

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

The Department for International Development (DFID) is the UK government department responsible for promoting development and the reduction of poverty. The government first elected in 1997 has increased its commitment to development by strengthening the department and increasing its budget.

The central focus of the Government's policy, set out in the 1997 White Paper on International Development, *Eliminating World Poverty: A Challenge for the 21st Century*, is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date. The second White Paper on International Development, published in December 2000, reaffirmed this commitment, while focusing specifically on how to manage the process of globalisation to benefit poor people.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to this end. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Community.

The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa. We are also contributing to poverty elimination and sustainable development in middle income countries in Latin America, the Caribbean and elsewhere. DFID is also helping the transition countries in central and eastern Europe to try to ensure that the process of change brings benefits to all people and particularly to the poorest.

As well as its headquarters in London and East Kilbride, DFID has offices in many developing countries. In others, DFID works through staff based in British embassies and high commissions.

DFID-Southern Africa is based in Pretoria. It is responsible for DFID's work in Botswana, Lesotho, Namibia, South Africa and Swaziland, and for DFID's work on regional issues covering the Southern African Development Community (SADC) region.

SOUTHERN AFRICA: STRATEGY PAPER

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A. SUMMARY

A1 This strategy paper outlines a new approach to DFID-Southern Africa's work. Section B describes DFID-Southern Africa's responsibilities. We aim to support poverty elimination in the five countries of the Southern African Customs Union (SACU) – Botswana, Lesotho, Namibia, South Africa and Swaziland. We also support regional approaches to poverty reduction across the wider Southern African Development Community (SADC) region.

A2 Section C considers the global and continental factors affecting poverty, and the growing commitment to collective responses by African countries. It proposes a programme of work to address regional dimensions of poverty – covering trade, conflict, water resources, HIV/AIDS, and food security.

A3 Section D looks at poverty within the five SACU countries. The analysis emphasises:

- the significance of the apartheid legacy in entrenching deep poverty and inequality
- the need to focus on jobs, growth and equity as well as improved governance and service delivery
- the extent of the challenge posed by the HIV/AIDS epidemic.

A4 In the four middle-income countries – Botswana, Namibia, South Africa and Swaziland – DFID will focus on policy engagement and technical assistance, rather than the transfer of financial resources. We will work to strengthen partners' efforts in:

- analysis of poverty and inequality, and the development of poverty strategies
- promoting growth, jobs and equity
- strengthening democracy, governance and service delivery
- tackling HIV/AIDS.

A5 In South Africa, DFID will maintain a significant programme in all these areas, working in close co-operation with government, civil society and other international partners. In the three smaller middle-income countries, DFID will over time replace its diverse programme of bilateral projects with a new approach, centred on working with multilateral agencies to promote development and implementation of national poverty reduction strategies. We will aim increasingly to support initiatives that cover SACU as a whole.

A6 Lesotho, a low-income country with a per capita GDP of only \$580, relies on donors for financial resources, as well as technical assistance. DFID will work with other international donors to support the development and implementation of Lesotho's poverty reduction strategy.

A7 Over the next three years, DFID plans to spend up to £40 million per year in the five SACU countries, and £7 million on regional programmes across SADC. In addition to this direct spending, DFID will also spend some £25 million per year through multilateral programmes in the region, chiefly through the European Union.

B. DFID-SOUTHERN AFRICA'S RESPONSIBILITIES

COUNTRIES OF THE SOUTHERN AFRICAN CUSTOMS UNION (SACU)

B1 DFID-Southern Africa is responsible for DFID's engagement with Botswana, Lesotho, Namibia, South Africa and Swaziland, which together comprise SACU. South Africa and Lesotho are among the 16 African countries prioritised in DFID's Public Service Agreement with HM Treasury.

B2 Four of the five countries are classified as middle-income, but have very high levels of inequality. Lesotho is a low-income country. The five countries together have a total population of 46 million – of which 7 million live below the international poverty line of \$1 per day¹ and 18 million live below \$2 per day. HIV/AIDS presents a substantial challenge to meeting the Millennium Development Goals in the region.

	POPULATION	PER CAPITA INCOME (US\$)	PERCENTAGE BELOW \$1 PER DAY	PERCENTAGE BELOW \$2 PER DAY	INCOME SHARE OF POOREST 20%	ADULT LITERACY	UNDER-FIVE MORTALITY (1994-99)
BOTSWANA	1.6	3,300	33%	61%	-	76%	95
LESOTHO	2.2	580	43%	66%	2.8%	83%	141
NAMIBIA	1.7	2030	35%	56%	-	81%	108
S AFRICA	40.4	3020	11.5%	36%	2.9%	85%	76
SWAZILAND	1.0	1390	-	-	2.7%	79%	113

Source: Statistics on International Development, 2000/1. Per capita income figures from World Bank Development Indicators, 2002.

BOX 1: SOUTHERN AFRICA DEVELOPMENT COMMUNITY (SADC)

The 14 SADC countries contain 200 million people, about one third of the population of sub-Saharan Africa. Of these 14 countries:

- six are low-income countries (Lesotho, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe)
- six are middle-income countries with high levels of inequality (Botswana, Mauritius, Namibia, Seychelles, South Africa, Swaziland)
- two (Angola and Democratic Republic of Congo) are classified as low-income countries, despite being very resource rich. They have been seriously affected by conflict, and contain some of the most appalling poverty in Africa.

South Africa's GDP of \$150 billion is three times that of the other 13 SADC members put together.

REGIONAL ISSUES

B3 DFID-Southern Africa has responsibility for DFID's relationship with the Southern African Development Community (SADC), and for engaging with regional approaches to poverty across the SADC region. In carrying out this responsibility, DFID-SA works closely with all the DFID country programmes in the region.

¹ \$1 per person per day measured in 1993 international prices and adjusted for local currency using purchasing power parities.

C. THE GLOBAL AND REGIONAL CONTEXT

GLOBAL ISSUES

C1 Economic growth in Southern African countries will depend on their success in negotiating access to global markets, and their competitiveness on the world stage. Africa's share of world trade fell from 3% in the 1950s to less than 2% in the 1990s. Southern Africa's trading prospects depend on the results of the Doha trade round, and of negotiations with Europe on arrangements to follow the Cotonou Agreement.

C2 On a range of other global issues, Southern African countries need to work together, drawing on South Africa's influence, to maximise their negotiating leverage in international fora. For example, as one of the regions of the world most heavily affected by communicable diseases (HIV/AIDS, malaria and tuberculosis), Southern Africa has much to gain from a more favourable global policy on access to pharmaceuticals, and from progress on development of vaccines. Many countries in the region are affected by international policies on debt. International regimes on environmental issues and fish stocks are important for the region.

CONTINENTAL AND REGIONAL ISSUES

C3 Prospects for progress in individual countries are heavily affected by developments in Africa as a whole. Conflict is a key constraint to the continent's development; with many SADC countries either directly involved in, or affected by, conflict. Progress towards peace in Angola and the Democratic Republic of Congo is a major step forward, but the economic crisis in Zimbabwe is affecting the whole SADC region. Investment in all African countries is held back by perceptions of the region as a high-risk place to do business, as a result of poor governance, low skills, instability and HIV/AIDS.

C4 Within Southern Africa, the small size of individual markets means that regional economic integration is increasingly seen as the key to improving trade,

investment and growth. Intra-SADC trade is currently 22% of total SADC trade and is projected to increase to 35% by 2005 as the SADC trade protocol comes into force.

C5 Food security is also a regional issue in Southern Africa. Climatic factors often affect production in several countries simultaneously – there were poor harvests in most countries in 2002. The emergency response inevitably requires use of transport routes across the region. An effective longer-term approach to ensuring food security will require regional co-operation, particularly in facilitating trade in food.

C6 Sustainable development in the region requires effective collective management of shared natural resources, especially water; and there are substantial advantages to co-operation on energy, transport and telecommunications. The migration of people, and of diseases (in humans and animals) is also an important element in the analysis of poverty.

SHARED NATIONAL ISSUES

C7 Other key poverty issues – including most governance, economic and social policies – must largely be addressed at national rather than regional level. But many national development challenges are common to countries across the region. A shared agenda focused on good government, efficient markets, and investment in human capital is emerging, with many countries across the continent addressing these issues through poverty reduction strategies.

C8 There are important cultural linkages between countries of the region. People are often linked across borders by kinship, language and culture. More Swazis and Basotho live in South Africa than in Swaziland or Lesotho. Scattered populations identify most readily with the nearest large town even if it is in another country. People are often ready to move across borders in search of jobs, business opportunities, leisure and education.

C. THE GLOBAL AND REGIONAL CONTEXT

CONTINUED

AFRICAN COMMITMENTS TO WORKING TOGETHER

C9 Three recent developments highlight the increasing commitment of African countries to working together to address their development challenges:

- the transition from the Organisation of African Unity (OAU) to the African Union, inaugurated in South Africa in July 2002
- the launch of the New Partnership for Africa's Development (NEPAD) in 2001
- the restructuring of SADC agreed in March 2001. SADC states agreed that poverty reduction was SADC's overarching objective. They decided that the 21 sector coordinating units, which were previously hosted by member states, should be brought together into four directorates in Gaborone.

