AFRICAN DEVELOPMENT BANK

KINGDOM OF SWAZILAND
COUNTRY STRATEGY PAPER
2005-2009

OPERATIONS DEPARTMENT **ONCB**

January 2005

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CURRENCY EQUIVALENTS
(AS AT 30 June 2004)

Currency:	E = Emalangeni
1 Emalangeni	1 Rand
UA 1	E 9.19320
US$ 1	E 6.2257

FISCAL YEAR

1st April – 31 March

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AGOA	African Opportunities Growth Act
APPR	Annual Portfolio Performance Report
BADEA	Arab Bank for Economic Development in Africa
CBS	Central Bank of Swaziland
CIP	Construction Industrial Policy
CMA	Common Monetary Area
COMESA	Common Market for East and Southern Africa
CRS	Constitutional Review Commission
CSP	Country Strategy Paper
CTA	Central Transport Authority
DBSA	Development Bank of Southern Africa
DFID	Department for International Development
EIB	European Investment Bank
ESRA	Economic and Social Reform Agenda
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GNP	Gross National Product
GOS	Government of Swaziland
GPS	Generalised Preference System
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
LUSIP	Lower Usuthu Irrigation Project
MAP	Millennium Action Plan
MDGs	Millennium Development Goals
MEPD	Ministry of Economic Planning and Development
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MOPWT	Ministry of Public Works and Transport
MTEF	Medium-Term Expenditure Framework
NAMBOARD	National Agricultural Marketing Board
NDS	National Development Strategy
NDP	National Development Plan
NEPAD	New Partnership for African Development
NERCHA	National Emergency Response Committee on HIV/AIDS
NGO	Non-Governmental Organisation
NIDCS	National Industrial Development Corporation of Swaziland
NTF	Nigeria Trust Fund
NTP	National Transport Policy
ODA	Official Development Assistance
PCR	Project Completion Report
PIU	Project Implementation Unit
PMTCT	Prevention of Mother to Child Transmission
PPAR	Project Performance Audit Report
PRR	Portfolio Review Report
PRSAP	Poverty Reduction Strategy Action Plan
PSIP	Public Sector Investment Programme
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SDSB	Swaziland Development and Savings Bank
SEB	Swaziland Electricity Board

SIPA	Swaziland Investment Promotion Authority
SME	Small- and Medium-Scale Enterprises
SNL	Swazi Nation Land
SSX	Swaziland Stock Exchange
TDL	Title Deed Land
UA	Unit of Accounts of the Bank Group
UNDP	United Nations Development Programme
UNICEF	United Nations Children’s Fund
UNAIDS	United Nations Programme on HIV/AIDS
VAT	Value Added Tax
VCTS	Voluntary and Counselling Testing Services
WHO	World Health Organization
WTO	World Trade Organisation

Executive Summary

I. Introduction

The Country Strategy Paper (CSP) for Swaziland covers the period 2005-2009. The proposed strategy, which is based on the Government's development agenda, has been prepared using the participatory approach that involves all stakeholders, in line with the decision by the Boards of Directors and Management of the Bank Group. The Bank is in the process of moving to a results-based management framework, and although the preparation of this CSP predates the adoption of this framework, every attempt has been made to link goals with strategic objectives and expected outcomes and results to be achieved during the CSP period, such as improved management of public resources, enhancing food security, strengthened health care delivery systems, including slowing down the spread if HIV/AIDS, and achieving universal access to education (see Annex III for details).

II. Recent Economic Developments

Swaziland is currently facing a serious socio-economic situation characterised by a sluggish economic performance, high levels of poverty and inequality, high HIV/AIDS infection rate, growing unemployment, and challenges in the area of governance. In 2003 real GDP increased by 2.9 per cent, which was marginally higher than the 2.7 per cent recorded in 2002. The poor economic performance partly reflects low agricultural productivity, a slowdown in manufacturing output and declining FDI inflows. Domestic savings and investment rates are relatively low, and respectively averaged 21.6 and 19.5 per cent of GDP between 2000 and 2003. Also, about a third of the labour force is unemployed. The state of *public finances* is a major challenge to the authorities. The overall budget deficit increased from 4.8 per cent of GDP in 2002/2003 to 5.8 per cent in 2003/2004. Civil service wages and salaries are by far the largest component of total expenditure, accounting above 50 per cent of recurrent expenditure. Inflation has steadily declined from an average of 11.2 per cent in 2002 to 7.4 per cent in 2003, and a further decline to 4.8 per cent in the first quarter of 2004. The external current account position remains weak and for the third consecutive year, the country recorded an overall balance of payments deficit in 2003, and is not expected to have improved in 2004. Swaziland has a sustainable public debt level, estimated at 31.3 per cent of GDP in 2003 and a debt service below 3 per cent of GDP.

III. Potential for Growth

The potential for economic growth and poverty reduction is Swaziland is promising. The country has substantial natural resources and fertile land, which offer a great potential for agriculture led development, which is key to future economic growth and poverty reduction in the country. Swaziland has a well-diversified agro-based manufacturing industry, with sugar and wood pulp as the main foreign exchange earners. In recent years, textiles production has picked up, especially with the participation of the country in AGOA. However, to attain its potential for attaining high and sustainable growth and poverty reduction, Swaziland needs to tackle a number of challenges, which include lack of employment opportunities; the vulnerability of the economy to external shocks, and variable climatic conditions; combating the HIV/AIDS pandemic; and, enhancing good governance.

