.8M for Malaria, US\$2.5M for Tuberculosis for Round 2 and US\$ 48,200,000 for Round 4 for HIV and AIDS only) have depreciated by about 30% due to the appreciation of the exchange rate between the Rand/Lilangeni and the US.

ANNEX XX

National Adaptation Strategy to the EU SUGAR Reforms measures:

The **EC Adaptation Strategy for Swaziland** aims to support the effective implementation of its NAS in Response to the EU Sugar Sector Reforms in specific areas, selected on the basis of added value, eligibility under EC financing policies, EC development policy guidelines and comparative advantages.

The selection and identification of activities that can be supported by the EC is based on the following principles: a) long-term sustainability; b) budget availability, deployment and prioritisation; c) financing complementarities; d) the EC strategy for Swaziland; e) a comprehensive (multi-sectored, multi-annual) approach; f) lessons learnt from devolution (and regionalisation) and the practicality of delivering assistance in a timely and adequate manner; g) poverty focus, and response to broader socio-economic impacts; and, f) mode of support (budget vs. programme support).

Areas of EC support over the long term (2006-2013)

In line with the principles and selection criteria for EC support, as set out in the EC Response Strategy, EC support will cover the following areas during the period from 2006- 2013:

- a) Institutional support, including the establishment of a Restructuring and Diversification Management Unit (RDMU), for NAS implementation and a pool of experts to provide expertise in all relevant areas;
- b) Restructuring the provision of social services in the sugar belt;
- c) Support for improving the productivity and efficiency of smallholder sugarcane growers to ensure their long-term viability (including co-funding of the LUSIP programme where funding gaps appear);
- d) Infrastructure improvements in the production centres, sugar estates and transport chain;
- e) Support for diversification in the form of alternative agricultural products (cane- based or others) and non-agricultural uses
- f) Cross cutting issues (mainly environment, gender and HIV/AIDS) which will be mainstreamed in interventions.

The EC Response Strategy is based on the assumption that the Government of Swaziland (GoS) will be fully committed to implementing and sustaining all the measures identified in the NAS, and that additional funding for these measures will be committed by the GoS, the sugar industry, and other donors besides the EC. In the event that the GoS fails to secure more funding, there is a risk that only the measures earmarked by the EC in the EC Response strategy will be implemented. It is therefore assumed that the GoS will secure the funding to implement all the measures outlined in the NAS.

1. COMPETITIVENESS
Intensify programmes for reducing field level costs, raise sucrose content, streamline cane delivery, reduce irrigation, harvesting, haulage and loading costs
Explore the use of alternative forms of energy
Improve and expand the system of tarmac roads in the Lowveld
Improve Maputo freight handling facilities
Expand bagging capacity
Expand refining capacity
Reduce the cost of public utilities and improve their efficiency
Support research and development initiatives
2. TRADE POLICY DIMENSION AND ACTIVE PURSUIT OF PREMIUM MARKETS
Extend the provisions of TDCA to the entire SACU area and modify where necessary to include the development of regional demand for regionally produced sugar.
Maintain (and where possible expand) preferential access to regional markets and preserve the value of the domestic (SACU) market
Ensure a good transition arrangement is created to secure continued preferences on volume sales to the EU (particularly SPS allocation) and seek increased access of Swazi sugar to the EU, and other preferential markets
3. PROMOTING SMALLHOLDER SUGAR CANE GROWING
Support smallholder farmers in improving their farm operations to improve efficiency and viability of existing farmers and facilitate the entry of new ones
Re-examine the viability of the smallholder cane grower component of LUSIP and KDDP
Stabilize the financial situation of existing small and medium sized cane growers
Re-examine, with a view to improve, management training programmes presently provided to sugar farmer associations
Improve cane production and harvesting, yields and sucrose content
Provide capacity building programme to SWADE and SSA extension services
Introduce management (and productivity) conditions to smallholder cane crushing contracts
Design a financing/lending model for smallholder farming to be used by financial institutions