These arrangements both establish shared principles and agendas for African countries, and create a degree of collective pressure for adherence to them.

DFID-SA PROGRAMME ON REGIONAL ISSUES

C10 The UK government's 2000 White Paper on International Development, *Eliminating World Poverty: Making Globalisation Work for the Poor*, commits DFID to addressing the global and regional causes of poverty. DFID-SA will contribute towards this effort by strengthening its engagement with:

- South Africa in its important regional and global role
- the NEPAD Secretariat, which is based in South Africa
- the SADC Secretariat, which is based in Botswana.

Strengthening these partnerships will mainly involve DFID-SA (in close co-operation with other parts of the British government) investing staff time and expertise in policy dialogue with partners in the region. It will also require some financing of technical co-operation activities.

C11 We aim to support partners in pursuing regional approaches in areas where these will add value to national efforts. These include:

- increasing SADC countries' capacity to negotiate in global fora
- promoting intra- and inter-regional trade
- creating mechanisms for preventing and resolving conflict²
- promoting effective management of shared resources – especially water and energy
- managing cross boundary movements of trade, people, capital, and communicable disease
- promoting investment in transnational infrastructure
- promoting common standards and approaches on key national policy issues (such as those covered by the range of SADC protocols).

C12 DFID-SA will manage a regional budget line to finance this work (currently set at £7 million per year). Priorities for this programme will be set by a steering committee comprising the heads of all the country offices in the region. Initial priorities include programmes to:

- support SADC's institutional reforms
- promote regional trade
- promote regional co-operation on HIV/AIDS
- strengthen the civil society sector across the region
- improve management of water resources
- promote regional approaches on land reform
- promote regional approaches to food security.

C13 Annex 6 describes in more detail DFID's plans for co-operation with SADC.

² In pursuing this agenda, DFID-SA will contribute to the work of the British government's Africa Conflict Pool – a joint initiative of DFID, the Foreign and Commonwealth Office and the Ministry of Defence.

C. THE GLOBAL AND REGIONAL CONTEXT

CONTINUED

BOX 2: NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT (NEPAD)

The New Partnership for Africa's Development is an African-led strategy for sustainable development and poverty reduction in Africa. It reflects a determination among African leaders to shoulder responsibility for addressing the continent's problems – by ending conflict, improving economic and political governance and strengthening regional integration. NEPAD calls for a new way of co-operating with the international community. It calls on donor countries and institutions to respect Africa's own leadership in establishing approaches to poverty reduction, rather than trying to impose external solutions. It seeks help in the form of increased resource flows, improved trade access, debt relief, and support for infrastructure, agricultural diversification and health and education.

NEPAD was initially developed through the collaboration of five African Heads of State (South Africa, Nigeria, Senegal, Egypt and Algeria). In a formal sense, it originated from an OAU mandate given to South Africa, Nigeria and Algeria in 2000. But the motivation underlying it was growing dissatisfaction through the 1990s with the limited success of development efforts, and a recognition that failures in governance played a large part in the continent's stagnation. The return of civilian rule in Nigeria and the end of apartheid in South Africa provided impetus for a new approach.

NEPAD is now widely supported across Africa. Its outline was endorsed by the OAU at its Lusaka Summit in July 2001. A 15-member Implementation Committee was formed in October 2001, containing three representatives from each of the OAU's five sub-regions.³ Task teams drawn from the implementation committee and from international institutions drew up specific programmes covering five key areas:

- peace and security
- economic and corporate governance
- infrastructure
- central bank and financial standards
- agriculture and market access

These were presented at the inaugural summit of the African Union in July 2002.

The international community has warmly welcomed NEPAD. At their Kananaskis Summit in June 2002, the Group of Eight countries launched an Africa Plan, responding to the challenges set out in NEPAD.

³ The 15 members of the Implementation Committee are Algeria, Botswana, Cameroon, Egypt, Ethiopia, Gabon, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, Sao Tome and Principe, South Africa and Tunisia. The African Union inaugural summit in July 2002 agreed that this should be expanded to 20 members.

D. POVERTY AND INEQUALITY WITHIN THE FIVE SACU COUNTRIES – BOTSWANA, LESOTHO, NAMIBIA, SOUTH AFRICA AND SWAZILAND

D1 Individual analyses of poverty in the five SACU countries are included in Annexes 1-5.

D2 The five countries are closely linked economically. They have been in a customs union since 1910. The smaller countries depend heavily on trade with South Africa. SACU customs revenues, administered by South Africa, are an important source of national revenue for them. Remittances from migrant employment in mining and agriculture remain significant.

D3 In some ways the five countries share a common experience of poverty, characterised by pervasive economic, political and social exclusion. Wealth from mining and from

agriculture has been very unevenly spread, resulting in some of the highest levels of inequality in the world. The history of colonialism and apartheid has left the majority of the population poorly educated, and created a skewed pattern of settlement and land ownership which will take decades to overcome.

D4 All countries in the region face high levels of HIV/AIDS.

Box 3: HIV/AIDS IN SOUTHERN AFRICA

HIV infection rates in 15-49 year olds are 38% in Botswana, 24% in Lesotho, 20% in Namibia, 22% in South Africa and 34% in Swaziland. (Source: UNAIDS, based on antenatal surveys of pregnant women).

The death rate lags behind the infection rate by nearly a decade, and will increase rapidly in all countries over the next few years whatever happens to the rate of future transmission. Over the next decade some 5-7 million people will die during their prime years as a result of the disease, leaving some 2 million orphans, transforming family structures and social norms. The ability of government to provide services will come under increasing pressure as demand increases and staff losses increase, and HIV/AIDS will affect the competitiveness of business.

HIV/AIDS is not restricted to the poorer sections of society – but the poor are most vulnerable to its consequences. Inadequate nutrition, poor living conditions and lack of access to effective treatment greatly increase the vulnerability of poor people to opportunistic infections such as tuberculosis.

Although awareness about HIV/AIDS is nearly universal, this is not translating into behaviour change. Condom use is still low. Further work to slow the spread of transmission is needed urgently across the region. About 10% of new cases arise from mother to child transmission – perinatal use of anti-retroviral drugs could reduce the risk of transmission substantially.

Systems for care and treatment of the sick, and for care of orphans need substantial strengthening. Traditional coping systems within the extended family are beginning to break down, given the scale of the problem. Improving access to the relatively simple treatments required for frequent opportunistic infections is a more immediate priority than provision of anti-retroviral drugs that delay the development of AIDS. Use of these drugs will increase however as prices come down, and operational research is required to address the constraints faced by health care systems to administer the complicated drug regimes safely.

The inevitable impact of HIV/AIDS is still inadequately reflected in future planning by both public and private sectors across the region. More research and analysis is required to project impacts accurately.

D. POVERTY AND INEQUALITY WITHIN THE FIVE SACU COUNTRIES – BOTSWANA, LESOTHO, NAMIBIA, SOUTH AFRICA AND SWAZILAND

CONTINUED

D5 Although the countries are closely linked, they are not a homogenous group:

- South Africa is a huge economy compared with the rest of Africa, and a significant player on the world stage
- South Africa has a population of 42 million. The other four countries have populations between 1 and 2.2 million
- South Africa, Namibia and Botswana all have a large land mass and scattered population. Swaziland and Lesotho are small and more densely populated
- Lesotho (per capita GDP \$580) and Swaziland (per capita GDP of \$1,390) are significantly poorer than the other three countries
- South Africa and Namibia were both ruled under the apartheid system until relatively recently – Namibia became a full democracy in 1990, and South Africa in 1994. Botswana has been a parliamentary democracy since independence in 1966. Lesotho is a constitutional monarchy. Swaziland is also a monarchy, with the King exercising more direct power – the constitution was suspended in 1973, and a new constitution is currently being drafted.

DFID-SA'S RESPONSE TO POVERTY WITHIN SACU

D6 Despite DFID's general policy of focusing on low-income countries, it is a priority for DFID to remain engaged in addressing poverty and inequality in this mainly middle-income region because:

- South Africa plays a pivotal role in the prospects for growth and development across sub-Saharan Africa as a whole – both because of its economic strength and because of its political leadership (e.g. through NEPAD)
- South Africa and Namibia are still in the early years of transformation from apartheid, and there is still a need for the international support pledged when they became democracies

- some 7 million people live below \$1 per day, and high levels of inequality are structurally entrenched. But the countries have relatively strong human and financial resources to tackle poverty, and the capacity to develop effective partnerships with the international community
- these countries have some of the highest rates of HIV/AIDS in the world
- these countries receive less support from other donors than many African countries. The UK therefore plays a particularly key role in the overall donor picture.

D7 A programme review in 2001 suggested that DFID-SA needed to substantially reshape its programme. In the past, our strength has been in developing and delivering technical co-operation activities in particular sub-sectors. This led to a diverse programme, with some 150 separate interventions in 2000. DFID now aims to develop more strategic interventions that promote engagement with the overall poverty agenda. We aim to work in a multi-disciplinary way with partners, both to sharpen analysis and understanding of poverty in the region, and to contribute to the development and implementation of effective poverty strategies. To ensure that we focus on key areas, we plan to support a maximum of 40 interventions. This represents a substantial rationalisation of our programme. In late 2001, DFID-SA was supporting 114 separate interventions. We aim to reduce this number to 40 by the end of 2003

D8 DFID is also keen to integrate its efforts more closely with those of the wider international community. Among multilateral funding agencies, the European Union is by far the largest in the SACU countries, and is taking the lead in promoting multi-donor sector programmes. The World Bank has a significant programme in Lesotho. Lending in the other countries of the region is limited, although a small loan has recently been signed with South Africa. There is also substantial scope for working with other bilateral donors – including the US, Germany, Sweden, Netherlands; and with Ireland Aid in Lesotho.