IV. The Development Agenda of the Government

To address the challenges confronting the country, the authorities have prepared the National Development Strategy (NDS, 1997-2022), whose vision is to move Swaziland to the top 10 per cent of the medium human development group of countries founded on sustainable economic development, social justice and political stability. To operationalise the implementation of the NDS, the Government formulated the *Poverty Reduction Strategy and Action Plan (PRSAP)*, whose overall objective is to reduce the incidence of poverty in Swaziland from its current level of 66 per cent to 30 per cent by 2015, in line with the MDG and eliminate it by 2022. The main pillars of the strategy include rapid acceleration of economic growth based on broad participation; empowering the poor to generate their own income; and, an equitable distribution of the benefits of growth through public spending. The PRSAP also contains concrete projects and programmes, which are designed to generate income and create employment, combat the HIV/AIDS pandemic and minimise vulnerability, and enhance agricultural production and food security.

V. The Bank Group assistance Strategy

The Bank Group's assistance strategy for Swaziland for the period 2005-2009 aims at supporting the pro-poor economic and social development of the country by providing assistance to the government, and the private sector to successfully address the broad range of development challenges facing the country. The proposed strategy is selective, and focuses on two mutually re-enforcing strategic priorities that seek to address Swaziland's principal development challenges, namely, *Promoting Sustainable pro-poor private sector-led economic growth*; and *Investing in People and Improving Welfare*. The strategy links the country's development goals to specific objectives and expected outcomes and identifies quantitative targets to be attained during the CSP period.

VI. The Bank Group Work Programme

The 2005-2009 Bank Group assistance programme in Swaziland will combine lending and non-lending activities. Non-lending activities will focus on economic and sector work, where three studies will be undertaken, namely, a Country Governance Profile, and Labour Market Study, and a Review of Social Sector Expenditures. The lending programme will, in the short- to medium-term (2005-2007) concentrate on the social sector, while the challenges in agriculture and rural development, and physical infrastructure will continue to be addressed through the on-going projects that the Bank is currently implementing. Thus, two operations in the social sector are likely to materialise: a *Health II Project* and an *Education II Project*. The country's sustainable lending limits range from UA 17 million to UA 36 million per year, reflecting the small size of the country.

VII. Areas Requiring Dialogue

To ensure a successful implementation of the Bank strategy for Swaziland, it is important for the Bank to maintain its open dialogue with the government and other stakeholders on a number of key issues. These include macroeconomic policy reform and implementation, the need for good governance, creating a conducive environment for private sector development, improving portfolio performance, and building a sound pipeline of projects.

VIII. Conclusion and Recommendation

8.1 Over the current CSP period, Swaziland will face major challenges in reducing poverty and inequality, in combating the spread of HIV/AIDS, ensuring food security and reducing unemployment. Thus, during the period 2005-2009, the proposed Bank strategy seeks to assist Swaziland to attain higher and sustainable pro-poor economic growth anchored on private sector development and to address the challenges posed by the communicable and non-communicable diseases, especially HIV/AIDS. Over the medium-term (2005-07) assistance will therefore, focus on the social sector and economic and sector work. Beyond this period, new projects could be processed in the agriculture and infrastructure sectors, following a mid-term review of the strategy in 2007.

8.2 In view of the foregoing, the Board is invited to consider and adopt the Country Strategy Paper for the Kingdom of Swaziland for the 2005-2009 period.

I. INTRODUCTION

1.1 The last Country Strategy Paper (CSP) for Swaziland, covering the period 2001-2003, was approved by the Board of Directors in June 2001. In its consideration of the CSP, the Board commended the Government on the progress made in implementing policy reforms and expressed general support for its policies and programmes to alleviate poverty. The Board, however, expressed concern about the economic stagnation, the fragility of the country's external position and the relatively high incidence of HIV/AIDS. The Board urged the Government to sustain prudent fiscal and monetary management and to improve the supply responsiveness of the economy and stressed the need to accelerate public sector reforms, especially the restructuring and privatisation of public enterprises. It also expressed concern about good governance, particularly in the areas of human rights, the fight against corruption, and transparency and accountability in public affairs. The Government has addressed some of the concerns raised by the Board through the implementation of the Fiscal Restructuring Programme, which has resulted in moving the budgeting process to a three-year rolling Medium-Term Expenditure Framework. The human rights issue is also being addressed through constitutional reforms. The Bank also assisted the Government in addressing the challenges of poverty, unemployment, and food security, by approving three (3) projects: two (2) in agriculture and one in road transport for a total amount of UA80.82 million between 2001 and 2003.

1.2 The 2005-2009 Country Strategy Paper (CSP) for the Kingdom of Swaziland seeks to outline the recent economic and social developments in the country, identify the challenges the country is facing, and propose a medium-term Bank Group intervention strategy that is in line with the country's development priorities (as stated in the Swaziland's Development Agenda) and the Bank Group Vision Statement. The Bank is also in the process of moving towards a results-based management system of development management, and although the preparation of this CSP predates this process, an attempt has been made to incorporate some of the requirements of a results-oriented framework by defining the expected results and indicators for monitoring progress towards achieving the expected outcomes, and linking goals to specific strategic objectives. Box 1 presents Swaziland at a glance.