4. DIVERSIFICATION
Expedite approval of legislation allowing the commercial sale of electric energy to the national power grid
Identify best practices to develop electric power co-generation within sugar-industry-based initiatives.
Investigate alternate energy sources and products, including the efficiency of energy generation from bio-fuels
Support studies and programmes on the (viability of the) generation and use of bio-energy and production of ethanol
Provide low-cost financing for pilots phases of co-generation of electric energy
Re-visit the industry agreement to ensure that growers get benefits from co-generation activities (on proceeds of bagasse)
Establish a facility/programme for farmers changing to other crops or to agricultural services.
Establish a scheme to enhance the capabilities of smallholder associations for quality control, packaging, and marketing.
Reduce transport costs and improve transport infrastructure and services from production centers and to link with markets
Develop financing model for diversifiers and help them in accessing finance and training
Promote and support research and development into other products/crops
Establish and support institutions and infrastructure for testing of products for quality and standards
Develop products for existing and new markets and the necessary support mechanisms (infrastructure, marketing information, etc), including making the necessary investments (and policy changes) to make the production of alternative products viable
Provide support for downstream value-added industries
Support the expansion of refinery capacity and efficiency
Develop tourism products for the SME sector in the sugar areas, and to support new initiatives of diversification into sector
Establish a support mechanism to follow up recommendations on control of and compliance with food safety regulations.
5. SOCIAL SERVICES and WELFARE
Develop a model for the sustainable management and financing of social amenities in industry areas to ensure continued provision of quality housing, health, and education, currently financed by the industry
Support the gradual development of local government structures capable of running social & communal services at the sugar communities
Create a programme to support transitional and coping measures for retrenched workers, especially with regard to access to industry social services
Support the strengthening of basic social services provision to population, and provide safety nets for retrenched and unemployed people
Implement multi-skilling programmes for workers retrenched at sugar companies
Establish an effective and continuous AIDS programme, and related AIDS (effects) mitigation measures

6. ENHANCING A SUSTAINABLE SOCIO-ECONOMIC ENVIRONMENT
Establish effective support services for rural micro- and small-scale enterprises, as farms and mills lay off personnel outsourcing services
Relax regulations governing establishment of new businesses
Support the implementation of the investor roadmap
Establish a research farm to run practical field scale agronomic research and market research on alternative crops to sugar cane
Improve security of tenure on land
Ensure full concessional/grant financing of LUSIP
Support semi-industrial-scale trials of substituting coal by baled sugar cane trash as supplementary industrial fuel.
Expand and improve quality of the national schooling and Technical training
Decentralise planning, budgeting and delivery of services to the rural poor
Engage the EU with a view to move the assistance modality towards sectoral and/or general budget support
Promote good governance
Train communities on the utilization of Poverty Funds to support coping and diversification, including entry into sugar industry
Support the development of a national water conservation plan
Improve environmental management mechanisms
7. INSTITUTIONAL STRUCTURES FOR IMPLEMENTATION AND COORDINATION
Establish “Restructuring and Diversification” Unit
Support the continuous operation of the National Adaptation Steering Committee
Evaluate the capacity of existing institutions and programmes in delivering on the activities required in the adaptation strategy
Support the creation of additional structures/institutions/programmes necessary for the successful implementation of the strategy

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- ¹ IMF Country Report No. 07/132, March 2007.
- ² The outturn for the deficit in 2004 was 3.5% of GDP
- ³ UNDP. 2006 Human Development Report. 2006. p. 285.
- ⁵ World Bank divides economies according to 2005 Gross National Income (GNI) per capita, calculated using the World Bank Atlas method. The purpose of the Atlas conversion factor is to reduce the impact of exchange rate fluctuations in the cross-country comparison of national incomes.
- ⁶ UNDP. 2005 Human Development Report. 2005. p. 170
- ⁷ IMF Country Report No. 07/132, March 2007.
- ⁸ UNDP. 2005 Human Development Report. 2005. p. 170.
- ⁹ Current estimates put the country's GNP per capita at about US\$1300.
- ¹⁰ UNDP, MDG Swaziland Country Report, 2003
- ¹¹ UNAIDS 2007.
- ¹² State of the Worlds Children - UNICEF
- ¹³ World Bank, 2006
- ¹⁴ UNDP. 2005 Human Development Report. 2005. p. 252.
- ¹⁵ The Maternal Death review Audit 2001
- ¹⁶ MOH&SW. 10thth Round of National HIV Sero-surveillance among Women Attending Antenatal Care Services at Health Facilities in Swaziland. 2004. p.11.
- ¹⁷ MOH&SW. 10thth Round of National HIV Sero-surveillance among Women Attending Antenatal Care Services at Health Facilities in Swaziland. 2004. p.14.
- ¹⁸ UNAIDS 2007.
- ¹⁹ WHO. World Health Statistics 2006. 2006. p. 62.
- ²⁰ MoHSW Review of ART Programme in Swaziland May 2005 'Progress, Challenges and the Way Forward'
- ²¹ UNAIDS. Report on the Global AIDS Epidemic. 2006. Country Profile: Swaziland.