D9 DFID-SA has traditionally pursued separate bilateral programmes with all five countries of the SACU

D. POVERTY AND INEQUALITY WITHIN THE FIVE SACU COUNTRIES – BOTSWANA, LESOTHO, NAMIBIA, SOUTH AFRICA AND SWAZILAND

CONTINUED

region. But increasingly DFID is seeing the need to take a more regional approach – recognising the strong interdependence of these countries, the high transaction costs of running national initiatives in very small countries, and the scope for multi-country programmes to promote lesson-learning across countries.

THE FOUR MIDDLE-INCOME COUNTRIES

Dio The international response to poverty and inequality in middle-income countries should be different from that in poor countries, where absolute lack of resources is a key constraint to poverty elimination. DFID's policy paper *Eliminating Global Poverty: The Middle-Income Countries* (2001) suggests that DFID should aim for a relationship based on policy engagement rather than transfer of financial resources. Our goal should be to strengthen the accountability of local policy makers to their poor citizens. Our engagement wherever possible should be through or in partnership with multilateral agencies rather than through bilateral initiatives.

Dii DFID-SA has since 1994 focused on supporting public service reform and improved service delivery. A programme review in 2001 concluded that we should continue with this work, while devoting greater attention to growth, jobs and equity; to broader democracy, governance and accountability issues, and to HIV/AIDS. We propose therefore a programme that aims to strengthen the work of partners in the region in four theme areas:

- **Analysis of poverty and inequality and the development of poverty reduction strategies**

We will work with different parts of government on measuring poverty and developing strategies for addressing it. We will also work to build the capacity of the non-state sector to engage with the poverty agenda.

- **Promoting growth, jobs and equity**

DFID recognises that growth and jobs will come largely from the private sector. We will support governments' work on economic policy issues, and on the enabling environment for jobs and enterprise. We

will also aim to strengthen poor people's access to the region's finance, commodity, land and labour markets.

- **Strengthening democracy, governance and service delivery**

We will work with government and with civil society to strengthen government's capacity to serve the poor – both through strengthening the responsiveness and accountability of government, and through strengthening its systems for the delivery of key services (especially education, health, water and justice).

- **Tackling HIV/AIDS**

We aim to help strengthen policy and implementation capacity in government, civil society and the private sector, covering prevention, care and impact mitigation.

D12 In South Africa, we will maintain a significant programme in all these areas. In Botswana, Namibia and Swaziland, DFID will replace over time its diverse programmes of bilateral projects with a new approach with four main components:

- pursuing policy dialogue with national governments in support of national poverty reduction strategies
- strengthening the work of multilateral institutions
- developing bilateral initiatives where these can have a strong strategic impact on drivers of poverty. Wherever possible, we will design programmes benefiting several countries. We already have multi-country programmes on HIV/AIDS, on financial services, and on trade
- ensuring these countries benefit from SADC-wide programmes.

LESOTHO

D13 In Lesotho, DFID will follow the same approach as in SADC's other low-income countries. We will support the development of a poverty reduction strategy, and will aim to back its implementation through budgetary support and technical co-operation.

E. RISK ANALYSIS

E1 There are substantial risks to the achievement of the Millennium Development Goals in Southern Africa. The key uncertainties are:

- how effectively governments will translate their commitment to poverty elimination into effective strategies and actions
- how governance issues will be addressed (including issues of accountability, corruption, tolerance, and engagement with civil society)
- how quickly conflicts in the region are resolved
- how seriously governments will grapple with the spread and impact of HIV/AIDS.

E2 However, the prospects for effective DFID engagement are positive. The environment in the region is relatively stable politically – although there is some possibility of further political instability in Lesotho, and some uncertainty about the pace of political change in Swaziland.

There is no likelihood of massive economic shocks – although the smaller middle-income countries are highly vulnerable to changes in international trade systems. There are relatively high levels of financial and human resources for addressing poverty. There is good potential for working effectively with other donors.

E3 The main risk for DFID and other donors arises from the small scale of international support in relation to South Africa's own financial and human resources. There is a danger that donor resources could be scattered across a wide range of worthwhile activities which do not effectively promote the systemic reform needed to address poverty. DFID needs to guard against this by ensuring that it only engages in initiatives which have real prospects for strategic impact. DFID will support only initiatives which are clearly owned and driven by partners in Southern Africa. Wherever possible, we will work collectively with other donors.

F. IMPLEMENTATION AND RESOURCE ISSUES

F1 DFID-SA is already working to implement this new strategy. The teams in Pretoria have been reorganised to reflect the new key theme areas. Our four Field Offices were reviewed in February 2002. The office in Lesotho has been strengthened to enable stronger DFID engagement in the poverty reduction strategy process. The office in Botswana is being reduced and reshaped, with a smaller project management role but a growing relationship with the SADC Secretariat. The office in Swaziland has been integrated with the High Commission. The office in Namibia will be integrated with the High Commission within two years.

F2 Over the period of this strategy, DFID-SA plans to spend about £40 million per year on its work in the countries of SACU. Of this, about £5 million will be spent in Lesotho. For the regional work across SADC, DFID-SA has a separate budget line currently set at £7 million per year.

F3 In addition to the support provided by DFID-SA, DFID will also contribute about £22 million per year to the European Union programmes in the region – some £16 million in South Africa and the rest through the EU's other country and regional programmes. DFID will also contribute to the costs of World Bank lending in Lesotho, and to the costs of United Nations programmes.

1.1 Paragraph C.10 of the strategy emphasises that a key aim of our engagement with South Africa is to strengthen our partnership in promoting a pro-poor agenda internationally. South Africa plays an important role through:

- its advocacy for developing country interests in the Doha trade negotiations
- its efforts to promote a collective African response to the continent's problems through its leading role in the African Union, NEPAD and regional groupings such as SADC
- its commitment to address conflict issues across Africa
- its role as host of the World Summit on Sustainable Development in Johannesburg in 2002.

1.2 The rest of this annex addresses how we hope to work with South Africa in addressing poverty within the country and its immediate neighbours.

THE CHALLENGE

1.3 South Africa seems set for a continuing period of political stability under a government led by the African National Congress (ANC). Opposition parties play an important role in holding government to account, but many of the most important policy debates in the country take place within the ruling ANC-led alliance, which encompasses a wide spectrum of views on economic policy and other issues. At provincial level, seven of the nine provinces are strongly ANC-dominated, and the ANC are now in coalition with the Inkhata Freedom Party in KwaZulu-Natal and the New National Party in the Western Cape.

1.4 The driving force of the South African government is to redress the legacy of apartheid, and it has many strong policies on poverty issues. But it does not have an overarching strategy for poverty reduction, nor is there a single home for the poverty agenda within government. DFID and other donors therefore draw their poverty analysis from a range of sources.

PROSPECTS FOR GROWTH

1.5 Sub-Saharan Africa depends heavily on South Africa as an engine of growth. Its GDP of \$150 billion is three times that of the other 13 SADC members put together. Growth is also important for poverty reduction within South Africa. South Africa is a highly urbanised society, with a strong tradition of wage employment in the mining industry. Unemployment stands at about 38%⁴. Growth in employment in the formal and informal sector is the key to reduction of poverty and inequality, although there is also scope in some parts of the country for poor people to generate better livelihoods through self-employment in small agriculture or enterprise.

1.6 Since 1996, the government has achieved macroeconomic stability through its Growth, Employment and Redistribution (GEAR) strategy, which involved the substantial opening-up of a previously controlled economy. The Mbeki administration has been internationally applauded for its resilience in pushing through this politically controversial agenda. International trade has expanded fast. But the growth response has been lower than predicted in GEAR. Average growth rates of 2.4% remain below the government's target of 4.2%, and too low to make substantial inroads into poverty and unemployment. The government in 2002 announced a new microeconomic reform strategy, designed to improve competitiveness and growth.

⁴ It is difficult to interpret trends in unemployment since 1994. The extent of employment in the informal sector is especially difficult to gauge. Comparing the October Household Surveys in 1995 and 1999 shows an 18% increase in the number of adults classed as economically active (from 11.4 million to 13.5 million), while the number of adults classified as not economically active has remained steady at about 12.8 million. Among the economically active, there was a 7.3% increase in the number employed (from 9.6 million to 10.4 million), and a 75% increase in the number unemployed (from 1.8 million to 3.2 million using the official definition – which requires people to have looked for work in the 4 weeks before the survey). Using the expanded definition of unemployment, it is estimated that in 1999 5.9 million people (36% of the labour force) were unemployed, 10.4 million people were employed, and 10 million people were not economically active. (South Africa in Transition: 1995-99 Stats SA, 2001)

ANNEX I: SOUTH AFRICA

CONTINUED

1.7 Analyses of the constraints to growth in South Africa focus partly on the global environment (including the crisis of confidence in emerging markets), and partly on the structural problems inherited from the apartheid period. Constraints to growth include:

- a strong dependence on the formal economy (with heavy historical investment in capital intensive industries such as mining, and a weak small enterprise and small agriculture sector)
- a relatively small domestic and regional market
- low skills as a result of apartheid education policies
- infrastructure constraints, arising from apartheid spatial policies
- limited progress with policies to improve competitiveness (e.g. on trade liberalisation and privatisation)
- low domestic investment (low savings rate, substantial post-liberalisation capital outflow)
- limited foreign investment – investor confidence has been damaged by all the factors above as well as regional instability, crime and HIV/AIDS.