II. RECENT TRENDS

2.1 Political Situation

2.1.1 Swaziland has a bicameral parliament with a total of 95 Members. The House of Assembly (the lower house) has a total of 65 members, of which 55 are elected by universal suffrage from each of the 55 constituencies that form the *Tinkundla*[1], and 10 are appointed by the King, who is also the Head of State. The Senate (the upper house) has 30 members, 20 appointed by the King and 10 appointed by the House of Assembly. The King also appoints the Prime Minister, who is also head of government, from the House of Assembly and Cabinet from among the members of parliament. The last elections were held in October 2003, and Parliament sits for five years.

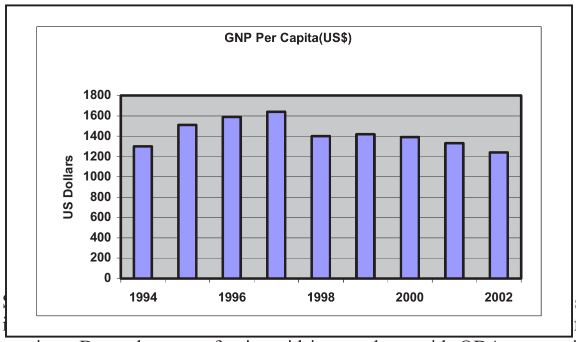
[1] The *Tinkundla* is a traditional system through which ordinary Swazis elect their parliamentary representatives from their own local constituencies. Political parties are not allowed to contest elections nor nominate candidates for election.

2.1.2 In the last few years, civil society groups have been pressing for democratic pluralism. In a move to introduce greater democratisation, the King appointed a Constitutional Drafting Commission in March 2002 to come up with a constitution acceptable to all Swazis. After consulting widely within the country and with technical assistance from the Commonwealth Secretariat, the Commission presented a draft constitution to the King in May 2003, which was discussed throughout 2004. An important addition in the proposed draft includes the protection and promotion of fundamental rights and freedoms. This draft has now been presented to Parliament.

Box 1: General Information on the Kingdom of Swaziland

The Kingdom of Swaziland is a landlocked mountainous country some 17 364 sq. km in size, bordered by South Africa on three sides and Mozambique to the east. It is the second smallest country on the mainland of Africa after Gambia. Yet despite its small size, it has a variety of geographic features, climate zones and biodiversity. Arable land is only 11 percent of the total area, the remainder consisting of permanent pasture, forest and woodland. It possesses a variety of mineral resources including asbestos, coal, clay, cassiterite, hydropower, forests, small gold and diamond deposits, quarry stone, and talc. The country has an adequate supply of water, with annual internal renewable water resources estimated at 9,355cu m per capita, though drought is a recurring problem. Close to 36 per cent of the arable land area is under irrigation. Agriculture has the highest percentage of annual fresh water withdrawal, estimated at 93 per cent in 2002, compared with 5 per cent for domestic use and 2 per cent for industry. The exploitation of water resources is governed by bilateral or trilateral agreements with South Africa and Mozambique.

Swaziland is governed as a modified traditional monarchy with executive, legislative, and limited judicial powers ultimately vested in the King. The King rules according to unwritten law and custom, in conjunction with an elected parliament and a government appointed by the King. The population of Swaziland was estimated at 1.10 million inhabitants in 2003, with 26.7 per cent living in urban areas, and expected to rise to 32.7 per cent by 2015. The population growth rate is estimated at an average of 2.9 per cent per year over the past five years.



Swaziland is classified as a lower middle-income country with a per capita GNI of US$1 240 in 2002 (down from $1,640 in 1997). However, in terms of human development, the country is slipping, and has been overtaken by other middle-income African countries. In 2000 Swaziland was ranked 112 (out of 175 countries surveyed) on the Human Development Index (HDI) compiled by the UNDP, ahead of Egypt (ranked 119), Botswana (122) and Morocco (124), but has since fallen to 133 in the 2004 HDI rankings, behind Egypt (120), Morocco (125). and Botswana (128).. Almost two-thirds of the population are below the poverty datum line for basic goods and services (of approximately E71 per person per month). About two-thirds of the rural population lack adequate sanitation, and over half lack access to potable water. Income distribution is also severely skewed, with the richest 10 per cent controlling over 40 per cent of the income.

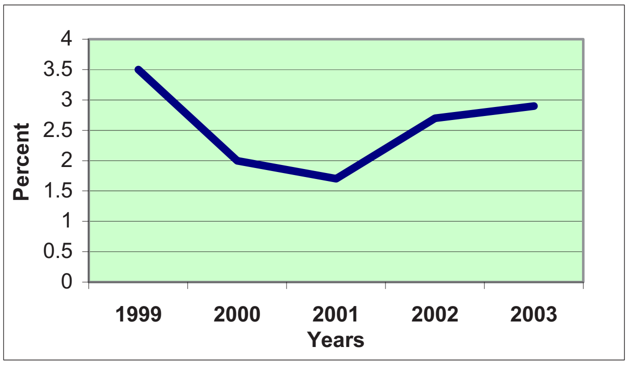
services respectively accounting for 81 per cent and 69 per cent of GDP. South Africa f the country's exports, and supplying about 80 per cent of its imports of goods and services. Dependence on foreign aid is very low, with ODA accounting for only 2.3 per cent of GDP in 2001 and total debt service for 2.5 per cent of exports.

2.2 Macroeconomic, Structural and Sectoral Developments

Macroeconomic Developments

2.2.1 Swaziland is currently facing a serious socio-economic situation characterised by sluggish economic performance, high levels of poverty and inequality, high HIV/AIDS infection rate, growing unemployment, and challenges in the area of governance. After recording real GDP growth rates above 7 per cent in the 1980s, the country's economic performance deteriorated significantly in the 1990s, with real GDP growth rates averaging half of the rates achieved in the 1980s. Macroeconomic performance has continued to stagnate, with real GDP growth averaging 2.3 per cent between 2000 and 2002. According to the 2004 Budget Statement, real GDP increased by 2.9 per cent in 2003, which was marginally better than the 2.7 per cent recorded in 2002 (see Fig. I). The poor economic performance in recent years partly reflects low agricultural productivity, and the impact of the drought, especially on Swazi Nation Land (SNL), where the principal occupation is mostly subsistence farming and livestock rearing. It also reflects a slowdown in manufacturing output and the continued decline in FDI inflows. What is of great concern about recent economic GDP growth rates is that they barely cover the rate of growth of population, estimated at 2.9 per cent. This suggests that at best there has been no improvement in the standard of living of the population, and at worst, that living standards are being eroded. These rates also fall far short of the annual GDP growth rate of 7 per cent required for the achievement of Millennium Development Goals (MDGs). To achieve high and sustainable economic growth, Swaziland will need to foster a sound climate for investment, which has been poor in recent years. According to the Central Bank of Swaziland (CBS), over the last two years the share of gross domestic investment in GDP has been unstable and has lagged behind the share of gross national savings. Gross domestic investment increased from 20.7 per cent of GDP in 2000 to 24.9 per cent in 2001, but fell to 19.8 per cent in 2002 and 17.3 per cent in 2003. Over the same period, gross national savings first increased from 16.2 per cent of GDP in 2000 to reach 23.4 per cent in 2002, but declined to 20.8 per cent in 2003. The sluggish behaviour of investment in Swaziland is due to a number of constraints, which include uncertainty created by the deteriorating state of public finances, governance problems, a small industrial base, and growing competition from neighbouring states such as Mozambique and South Africa as more attractive destinations for investment.

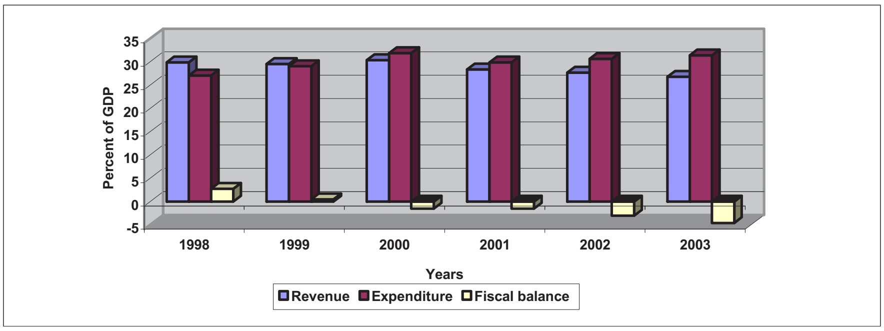
Fig. I: Swaziland Real GDP Growth Rates (1999-2003)



Source: Ministry of Economic Planning

2.2.2 The state of *public finances* constitutes a major challenge to the authorities given the growing budget deficits over the past few years, as revenues have failed to keep pace with the growing government expenditures, especially after 1999 (see Fig. II). Between 2000 and 2003, the ratio of government revenue to GDP averaged 28.3 per cent, while total expenditures averaged 31 per cent of GDP. As a result, the country has moved from a budget surplus of E170 million (excluding grants) recorded in 1997/98 to a deficit of E593 million in 2002/2003 following an increase in wages and the implementation of several large-scale capital projects. The overall budget deficit for 2003/2004 stood at 5.8 per cent of GDP up from 4.8 per cent in 2002/2003. Civil service wages and salaries are by far the largest component of total expenditure, accounting for more than 50 per cent of recurrent expenditure. The government financed the deficit by drawing down on its reserves with the Reserve Bank of South Africa and other commercial banks in South Africa, and also on its funds with the Capital Investment Facility that is managed by the CBS. As a result, Swaziland's net foreign assets declined from E2 816.9 million in December 2002 to E1 872.3 million in December 2003, while net official reserves declined from E2 470.7 million (or 2.2 months of imports) to E1 756.6 million (or 1.6 months of imports) over the same period. With the reserves nearly exhausted, the Government clearly needs to undertake major internal fiscal adjustment to address the escalating budget deficit situation, principally by reducing expenditure and reducing government waste. The government also needs to expand its revenue base and reduce its dependence on the pooled receipts of the Southern African Customs Union (SACU), which in 2003 accounted for 47.2 per cent of total revenue, while taxes on individuals comprised only 14.4 per cent of government revenue; company taxes only 7.6 per cent and sales taxes only 14 percent.