Some analysts also see lack of flexibility in the labour market as a key constraint to employment-creating growth.

1.8 South Africa depends heavily on international trade, with a strong emphasis on trade in primary products. The scope for growth will therefore be influenced by

developments in the multilateral trading system. Following the Trade and Development Co-operation Agreement with the European Union, South Africa's exports to Europe grew by 24% in 2000 and 21% in 2001.

THE APARTHEID INHERITANCE

1.9 However, an exclusively growth-based analysis of poverty misses the main point about poverty and inequality in South Africa – which is the historical pattern of social, economic and political exclusion entrenched by the apartheid system. Apartheid excluded the majority of the population from the political process, from access to markets, from quality government services, and from ownership of land and other assets. Many people were forcibly relocated to the 13% of the country designated as independent homelands. Many more lived in sprawling townships and informal settlements outside cities where residence was reserved for whites. The country ran on a system of migrant labour, which disrupted family and community life.

1.10 The effects of the inadequate education available to most black people before 1994 are a particular constraint on poverty elimination. The two-tier education system strongly reinforced the majority population's sense of disempowerment. Many of the 38% of the population who are currently unemployed lack the skills required to compete in the formal employment market, or to succeed as entrepreneurs.

ANNEX 1: SOUTH AFRICA

CONTINUED

BOX 4: THE PERSISTENCE OF POVERTY IN SOUTH AFRICA

"The apartheid-era legacy leaves distortions every bit as pervasive and costly as those inherited by many of the economies emerging from the former Soviet Union. Compared to other middle-income countries, South Africa is highly urbanized, and while half the population is rural, agriculture accounts for less than 6% of GDP (and only 9% of employment). The relatively small agricultural sector, along with a stunted informal sector, imply that South Africa is missing two standard labour "shock absorbers" that operate in other economies during periods of adjustment. The spatial dimension of apartheid meant that millions of South Africans were deliberately located miles away from urban centres where the jobs were, fostering the emergence of complex migrant worker systems and transport patterns that remain in place today. Discrimination in the provision of education and training opportunities meant that generations of black South Africans were prevented from acquiring the skills that would make them eligible to pursue productive employment opportunities."

Policies to Promote Growth and Employment in South Africa – World Bank 2001

"The poverty traps set by apartheid remain an important explanation for the persistence of poverty in South Africa...households previously dependent upon wage income now find themselves with neither the wage, nor the assets from which to generate an income."

Poverty and Inequality in South Africa – Office of the Deputy President May 1998

1.11 The result of all this is that South Africa is one of the most unequal countries in the world. The poorest 10% of the population is responsible for 1% of total expenditure; the poorest 40% are responsible for less than 10% of total expenditure and the richest 10% are responsible for more than 45%.

1.12 The extent of disruption to social and community life caused by the apartheid system has left severe social as well as economic problems. High levels of violent crime (21,000 murders in 2000) and of gender violence are

indicators of social stresses. Family dislocation has contributed to the spread of HIV/AIDS, which will in turn lead to further social stresses, particularly because of the large numbers of children who will lose their parents.

1.13 Poverty is heavily concentrated in the former homelands⁵, the peri-urban areas and townships. Figures from the 1999 Household Survey suggest that 74% of the poor live in rural areas, 15% live in small towns, 4% live in secondary cities and 7% live in the major metropolitan centres⁶. Women are more likely to be poor than men – high

INEQUALITY AND RACE IN SOUTH AFRICA

	POPULATION	CLASSIFIED AS 'POOR'	LITERACY	ACCESS TO HEALTH SERVICES	UNEMPLOYMENT
WHITE	10.9%	1%	99.5%	78%	4.6%
BLACK	76.7%	61%	77%	26%	43%
COLOURED	8.9%	38%	91%	15%	21%
ASIAN	2.6%	5%	96%	29%	12.2%

Source: *Poverty and Inequality in South Africa, (1998) Office of the Deputy President.*

ANNEX 1: SOUTH AFRICA

CONTINUED

levels of gender violence show the widespread social disempowerment of women.

1.14 Good trend data on poverty is not yet available; but Stats SA hope to publish poverty profiles for 1995 and 2000 – combining data from the 1995 and 2000 Income and Expenditure Surveys with data from the 1996 and 2001 population censuses in 2003.

1.15 Some indication of the dispersion in poverty across the country can be seen from the differences between provinces.

1.17 Government has nonetheless made substantial improvements in the delivery of basic services to previously disadvantaged areas. Between 1994 and 2001, some 7 million people were provided with access to water services, 3.5 million new electricity grid connections were made, and 1.2 million houses were built⁷. The welfare system has been expanded, and there is now a system of social grants covering old age, disability and child support.

1.18 For the future, the government's strategy for improving access to services focuses on the decentralisation of responsibility to elected local government. In 2000 a

	POPULATION (MILLIONS)	PROVINCIAL POVERTY RATES	PROPORTION OF THE TOTAL POOR PEOPLE IN SA
WESTERN CAPE	4.3	20%	4%
NORTHERN CAPE	0.9	44%	2%
EASTERN CAPE	7.0	62%	23%
KZN	9.1	42%	22%
FREE STATE	2.8	55%	9%
MPUMALANGA	3.1	50%	9%
LIMPOPO	5.7	49%	16%
NORTH WEST	3.6	52%	11%
GAUTENG	8.0	10%	4%

THE POLICY ENVIRONMENT

1.16 The government has a strong commitment to addressing the inherited problems of apartheid but it faces severe capacity constraints in doing so. There are many able and dynamic policy-makers in government but implementation capacity is less strong – with weak systems, and skills shortages in many parts of government. This is particularly evident in the poorer provinces (many of which have faced the task of unifying several former homeland administrations). Ensuring adequate health and education services for previously disadvantaged communities remains a major challenge.

transitional system of local government, which amalgamated former racially separate municipalities, was replaced by a fundamentally new demarcation. The major cities became single-tier metropolitan municipalities. The rest of the country has a two-tier system of district and local municipalities. The new system aims to enhance democracy, accountability and sound financial practice, expand service delivery to the whole population, and stimulate local economic activity. However, lack of clarity about roles and functions, and the lack of institutional capacity, make effective decentralisation a huge task.

1.19 The major threat to poverty reduction is the spread of HIV/AIDS. In response to the crisis, the

5 Bophutatswana (North-West Province), Ciskei and Transkei (Eastern Cape), KwaZulu (KZN), and Lebowa and Venda (Limpopo)

6 The urban-rural spread of poverty is however more complex than these bald figures suggest – with the urban population growing fast, the distinction between urban and rural areas breaking down, and complex economic linkages between earners in towns and dependents in rural areas.

7 President Mbeki, State of the Nation Address 2002

government has set up the National AIDS council, and has launched a number of programmes. The President and Cabinet have often argued that the international community is overestimating the extent of the crisis, and the fight against HIV/AIDS has not been given the political priority it requires across all aspects of government. But a Cabinet statement in April 2002 suggested a new urgency of purpose, including the creation of a Presidential Task Force on HIV/AIDS, and an accelerated programme for providing anti-retroviral drugs to prevent mother to child transmission of HIV.

1.20 South Africa has a vibrant non-state sector. Its strong private sector is key to development – as the engine of economic activity, formal employment and small enterprise. There is increasing interest in public-private partnership for improved service delivery. The trades union movement is strong – the major union grouping, COSATU, is part of the governing alliance. Business and civil society organisations are often more openly critical of government – on issues such as economic policy, HIV/AIDS and land reform. Given the dominance of the ANC in elected political structures, civil society organisations can play a particularly important role in articulating divergent policy ideas, and in speaking up for particular groups of poor people. Civil society organisations were very strong in the anti-apartheid years, but have been constrained since 1994 as staff left to join government or the private sector, and donors redirected their money to government.

SCOPE FOR WORKING WITH OTHERS

1.21 Donor resources represent only about 2% of the South African government budget. There is a strong interest among international donors in working more closely together to increase impact and reduce transaction costs. The range of international donors working in South Africa is narrower than in many countries. South Africa has not borrowed significantly from the World Bank, African Development Bank or Japan. The resources of the UN agencies here are small. Active bilateral donors include the USA, Germany, the UK, Sweden, the Netherlands and Norway. The largest donor is the EU.

1.22 DFID is therefore focusing particularly on working with the European Union development programme. DFID engaged heavily in the preparation of the 2001-2003 Multi-year Indicative Plan. We are now involved in preparations for the 2004-2006 plan, which covers four areas of co-operation closely aligned with DFID's:

- equitable and sustainable access to, and use of, social services
- equitable and sustainable economic growth
- deepening democracy
- regional integration and co-operation.