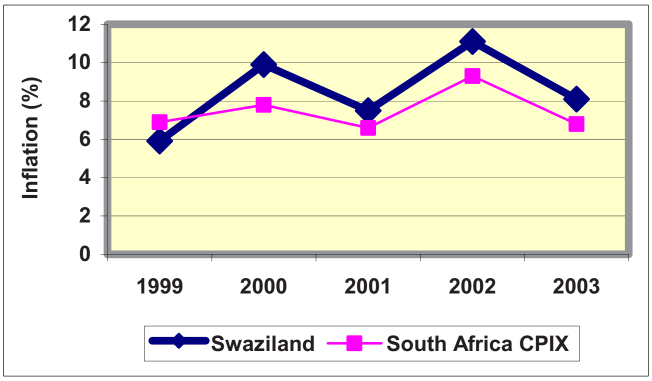
Fig. II Swaziland: Central Government Revenue and Expenditure



Source: Ministry of Finance and IMF

2.2.3 With regard to *monetary and exchange rate developments*, the ability of the Central Bank of Swaziland (CBS) to conduct an independent monetary policy is circumscribed by the country's membership to the Common Monetary Area (CMA) and the peg of the Lilangeni to the South African Rand. Further, as from October 2003, Rand notes are now a legal tender in Swaziland. For Swaziland, this ensures financial discipline as the country can ride on the credibility of the policy decisions of the South African Reserve Bank. It is therefore, not surprising that inflation and interest rate movements in Swaziland closely track the rates in South Africa (see Fig. III). Thus, in line with the trends in South Africa, inflation in Swaziland has steadily declined, falling from 11.2 per cent in 2002 to 7.4 per cent in 2003. It continued to fall in 2004, reaching 3.1per cent in September 2004. Similarly, since September 2003, the CBS discount rate has been put at the same rate as South Africa's repo rate, and currently stands at 7.5 per cent. However, the strengthening of the Rand/Lilangeni against the US Dollar has been harmful to the local companies exporting outside the CMA zone.

Fig. III Inflation Trends in South Africa and Swaziland



Source: Ministry of Finance and the IMF

2.2.4 The external current account position remains weak and for the third consecutive year, the country recorded an overall balance of payments deficit in 2003. In 2004 it is estimated that it remained negative due to higher imports and the decline in workers' remittances. The weak external position reflects poor export performance. However, the increased access of Swaziland's exports to the US markets under the African Opportunities Growth Act (AGOA) and the Generalised Preference System (GPS) is likely to improve the external current account balance over time. In 2003, US imports from Swaziland amounted to US$162 million, of which AGO/GPS amounted to US$134 million. However, for Swaziland to continue benefiting from AGOA, it will be necessary to take measures to improve the business environment.

2.2.5 Swaziland has a sustainable public debt level, estimated at 31.3 per cent of GDP in 2003 and a debt service below 3 per cent of GDP. Most of the debt is owed to multilateral institutions such as the African Development Bank, the World Bank, the European Investment Bank, and IFAD, and bilaterals such as the Italy, Japan, South Africa and the US. In the last two years, expenditure on infrastructure projects, which according to the 2004/05 Budget Statement amounted to E4.4 billion in December 2003, has contributed to the increase in the stock of public debt. Given the sensitivity of the country's debt stock to exchange rate movements, the authorities have taken a prudent decision to limit all future borrowing to Rand denominated loans to ensure that the country is cushioned against unfavourable exchange rate movements. The Government is also in the process of finalising a debt policy paper that will outline the country's borrowing procedures and conditions.

Structural Developments

2.2.6 In order to rationalise public finances, the Government is implementing a *Fiscal Restructuring Programme* with the assistance of the European Union. The main objective of this programme is to increase domestic resource mobilisation through improved tax management and broadening of the tax base. The programme has three main objectives, namely, to control public spending, to move the budgeting process from an annual incremental type to a 3 year rolling budget, and improve the transparency of the budgeting process as well as making the process results-oriented. The fiscal reforms being undertaken as part of the *Fiscal Restructuring Programme* over the medium-term include amending the Income Tax Act to enable the taxing of income generated on Swazi Nation Land (SNL); introducing the Value-Added Tax to replace the Sales Tax as a way of improving revenue collection; improving capacity building in the area of fiscal policy and tax administration and collection; and designing and implementing a medium-term expenditure framework (MTEF). The MTEF aims at improving the decision-making process by linking Government policies, priorities and requirements to limited resources. The MTEF was first implemented on a pilot basis in seven ministries and five Government departments, but has now been extended to all ministries. The MTEF is expected to improve the transparency and accountability of public finances and help refine the definition of development priorities, which for the 2003/04-2005/06 budget periods focus on poverty alleviation; the fight against HIV/AIDS; and reducing unemployment.

2.2.7 As part of improving the efficiency of public service delivery in the civil service and rationalising public spending, the Government is also implementing a *Public Sector Management Programme (PSMP)* launched in 1995. Currently, studies have been initiated to determine the activities that will continue to be the responsibility of the government and the required size and sustainable cost of the civil service. However, the implementation of the programme has been slow as a result of opposition from the Civil Service Association. Given the overstaffing levels within the service and the fact that civil service remunerations account for over half of the recurrent expenditure, there are pressures for the authorities to proceed with the exercise of restructuring and right sizing the civil service. In this context, in September 2004, the Government approved the broad policy framework for restructuring the civil service, including the introduction of new performance management systems in all ministries.

2.2.8 *Privatisation of public enterprises.* The Public enterprises sector comprises 28 parastatals and subvented organisations. As part of controlling the budget deficit, Government is progressively reducing transfers and subventions to the parastatals and encouraging them to seek funding from the financial system. Government has also made proposals to establish a privatisation agency, and is in the process of finalising a draft privatisation policy. The 2004/05 Budget statement reiterated Government's commitment to restructure public enterprises, with the objective of making them financially viable and sustainable. A number of parastatals have begun rationalise their activities to concentrate on their core businesses. These include the National Agricultural Marketing Board (NAMBOARD), Swaziland Railways, and the Swazi Electricity Board. Other parastatals listed for restructuring during 2002/03-2006/07 include the Swazi Bank, the Swaziland Posts and Telecommunications, and the Central Transport Authority (CTA). According to the 2004/05 Budget Statement, the CTA has already started commercialising its charges to Government Departments in order to minimise its operational losses. Government also plans to introduce legislation to establish independent regulators for public utilities, especially energy and telecommunications. As a means of delivering cost-effective infrastructure, the Government has also announced an intention to use public-private partnerships, though the policy is yet to be developed.

2.2.9 *Decentralisation* remains firmly on the national agenda, and dates back to 1955 when King Sobuza II placed it on the national agenda with the establishment of the Tinkundla system, which was then expected to eventually evolve into modern local government system. However, this evolution has not occurred and the Tinkundla still lack resources and managerial skills to be effective. With no legislation to govern their activities, their functions remain largely informal.[2] In 1996 the Government published an Urban Policy, which put emphasis on decentralisation, and spelt out the functions and responsibilities of local government, which include the provision of infrastructure, social and human services, and promotion of local economic development. The Ministry of Housing and Urban Development, established in 1991, is responsible for local government. Authority has been devolved to Mbabane and Manzini city councils, which may now fire and hire their own personnel, establish property taxes, and prepare and monitor annual budgets. However, local government institutions are still not allowed to raise funds for capital development projects, and depend largely on revenue flows from central government. They also lack capacity in planning, programming, financial management and project/programme implementation. The Government is also in the process of finalising a decentralisation policy that is scheduled for release during 2005.

Sectoral Overview.

2.2.10 *Agricultural Sector:* Agriculture plays a major role in the lives of the majority of the Swazis since most households rely on agriculture as a major source of income, either as small scale producers or as recipients of income from employment on medium and large-scale farms and estates. About 75 per cent of the population are engaged in agricultural activities, though its contribution to GDP has fallen over time to reach 13.5 per cent in 2002. Swaziland operates a dual land tenure system, namely Swazi Nation Land (SNL) and Title Deed Land (TDL). Production on TDL accounts for about 60 per cent of the sector's contribution to GDP, is commercially oriented and consists mainly of sugar cane, pineapples and citrus. SNL, which accounts for the remainder, covers about 66 per cent of the country and is characterised by communal land ownership, where the King holds the land in trust for the Swazi Nation. The major crops grown on SNL are mainly maize (for subsistence) and some cash crops such as cotton, tobacco and vegetables for supplementary income. Although most

[2] See the UNDP (2003) Report on *Capacity Assessment of Local Government Institutions in Swaziland.*

households produce for subsistence, only 8 per cent of all rural households and 9 per cent of those that grow maize produce enough to meet households' needs. In the case of female-headed households only 2 per cent are able to achieve maize self-sufficiency. The recurrent drought situation has adversely affected the production of maize since farmers are still planting maize under rain fed conditions to meet their household food requirements. Rain fed agriculture does not have the potential to provide the current large population living in SNL with sustainable food levels throughout the year, and given the frequency of droughts, there is the need to bring further crop production under irrigation, which is currently limited to an estimated at 67,000 hectares or 33 per cent of the arable land.

2.2.11 The main challenges faced by agriculture in the medium term is the diversification of the production base to promote non-traditional high-value crops and gradual shift from subsistence to commercial farming using irrigation, and the identification of regional and international markets for Swaziland's agricultural commodities. To meet these challenges it is important to promote small-scale irrigation to mitigate the recurrent drought, which has adversely impacted on smallholder agricultural production, and support research activities in drought resistant crops. Other issues to be addressed include the small land size and related low productivity, inadequate access to credit and inadequate farmer training programmes. For the livestock sub-sector overstocking and related degradation of the nation's rangeland as well as lack of commercial exploitation of the cattle herd are some of the main problems affecting the sub-sector. Strategies need to be developed to address the land degradation issue and enhance commercial exploitation of the cattle herd. Institutional constraints also exist at all levels in the Ministry of Agriculture and Co-operatives as a result of high staff turnover and the HIV/AIDS pandemic. The Ministry needs to strengthen the staff capacity at all levels from extension staff to managerial levels and adopt effective extension methods to enhance the management and implementation of projects and programmes. In addition, strategies should be developed to improve the humanitarian situation, particularly with regard to HIV/AIDS and nutritional deficiency.