The EU expects to spend about €120 million per year, largely through a series of sub-sector support programmes. We are supporting the design of most of the EU's major new initiatives. We are already providing technical co-operation funds to support sector programmes in water, health and in the Department of Trade and Industry.

1.23 DFID works closely with other parts of the British Government in South Africa. All British government offices in South Africa have signed up to a mission statement, which states that:

"Britain's single biggest interest in South Africa and the region is that the country should be successful, stable, prosperous and a positive influence. We will encourage, support and develop strong partnerships between Britain and South Africa, particularly those which contribute to positive change and to reducing poverty."

DFID's work in South Africa focuses heavily on policy engagement, which requires a joined-up approach with other parts of the British Government.

REVIEW OF PAST DFID PROGRAMME

1.24 DFID-SA conducted a thorough performance review in 2001. This concluded that well-targeted technical assistance efforts are highly valued by South African partners, and can make a valuable contribution to policy development and to strengthening implementation capacity. It concluded that DFID had in the past managed too many separate initiatives, and that the portfolio should be

streamlined. It also noted that our focus had been mainly on supporting transformation in government, and that there was a case for paying greater attention to the promotion of pro-poor growth.

DFID STRATEGY

1.25 Against these challenges, we believe that a strategy for addressing poverty and inequality in South Africa needs to focus on:

- strengthening poverty analysis and strategy
- promoting growth, jobs and equity
- strengthening democracy, governance and service delivery
- tackling HIV/AIDS.

These areas are strongly prioritised in many South African government policy statements, including the Medium Term Expenditure Framework.

1.26 In the light of the overall pattern of donor activity, we believe that DFID should develop a broad-ranging engagement on poverty rather than a highly focused programme of sector-specific interventions. We will seek to prioritise those initiatives which will have the strongest strategic impact on policy and implementation, which will help promote a holistic response to poverty, and which offer scope for strong partnership with South African counterparts.

1.27 We are aiming to contribute through policy dialogue and technical assistance to the following outcomes:

- **strengthening poverty analysis and strategy**
 - stronger poverty analysis and strategy by the ministries in the social and economic cluster, by provincial and local government
 - the non-state sector able to engage more effectively with the poverty agenda
 - stronger collective analysis and action by the international community.
- **promoting growth, jobs and equity**

- a more effective process for restructuring public enterprises
- an improved enabling environment for business
- making markets work for the poor – covering finance, commodities, land and labour markets.

- **strengthening democracy, governance and service delivery**

- effective public service reform in the national, provincial and local spheres of government
- improved service delivery in education, health, water and sanitation, and social welfare. We will focus particularly on systemic reform in education, given the importance for both growth and empowerment of overcoming the legacy of the apartheid education system
- key institutions of democracy, and accountability processes working more effectively
- improved safety, security and access to justice for the poor.

- **tackling HIV/AIDS**

- strengthened policy and implementation capacity in government, civil society and the private sector covering prevention, care and impact mitigation.

1.28 We will focus particularly on Eastern Cape and Limpopo (formerly Northern) Province – both because of their high numbers of poor people, and because of the extent of DFID's current investment there. If we have the capacity to move beyond these provinces, the priority would be to engage also with KwaZulu-Natal, which is the third poorest province, and the worst affected by HIV-AIDS. As the development agenda moves increasingly towards local government, we may need to focus activities increasingly at local rather than provincial level.

1.29 DFID's direct programme of assistance will be worth about £30 million per year. In addition, DFID will contribute some £16 million per year to the EU's programme in South Africa.

THE CHALLENGE

2.1 Socially and politically stable, Botswana has maintained a sound record of multi-party democracy and good governance since independence in 1966. The Botswana Democratic Party has dominated parliament throughout this period. Transparency International recently ranked Botswana as having the lowest level of corruption of any of the African countries surveyed.

2.2 At independence, Botswana had the second lowest per capita income in sub-Saharan Africa, but as a result of a real growth rate of about 8% per year between 1966 and 1998, it now has the second highest. This transformation is largely due to rapid growth of the mining industry. Botswana is the world's largest diamond producer, and diamonds account for about 36% of GDP and 70% of exports. The country has managed its mineral sector well and has pursued sound macroeconomic policies. The economy is very open, with the UK as the major export market. Botswana has the highest sovereign credit rating in Africa.

2.3 But wealth remains very unevenly spread in the country – the top 20% of households earned 59% of income⁸. The mining industry accounts for only 4% of jobs. Nearly half of Botswana's employment is provided by the public sector, including central and local government and parastatal organisations. Poverty in rural areas remains acute, with 33% of the population of 1.68 million living below the \$1 per day line. The worst forms of poverty are concentrated in the remote areas, particularly in the west.

2.4 Botswana has had limited success in diversifying its economy and expanding employment. There has been some success in manufacturing, but some investors are now shifting their operations elsewhere in the region. Inflows of foreign direct investment have fallen from \$100 million in 1997 to \$30 million in 2000 and growth in manufacturing and services has been disappointing.

2.5 Economic opportunities in rural Botswana are very limited. Livestock is the backbone of the rural

economy, but ownership of cattle is highly skewed, providing only a subsistence livelihood to the many rural people who do not own animals. Recent outbreaks of epidemic diseases have had significant economic impact. Benefits from livestock production depend heavily on the international trade regime: at present Botswana benefits from preferential access to the European market.

2.6 Tourism is becoming increasingly important, although again relatively few people capture much of the income. There are some interesting community-based wildlife and wilderness management schemes in remote areas. Tourism in Botswana depends on proximity to the Victoria Falls, and has been hit by the recent decline in visitors to Zimbabwe.

2.7 Botswana has made impressive progress in providing basic services throughout the country – provision of primary education is almost universal and a well-developed decentralised health care system has been established. There has been considerable investment in roads. Welfare and pension payments are also an important source of income for the poor, particularly since the introduction of a universal pension in 1997.

2.8 Based on antenatal surveys, the prevalence of HIV among women aged 15-49 in Botswana is 38%. Life expectancy has fallen from 57 in 1990 to 39 now. The government, from the President down, have given a strong political lead towards tackling the crisis – including by announcing universal access to voluntary counselling and testing, and anti-retroviral therapy. This has attracted substantial international support such as from the Bill and Melinda Gates and Merck Foundations. However, implementation inevitably lags some way behind policy.

2.9 There is strong international interest in Botswana's treatment of its indigenous San communities, who number about 50,000. Along with other "remote area dwellers" these people have been encouraged by the government to give up their traditional lifestyles. They now largely live in poor conditions in settlements, struggling to overcome social, political and economic exclusion. Britain

has urged the government of Botswana to address the particular needs of these people.

2.10 Botswana has produced a national 'Vision 2016', which includes poverty eradication by 2016 (the 50th anniversary of independence) as one of its core objectives. The government is at an advanced stage of producing a national poverty reduction strategy, which was at consultation stage at the time of drafting this document. The main thrusts of the strategy are to:

- expand employment opportunities through broad-based growth
- promote the capabilities and participation of poor people
- strengthen the capacity of central and local government
- tackle HIV/AIDS.

2.11 This framework is expected to shape the forthcoming National Development Programme (NDP9) due to start in April 2003, as well as a forthcoming Rural Development Strategy. Key areas for policy development are expected to include: pro-poor macroeconomic analysis; foreign direct investment; land; tourism; human resource development and public sector reform.

2.12 Botswana is a significant political player within the region, including representation on the NEPAD Heads of State Implementation Committee. Gaborone is the home of the SADC Secretariat. Following the decision to relocate SADC's 21 sector co-ordinating units from member states to Gaborone (see paragraph C.10), Gaborone will become more of a regional hub.

SCOPE FOR WORKING WITH OTHERS

2.13 Many bilateral donors have withdrawn their programmes from Botswana as it has grown richer. The EU retains a substantial programme. The indicative allocation under the 9th replenishment of the European Development Fund (EDF 9) is €91 million, largely focused on human

resource development. Botswana is also receiving substantial support from non-traditional sources (such as the Gates and Merck Foundations) for its HIV/AIDS programme.

DFID STRATEGY

2.14 DFID's direct spending in Botswana has progressively reduced, and now stands at about £2 million per year – with activities in education and rural livelihoods. Botswana is also included in DFID's regional work on trade and HIV/AIDS. In addition to its direct spending, DFID contributes about £1 million per year through the EU programme in Botswana, and also contributes to the work of other multilateral agencies.

2.15 Botswana values its past close links with DFID, and is keen to see a continuing DFID engagement, particularly to help address the impact of HIV/AIDS.

2.16 Paragraph D.12 sets out DFID's overall approach to working in the middle-income countries of Southern Africa. Within that framework, DFID-SA will aim to:

- provide policy and technical support on key issues in the poverty reduction strategy process
- implement effectively our continuing support for rural livelihoods
- continue to support work on HIV/AIDS and trade through regionally-based activities
- work to promote effective implementation of multilateral programmes supporting the poverty reduction strategy – particularly the EU's programme in education.

2.17 DFID will also support a substantial programme of activities with the SADC Secretariat in Gaborone, as set out in Annex 6.