2.2.12 *The Manufacturing Sector:* Swaziland has a buoyant agro-based manufacturing sector, which in 2003 contributed over 38 per cent of GDP. It is also the second largest employer of labour after agriculture, accounting for 26 per cent of the labour force in 2003. In 2002/03 it also accounted for 67.5 per cent of foreign direct investment stock. The main manufacturing activities are sugar-processing, clothing and textiles, and drinks and foodstuffs. The sugar industry is the biggest in Swaziland, which in 2003 had a turnover of about US $1.5 billion and exports of more than $637 million. As a result of a small domestic market, proximity to the large South African market, and the need to take advantage of Swaziland's participation in AGOA, most of the manufacturing firms are export oriented. The major constraints to further development of the manufacturing sector include the relatively narrow resource base, including the shortage of indigenous Swazi entrepreneurs. The sugar industry is likely to suffer from the recently announced EU sugar reforms, which while allowing sugar imports from countries like Swaziland to continue enjoying duty-free access to European markets, will however, face a reduction in the guaranteed price by one-third over the next three years. Sugar is currently sold in EU countries at three times the international price.

2.2.13 *Infrastructure*: The settlement patterns in Swaziland, especially in the rural areas, where households are spread out all over the country in homesteads rather than in concentrated villages, poses a challenge to the provision of essential infrastructure services, such as roads, telecommunications, water and electricity. However, the Government has taken significant strides, as seen in the increased allocation to the capital budget, most of which goes to infrastructure expenditures. In the 2004/05 Budget, capital expenditure accounted for 26.5% of total expenditure, up from 23.3 per cent in 2002/03. Swaziland has a classified road network of 3800 km, a third of which is paved. Of the paved network, 60 per cent is in good condition and 25 per cent in fair condition. In the case of railways, the state owned Swazi Railways manages the approximately 300km of single track rail system. The utility is currently being restructured to concentrate on its core business, and bring in private sector participation to improve the performance of the sub-sector. Swaziland also operates one international airport and eleven airstrips. As part of the millennium projects in infrastructure, there are plans to build a new international airport with a 3.2km long and 60 metres wide runway for long haul flights. The telecommunications network is well developed and coverage has grown significantly, with telephone mainlines doubling from 17 per 1000 people in 1990 to 34 per 1000 in 2002. Also, in 2002 there were 66 cellular phone users per 1000 people, 128 television sets per 1000, and 14000 internet users. However, challenges remain in the area of provision of energy and water and sanitation, especially to rural consumers. In the case of water and sanitation, it is estimated that only 40 per cent of the rural population have access to clean water supply, while 63 per cent have access to sanitation. The two national providers are the Swazi Water Corporation, which provides treated water to urban areas and the Rural Water Board, which provides water to rural consumers. Electricity coverage, especially in rural areas, is also low, with the urban electrification rate estimated to be 42 per cent while the rural rate is limited to 5 per cent. Also, rural households account for only 2 per cent of total electricity consumption. The Swaziland Electricity Board (SEB) provides about 70 per cent of the country's electricity for final consumption, while private manufacturing firms, mostly in sugar, pulp & paper and forestry provide the remaining 30 per cent for their operational requirements.

2.2.14 ***Financial Sector***: Swaziland has a relatively well-developed financial sector with a sound commercial and well capitalised banking system comprising four commercial banks and a growing number of profitable non-banking financial system composed of mutual funds, insurance companies, securities firms, credit co-operatives and development finance, micro finance institutions and the stock exchange. At the apex of the financial system is the Central Bank of Swaziland, which is responsible for financial regulation and supervision. The banking system is characterised by excess liquidity due to limited viable investment opportunities, partly as a result of the restrictive investment regulations that do not allow banks to invest more than 25 per cent of their capital in a single project. This limits the banks' ability to participate in large infrastructure projects. Also, lending to SMEs is constrained by the requirement that formal financial statements and detailed information be kept for SMEs by the banks. The non-bank financial sector has experienced rapid expansion in recent years, and in response to this, the Government has announced plans to establish a Financial Services Authority in 2004/05 to regulate the industry, and thus minimise financial systems risk.

2.2.15 *Microfinance*: There is very little information on the size and nature of microfinance activities in Swaziland because the sector remains largely unregulated, though with respect to savings and credit co-operatives, the Ministry of Agriculture and Co-operatives handles all legislation pertaining to their deposit-taking and lending activities. The sector has, however, experienced rapid growth because commercial loans are either inaccessible or too costly for small borrowers. The industry consists mostly of micro-lenders, small NGOs and savings and credit co-operatives, estimated to number 235 registered institutions serving a wide range clients, including the poor, the self-employed and the lowly paid formal sector employees.