THE CHALLENGE

3.1 Namibia gained independence from South Africa in 1990, under the charismatic leadership of Sam Nujoma of the South West Africa Peoples' Organisation (SWAPO). Three elections under multi-party democracy have consolidated the position of SWAPO in government. President Nujoma remains popular as the Father of the Nation. His government's clear commitment in the early 1990s to national reconciliation, and to improve the living standards of the deprived majority, was widely applauded internationally. More recently, there has been some international concern about the amendment to the constitution which allowed him to stand for a third term as President in 1999; and about his strong support for contentious policies pursued by the Zimbabwe government. The next elections are due in 2004.

3.2 Namibia has been ranked highly by Transparency International in comparison with other African countries in terms of corruption. Concerns are however growing about delays in introducing anti-corruption legislation.

3.3 At independence there was an enormously skewed distribution of wealth – with most of the country's land in the hands of some 4,000 white commercial farmers, mainly of German descent, and 70% of the indigenous population (almost one million people) living in the remote north. Namibia has one of the highest levels of income inequality (as measured by the Gini coefficient) in the world. Its level of HIV/AIDS is similar to South Africa. Namibia also inherited massive inequalities in basic service provision, particularly for education and health. Since independence the government has devoted considerable resources to the social sectors; there has been much progress over the last decade, although the new services could be managed more effectively and efficiently.

3.4 Although Namibia, like Botswana, enjoys considerable national revenue from its diamond industry, its economy is a little more diverse, with an abundant base of different mineral deposits (including uranium, gold, copper

and zinc) along the southern coastline and southwest. The mining industry plays a strong part in the economy, but contributes only some 3% of total employment. Fish exports are important – the coastline benefits from nutrient rich offshore water associated with the Benguela current. Much of the country is under commercial livestock production, including both cattle and Karakul sheep, which contribute some two thirds of agricultural output. There are also some major irrigation schemes in the south, particularly grapes for export. Food processing is the major manufacturing activity. The small and medium enterprise sector is underdeveloped. Tourism is already an important industry, with strong potential for expansion

3.5 Land reform is becoming a more prominent issue in Namibia. Since independence, the government has observed a 'willing-buyer, willing-seller' approach to land reform, concentrating on redistribution of commercial farms. To date this approach has been expensive and slow, involving only 100 farms and some 30,000 people resettled. Meanwhile, there has been almost no attention to tenure reform in the communal farming areas, which could bring important benefits to the poor. New approaches to land redistribution being mooted by the government could prove controversial – since they appear to involve low levels of compensation and considerable uncertainty about the criteria for identifying land and beneficiaries. Namibia has been publicly supportive of the Zimbabwe government's land seizure policy, but at present appears unlikely to adopt similar policies.

3.6 Close political ties with the ruling party in Angola led Namibia to send some 2000 troops to support the late President of the Democratic Republic of Congo. Incursions by the National Union for the Total Independence of Angola (UNITA) into northern Namibia led to military deployment along the border with Angola. Relatively high levels of military expenditure have contributed to concerns about public expenditure management.

ANNEX 3: NAMIBIA

CONTINUED

3.7 Relations with South Africa and Botswana are generally good, although there have been tensions with Botswana, owing to sovereignty disputes over uninhabited islands in the Chobe river (now resolved) and Botswana's hosting of Caprivian exiles. Namibia appears supportive of many of the key thrusts within NEPAD.

3.8 Namibia published a poverty reduction strategy in 1998. It identified the challenges as:

- unequal distribution of wealth
- a weak agricultural base
- rapid population growth
- an economy structure not geared to equitable growth and job creation (heavy focus on mining)
- the country had reached the limit of its ability to mobilise public revenues (with public expenditure at 40% of GDP)
- illiteracy and lack of capacity.

3.9 The strategy paints a long-term vision of Namibia as a transport and manufacturing hub. Investment in infrastructure, skills development and health is seen as critical to achieving this vision. In the short term, the strategy focuses on agriculture, tourism and small, medium and micro-enterprises as opportunities for livelihoods; and on a public works and social security programme as safety nets for the poor. Namibia has also introduced local government reforms, promising to enhance local level development and accountability.

3.10 In 2001, Namibia finalised its second National Development Plan, which included the National Poverty Reduction Action Plan (NPRAP). This identifies the following strategies aimed at reducing poverty:

- more equitable and efficient delivery of public services
- accelerate equitable and sustainable agricultural expansion
- develop options for non-agricultural income-generating activities

- provide a safety net for vulnerable groups.

SCOPE FOR WORKING WITH OTHERS

3.11 The EU, Sweden, Germany and the Netherlands all have strong programmes in Namibia. The indicative allocation under the 9th replenishment of the European Development Fund (EDF 9) amounts to €91 million; the focus will be on poverty reduction, including rural development and human resources development. Several donors are pooling funds in a sector-wide programme in education.

DFID STRATEGY

3.12 DFID has a significant ongoing programme in rural livelihoods in Namibia, worth about £2.5 million per year. Namibia is also included in DFID-SA's regional work on HIV/AIDS and trade. In addition to its direct spending, DFID contributes about £1 million per year through the EU programme in Namibia, and also contributes to the work of other multilateral agencies.

3.13 Paragraph D.12 sets out DFID's overall approach to working in the middle-income countries of Southern Africa. Within that framework, we will aim to:

- support poverty analysis and strategy in Namibia
- work with other donors to support improved macroeconomic policies, budget management, and public sector reform
- implement our ongoing programme of support for rural livelihoods
- continue to support work on HIV/AIDS and trade through regionally-based activities
- promote effective implementation of multilateral programmes, particularly the EU's programme on education and rural livelihoods.

THE CHALLENGE

4.1 With a GDP per capita of US\$1390, Swaziland is significantly poorer than Botswana and Namibia. It has no significant mineral deposits. Whereas Botswana and Namibia are semi-arid, with small indigenous populations dispersed over vast areas of land, Swaziland is a compact, small country that enjoys a subtropical climate.

4.2 There is a widespread view in the international community that addressing governance issues is key to Swaziland's future. Its post-independence constitution, which provided for a constitutional monarchy, was suspended in 1973. Since then political parties have been banned, and there has been in effect a dual system of government. The King takes advice partly from a Westminster-style parliament (elected on an individual rather than party basis) and cabinet, and partly from more traditional structures centred around the Royal Family and the Swazi National Council. Although there is growing movement in favour of political reform, the King personally, and the monarchy in general, continue to enjoy popular support from the majority of Swazis.

4.3 While there is strong international understanding for the wish of the Swazi people to preserve traditional values and forms of government, there is concern that the processes for holding government accountable to the people do not meet democratic norms. Recent laws or government decisions (on issues such as labour rights and freedom of the press) have provoked international concern on human rights grounds. Opposition figures suffer harassment. Swaziland has yet to accede to key United Nations conventions, including the Convention Against All Forms of Discrimination against Women (CEDAW). The judiciary remains generally independent.

4.4 In 1996, Swaziland set up a Constitutional Review Commission. Its report in 2001 concluded that the Swazi people favoured broadly maintaining the status quo, although its methods of consultation have been widely questioned. A Constitutional Drafting Committee has now

been established, and is being advised by the Commonwealth Secretariat and other credible international figures.

4.5 Swaziland is heavily dependent on agriculture (especially sugar) and forestry. Although agriculture and forestry directly account for only 11% of GDP, they form the basis of most manufacturing – which is largely restricted to agro processing. Soft drink concentrate is a major export – dominated by the Coca Cola concentrate plant, which relocated to Swaziland from South Africa during the sanctions and disinvestments era of apartheid. With an export to GDP ratio of 80% in 1999, Swaziland will be influenced heavily by future international trading regimes, including in sugar.

4.6 Apart from agro-industry, the textile industry has been expanding rapidly, largely through Taiwanese investment associated with the implementation of the USA's Africa Growth and Opportunity Act (AGOA).

4.7 There are two forms of land holding in Swaziland. Some 40% of the land is Title Deed Land, used in sugar estates and forestry plantations. The majority of the population is engaged in subsistence rain-fed agriculture (mixed farming of maize and cattle) on Swazi National Land, which is held in trust for the King, and controlled and allocated by chiefs according to traditional arrangements.

4.8 More than 50% of Swaziland's income derives from its share of SACU customs revenue. SACU revenues are expected to be maintained for the next three years, but will decline steadily when the EU-SA free trade agreement takes effect.

4.9 Macroeconomic management has been consistently prudent and largely technocratic. The economy is extremely open, with South Africa as the main trading partner for both exports and imports.

4.10 Swaziland has one of the highest rates of HIV prevalence in the world. Life expectancy has already fallen from 58 to 33 years. It is unofficially estimated that AIDS

ANNEX 4: SWAZILAND

CONTINUED

orphans already number upwards of 80,000. The government has adopted a comprehensive programme on HIV/AIDS, with strong personal leadership from the King.

4.11 For some time the government has been promoting a programme of economic regeneration through major capital investment projects (the so-called Millennium Projects), including tourism ventures and a new international airport. Donors have been sceptical about the viability of these projects, and their likely impact on poverty.

4.12 Swaziland is now preparing a national poverty strategy, which it expects to present to donors at a round table in early 2003. This focuses on:

- rapid acceleration of economic growth
- empowering the poor to generate incomes, especially through restructuring of agriculture
- fair distribution of the benefits of growth through restructuring public expenditure.

SCOPE FOR WORKING WITH OTHERS

4.13 The World Bank, United Nations Development Programme (UNDP), World Health Organisation (WHO) and European Union are all active in Swaziland. The indicative allocation under the 9th replenishment of the European Development Fund (EDF 9) amounts to €43 million, with a focus on human resource development. DFID is the bilateral donor with the closest links to Swaziland – the UK is the only European country with diplomatic representation in Mbabane. Swaziland maintains diplomatic relations with Taiwan, who provides significant aid funding.

DFID STRATEGY

4.14 DFID's bilateral programme to Swaziland has progressively reduced, and now stands at about £1 million per year. This includes support for a rural water project and support for the Swaziland non-governmental organisation coalition (CANGO). Swaziland is also included in DFID-

SA's regional work on HIV/AIDS and trade. In addition to its direct spending, DFID contributes about £0.5 million per year through the EU programme in Swaziland, and also contributes to the work of other multilateral agencies.

4.15 Swaziland faces serious challenges in the next few years – economically, politically and because of HIV/AIDS. Unless Swaziland can address these effectively, it runs the risk of falling below the low-income threshold. A serious programme of reform by Swaziland would justify significant international engagement.

4.16 Paragraph D.12 above sets out DFID's overall approach to working in the middle-income countries of Southern Africa. Within that framework, DFID-SA will aim to:

- work with other donors to promote an effective process of constitutional reform and a strong poverty reduction strategy
- continue to support work on HIV/AIDS and trade through regionally-based programmes
- work to promote effective implementation of multilateral programmes, particularly the EU's programme on education.

5.1 Lesotho is a low-income country developing a Poverty Reduction Strategy Paper (PRSP). Consistent with DFID's general strategy for low-income countries in Africa, we will work with other donors to support the development of this strategy, and then to support its implementation with budgetary and technical support. DFID-SA will produce a separate Country Plan for Lesotho, once the PRSP is published. This section is accordingly brief.

THE CHALLENGE

5.2 Lesotho is a young nation, created by Basotho migration to the Maluti mountain range during the 19th century. It is a constitutional monarchy, and has had a chequered electoral history since independence in 1966. In the election of 1998, the Lesotho Congress for Democracy won 69 out of the 70 seats available. The subsequent unrest led to a South African military intervention, and eventually to a substantial revision of the Lesotho electoral system. The elections in May 2002 were held under this new system – a mixture of first-past-the-post and proportional representation, designed to ensure that the composition of parliament is more representative. The elections were concluded successfully, and gave the ruling Lesotho Congress for Democracy a large majority.

5.3 Lesotho is a low-income country with limited natural resources. Its economy is inevitably heavily entwined with South Africa's – much of its income comes from exporting water to South Africa, from remittances by expatriate workers, and from sharing the revenues of SACU. Its future depends on its ability to trade competitively in manufacturing and services – so future trade arrangements with SADC and the industrialised countries are of critical importance. It has a rapidly growing textile industry, geared mainly at the US market – to which Lesotho has preferential access under the Africa Growth and Opportunity Act.

5.4 Lesotho had a sustained period of good growth during the 1990s, largely because of heavy international investment in the Lesotho Highlands Water Project. But growth rates dropped substantially after the political unrest

of 1998. With opportunities diminishing for Basotho people to gain waged employment in South Africa, and with the increasing impact of HIV/AIDS, Lesotho faces a tough challenge to meet the target of halving poverty by 2015. Food shortages are an increasingly frequent problem.

5.5 Lesotho is preparing a poverty reduction strategy within the context of its longer-term Vision 2020. Its Interim PRSP, finalised in February 2001, focuses on employment generation through economic growth and targeted public works programmes. Preparations for the full PRSP are looking in more detail at key sectoral reform programmes. The PRSP is scheduled to be published by the end of 2002.

5.6 Primary school enrolment stood at 90% in 1999. In that year, the government announced its intention to introduce free primary education, starting with Standard 1 in 2000, and adding a Standard each successive year, so that primary education is fully free by 2006. The government faces a severe challenge in meeting the costs of this commitment, and DFID has been helping to develop a strategic plan for the sector, which is expected to be a priority in the PRSP.

SCOPE FOR PARTNERSHIP WITH OTHERS

5.7 The major donors in Lesotho – including the World Bank, EU, Germany, Ireland – are all refocusing their programmes around the emerging PRSP. There is substantial scope for joint funding of technical support activities, and in due course for a common budgetary support mechanism. The indicative allocation under the 9th replenishment of the European Development Fund (EDF 9) is €110 million focused on water and sanitation, road transport, and macroeconomic support.

DFID STRATEGY

5.8 DFID concluded several years ago that its programme of sectoral project interventions would have limited impact in the absence of a stronger overall poverty reduction strategy. We have therefore progressively

ANNEX 5: LESOTHO

CONTINUED

withdrawn from our traditional project commitments, and focused instead on supporting the changes to the electoral process, and the preparation of the PRSP. We have worked particularly to support civil society inputs to the PRSP process, and to ensure that the PRSP gives adequate priority to private sector growth issues, including in the textile industry. We are now developing four significant technical assistance inputs within the framework of the emerging PRSP:

- support for the PRSP process. DFID, Ireland Aid, UNDP, UN Children's Fund (UNICEF) and the Lesotho government are pooling funds to support the preparation of the PRSP
- support for the Public Sector Improvement and Reform Programme (PSIRP)
- support for the Lesotho Revenue Authority
- support for safety, security and access to justice.

5.9 Once the PRSP is completed, DFID-SA will prepare a country plan for its work in Lesotho. Our technical co-operation programme in Lesotho is expected to rise to about £5 million per year. Once budgetary systems are sufficiently strengthened, we will aim to support the PRSP with direct budgetary assistance. Lesotho is also expected to be a major beneficiary of our regional work on trade and HIV/AIDS.

5.10 In addition to its direct spending, DFID contributes about £1 million per year through the EDF programme in Lesotho, and also contributes to the work of the World Bank and other multilateral agencies.

6.1 DFID's approach to global and regional issues is set out in paragraphs C.11 and C.12. This annex looks specifically at co-operation with SADC.

THE CHALLENGE

6.2 The countries of SADC are committed to stronger regional integration to promote peace and stability, and to strengthen their competitiveness and growth prospects. Until the early 1990s, the region was deeply divided. The Southern African Development Co-ordination Conference (SADCC) was established in 1980 as a front against apartheid and South Africa's destabilisation of the region. In the light of political changes in South Africa, SADC was established in 1992, and South Africa joined in 1994. Since then, important steps have been taken to promote integration. Protocols establishing frameworks for national action have been agreed in a range of areas⁹. These range from highly concrete commitments (such as trade liberalisation, or shared management of water) to broader statements of common principles on issues like gender and corruption. An Organ on Politics, Defence and Security Co-operation has been created to address conflict. SADC has become less reliant on donors (member states' contributions have risen from 54% in 1995/96 to 83% in 2000/01). Real progress on integration lags behind the political commitments. South Africa's potential dominance remains a sensitive issue, and some countries' concerns that the benefits of integration may not be evenly spread are seen as a constraint on the pace of progress.

6.3 Intra-SADC trade is about 22% of total SADC trade; most of this is trade within the SACU region. This figure is expected to rise as the SADC free trade area is implemented over an eight-year period from 2000. By 2008, over 85% of SADC trade will be duty free, with remaining tariffs in sensitive products removed by 2012. Implementation is asymmetrical, with the SACU countries reducing tariffs more quickly.

6.4 A substantial restructuring of SADC was agreed in March 2001. Poverty elimination was clearly stated as SADC's overarching objective. The 21 sector coordinating units, which were previously hosted by member governments, are now being brought together in Gaborone. Member states' contributions, which were previously equal, will from 2003/4 be based on a GDP-related formula. The Organ on Politics, Defence and Security Co-operation has been reformed – the chair now rotates on an annual basis and is served by the SADC Secretariat. SADC is increasingly being seen as a forum in which countries can exercise some peer pressure on their neighbours.

6.5 A key question for SADC is the extent to which it will be involved in the negotiation of new trade arrangements with the EU following the expiry of the Cotonou agreement in 2008. SADC has no mandate to negotiate on behalf of its members. The existing trade arrangements within the region (South Africa's Free Trade Agreement with the EU, the preferential access of least developed countries to Europe under the 'Everything but Arms' agreement, the existing SACU, the commitment to a Customs Union in COMESA, and the commitment to a Free Trade Area in SADC) create complexities in determining the most appropriate groupings to enter into an Economic Partnership Agreement with the European Union.

6.6 There is a strong network of regional civil society bodies, covering the SADC area. These bodies often see engagement at a regional level as a fruitful way of promoting dialogue on contentious issues like land reform, or HIV/AIDS – where engagement at national level can often be more politically charged.

SCOPE FOR WORKING WITH OTHERS

6.7 Several donors have regional programmes alongside their bilateral programmes. The indicative allocation under the 9th replenishment of the European Development Fund (EDF 9) amounts to €101 million for SADC, focused on regional integration and trade, and on

⁹ Immunities and Privileges, Shared Watercourse Systems, Transport Communication and Meteorology, Energy, Controlling Illicit Drug Trafficking, Trade, Education and Training, Mining, Tourism, Wildlife Conservation and Law Enforcement, Health, Tribunal, Legal Affairs, Politics, Defence and Security Co-operation, Firearms, Fisheries, Culture Information and Sport, Corruption.

transport and communications. The EU additionally sets aside 15% of its South Africa programme for regional activities. USAID has a substantial programme of support in trade, finance and investment, as well as for non-government organisations. We are already coordinating closely with these programmes on trade issues, and see substantial scope for further co-operation in the future.

PROPOSED DFID STRATEGY

6.8 Within the overall programme of regional activities set out in paragraphs C11 and C12, DFID-SA plans several activities working directly with SADC. We have offered support to the SADC Secretariat for institutional restructuring, for the development of the Regional Indicative Strategic Plan, and for work on trade. We are also working with the Health Sector Coordinating Unit (on a £7.5 million HIV/AIDS programme in Botswana, Namibia, Lesotho and Swaziland), and with the units on water and fisheries. We are developing programmes with the Food and Natural Resources Unit on food security and on land reform.

STATISTICAL TABLES - PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

SOUTH AFRICA

	1990	1995	1999	2000	REGION
1. ERADICATE EXTREME POVERTY AND HUNGER					
<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>					
Population below \$1 a day (%)	..	11.5	..	..	..
2. ACHIEVE UNIVERSAL PRIMARY EDUCATION					
<i>2015 target = net enrolment to 100</i>					
Net primary enrolment ratio (% of relevant age group)	102.6	102.5	..	..	..
3. PROMOTE GENDER EQUALITY					
<i>2005 target = education ratio to 100</i>					
Ratio of girls to boys in primary and secondary education (%)	103.2	101.6	102.1	..	..
4. REDUCE CHILD MORTALITY					
<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>					
Under 5 mortality rate (per 1,000)	73.0	70.0	76.0	79.0	161.6
5. IMPROVE MATERNAL HEALTH					
<i>2015 target = reduce 1990 maternal mortality by three-quarters</i>					
Births attended by skilled health staff (% of total)	..	82.0	84.0	..	..
6. COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES					
<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>					
Prevalence of HIV, female (% ages 15-24)	..	..	24.8	..	..
7. ENSURE ENVIRONMENTAL SUSTAINABILITY					
<i>2015 target = various</i>					
Access to an improved water source (% of population)	..	..	..	86.0	55.4
GENERAL INDICATORS					
Population	35.2m	39.1m	42.1m	42.8m	658.9m
GNI per capita (\$)	2,890.0	3,740.0	3,160.0	3,020.0	470.0m
Life expectancy at birth (years)	61.9	58.0	48.5	47.8	46.5

Source: World Development Indicators database, April 2002

STATISTICAL TABLES - PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

CONTINUED

BOTSWANA

	1990	1995	1999	2000	REGION
1. ERADICATE EXTREME POVERTY AND HUNGER					
<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>					
Population below \$1 a day (%)	..	..	..	..	..
2. ACHIEVE UNIVERSAL PRIMARY EDUCATION					
<i>2015 target = net enrolment to 100</i>					
Net primary enrolment ratio (% of relevant age group)	93.3	81.3	80.7	..	..
3. PROMOTE GENDER EQUALITY					
<i>2005 target = education ratio to 100</i>					
Ratio of girls to boys in primary and secondary education (%)	107.3	102.6	101.7	..	..
4. REDUCE CHILD MORTALITY					
<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>					
Under 5 mortality rate (per 1,000)	62.0	88.3	..	98.9	161.6
5. IMPROVE MATERNAL HEALTH					
<i>2015 target = reduce 1990 maternal mortality by three-quarters</i>					
Births attended by skilled health staff (% of total)	79.0	..	..	..	..
6. COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES					
<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>					
Prevalence of HIV, female (% ages 15-24)	..	..	34.3	..	..
7. ENSURE ENVIRONMENTAL SUSTAINABILITY					
<i>2015 target = various</i>					
Access to an improved water source (% of population)	95.0	..	..	..	55.4
GENERAL INDICATORS					
Population	1.3 m	1.5 m	1.6 m	1.6 m	658.9 m
GNI per capita (\$)	2,730.0	3,330.0	3,040.0	3,300.0	470.0 m
Life expectancy at birth (years)	56.8	50.0	39.4	39.0	46.5

Source: World Development Indicators database, April 2002

STATISTICAL TABLES - PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

CONTINUED

NAMIBIA

	1990	1995	1999	2000	REGION
1. ERADICATE EXTREME POVERTY AND HUNGER					
<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>					
Population below \$1 a day (%)	..	34.9	..	..	..
2. ACHIEVE UNIVERSAL PRIMARY EDUCATION					
<i>2015 target = net enrolment to 100</i>					
Net primary enrolment ratio (% of relevant age group)	89.4	91.7	86.3	..	..
3. PROMOTE GENDER EQUALITY					
<i>2005 target = education ratio to 100</i>					
Ratio of girls to boys in primary and secondary education (%)	111.0	103.1	103.3	..	..
4. REDUCE CHILD MORTALITY					
<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>					
Under 5 mortality rate (per 1,000)	84.0	100.5	..	112.1	161.6
5. IMPROVE MATERNAL HEALTH					
<i>2015 target = reduce 1990 maternal mortality by three-quarters</i>					
Births attended by skilled health staff (% of total)	68.0	..	..	..	..
6. COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES					
<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>					
Prevalence of HIV, female (% ages 15-24)	..	..	19.8	..	..
7. ENSURE ENVIRONMENTAL SUSTAINABILITY					
<i>2015 target = various</i>					
Access to an improved water source (% of population)	72.0	..	..	77.0	55.4
GENERAL INDICATORS					
Population	1.4 m	1.6 m	1.7 m	1.8 m	658.9 m
GNI per capita (\$)	1,890.0	2,300.0	2,070.0	2,030.0	470.0 m
Life expectancy at birth (years)	57.5	56.8	..	47.2	46.5

Source: World Development Indicators database, April 2002

STATISTICAL TABLES - PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

CONTINUED

SWAZILAND

	1990	1995	1999	2000	REGION
1. ERADICATE EXTREME POVERTY AND HUNGER					
<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>					
Population below \$1 a day (%)	..	..	..	..	..
2. ACHIEVE UNIVERSAL PRIMARY EDUCATION					
<i>2015 target = net enrolment to 100</i>					
Net primary enrolment ratio (% of relevant age group)	87.9	93.7	76.8	..	..
3. PROMOTE GENDER EQUALITY					
<i>2005 target = education ratio to 100</i>					
Ratio of girls to boys in primary and secondary education (%)	..	..	96.2	..	..
4. REDUCE CHILD MORTALITY					
<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>					
Under 5 mortality rate (per 1,000)	115.0	100.5	..	119.5	161.6
5. IMPROVE MATERNAL HEALTH					
<i>2015 target = reduce 1990 maternal mortality by three-quarters</i>					
Births attended by skilled health staff (% of total)	55.0	..	..	..	..
6. COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES					
<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>					
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..
7. ENSURE ENVIRONMENTAL SUSTAINABILITY					
<i>2015 target = various</i>					
Access to an improved water source (% of population)	..	..	..	..	55.4
GENERAL INDICATORS					
Population	0.77 m	0.90 m	1.0 m	1.0 m	658.9 m
GNI per capita (\$)	1,120.0	1,420.0	1,380.0	1,390.0	470.0 m
Life expectancy at birth (years)	56.6	57.6	46.3	45.6	46.5

Source: World Development Indicators database, April 2002

STATISTICAL TABLES - PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

CONTINUED

LESOTHO					
	1990	1995	1999	2000	REGION
1. ERADICATE EXTREME POVERTY AND HUNGER					
<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>					
Population below \$1 a day (%)	..	43.1	..	..	..
2. ACHIEVE UNIVERSAL PRIMARY EDUCATION					
<i>2015 target = net enrolment to 100</i>					
Net primary enrolment ratio (% of relevant age group)	72.8	70.5	60.0	..	..
3. PROMOTE GENDER EQUALITY					
<i>2005 target = education ratio to 100</i>					
Ratio of girls to boys in primary and secondary education (%)	123.8	117.0	112.2	..	..
4. REDUCE CHILD MORTALITY					
<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>					
Under 5 mortality rate (per 1,000)	148.0	137.0	..	143.5	161.6
5. IMPROVE MATERNAL HEALTH					
<i>2015 target = reduce 1990 maternal mortality by three-quarters</i>					
Births attended by skilled health staff (% of total)	40.0	..	..	..	..
6. COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES					
<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>					
Prevalence of HIV, female (% ages 15-24)	..	..	26.4	..	..
7. ENSURE ENVIRONMENTAL SUSTAINABILITY					
<i>2015 target = various</i>					
Access to an improved water source (% of population)	..	..	..	91.0	55.4
GENERAL INDICATORS					
Population	1.7 m	1.9 m	2.0 m	2.0 m	658.9 m
GNI per capita (\$)	610.0	710.0	590.0	580.0	470.0 m
Life expectancy at birth (years)	57.6	52.4	44.6	44.0	46.5

Source: World Development Indicators database, April 2002