Microfinance institutions in Swaziland also provide non-exclusive starting-up loans to SMEs that may later graduate to gain access to credit from bigger banks. Due to weak legislation, the sector however, remains weak and unstructured.

2.2.16 *Tourism* is an industry with the potential to spread economic, social and environmental benefits across a wide spectrum of society. Its success in achieving this points to the need for establishing a broader industry base. Currently, the tourism sector accounts for less than 2% of GDP. In 1996, a Ministry of Tourism, Environment and Communications was created to better focus national attention on tourism development and management of the country's environment. The vision behind this development was to recognise the importance of the tourism industry as a leading contributor to the national economy and to support its potential to promote social and environmentally sustainable development in Swaziland. In order to provide leadership and a focus for coordination to promote tourism in the country, the Swaziland Tourism Authority (STA) was established in 2001. A strategy is being implemented to develop Swaziland as a distinctive destination, fully capitalising on its natural resources (environment, history, culture and people) and its favourable location.

2.3 Private Sector Business Climate

2.3.1 The development of the private sector is crucial to Swaziland's strategy to achieve broad-based economic growth necessary to reduce poverty and inequality as well as to tackle the serious challenges of high unemployment and the HIV/AIDS pandemic. The country's economic policy, through a more open economy and relaxation of controls, among other measures, has improved the climate for private investment. However, the results are still below expectations because current growth is based on narrow agro-based manufacturing sector dominated by exports of soft drink concentrates, textiles and clothing. The continued growth of textiles exports is dependent on Swaziland participation in the AGOA/GPS, the future of which cannot be guaranteed. Between 2000 and 2002, private investment fell from 13 per cent of GDP to 9.8 per cent, while FDI inflows (net of retained earnings) fell from 22.7 per cent of GDP in 1999 to 15.9 per cent, reflecting among other factors, the emergence of governance problems relating to human rights, and the stiff competition the country is facing within the region as an attractive destination for foreign investment.

2.3.2 Realising that attracting sufficient private sector investment to sustain growth will depend in part on continued improvements in the environment for business and the maintenance of competitiveness, the authorities have established the Swaziland Investment Promotion Agency (SIPA) to promote investment in the country. SIPA has been successful in attracting new investment, especially to the textiles and garments sub-sector, mostly for exports to the US markets under AGOA. Since 1999, SIPA has been able to attract 28 new foreign companies to set up business in Swaziland. Further, in a drive to attract FDI inflows, the Government has constructed factory shells in major industrial areas. Other legal reforms over the medium-term will include the following: (i) amendment of the Company Act of 1912, with the objective of facilitating the establishment of new businesses, (ii) the legislation of the Securities Bill, which will regulate investments in the country and formalize and promote the development of the capital markets, (iii) the legislation of the Insurance Bill, which will provide a statutory regulatory framework for the supervision of insurance companies and to de-monopolise the insurance industry. A number of bills that impact on the private sector business environment are before Parliament and are awaiting approval. These include the Competition Bill, the Retirement Fund Bill, the Trade and Business Facilitation Bill, the Securities Bill, the Insurance Bill, and legislation to deregulate the electricity sector.

The Anti-Money Laundering Act was passed in 2002, and is currently being amended to clearly define the reporting structures and introduce the legal instruments for prosecuting the perpetrators and the mechanisms for undertaking anti-money laundering investigations.

2.3.3 The private sector in Swaziland plays an important role in creating employment opportunities. In 2002/03 the sector accounted for close to 70 per cent of formal sector employment. Private sector employment is also growing faster than in the public sector. Between 2001/02 and 2002/03, employment in the private sector increased by 3.8 per cent, while public sector employment recorded a marginal increase of one percentage. The growth in private sector employment is largely due to the new investments in the textiles and garments sub-sector, which has to date created 28 000 new jobs[3]. The larger sugar estates and the transport sector have also contributed to an increase in employment. It is important to note that small-scale enterprises create a significant number of jobs in the private sector. The Ministry of Enterprise and Employment is in the process of finalising the policy on the development of SMEs to be presented to Cabinet.

2.3.4 *The Swaziland Stock Market*: The stock market is an important vehicle for fostering private sector development in the country. The Swaziland Stock Market was established in June 1990 and up to 1998 operated an as over the counter single broker facility. Since 1999, it has been operating under the auspices of the Central Bank of Swaziland as a stock exchange. Efforts are currently under way to operate the Swaziland Stock Exchange (SSX) as a self-regulating organisation. The market is, however, not well developed, trade volumes are low and liquidity is a problem. Market capitalisation is low, and its share is GDP has fallen in the last two years, from 14.6 per cent in December 2001 to 10.6 per cent in December 2002. However, over time, it has increased in nominal value from E500 million in 1998 to E1.2 billion in 2002. There are currently only six listed companies on the SSX, and most of the players are institutional investors who purchase to keep. Besides equities, other instruments traded on the SSX include government and government guaranteed bonds, and debentures. The low volume and value of securities traded is a reflection of the small size of the market and the base capital of the listed companies. Also, due to limited trading opportunities and lack of a strong domestic investor base, the secondary market is undeveloped. The prospects for business in the SSX are, however, bright, especially as the government proceeds with the privatisation programme and the number of investment funds and operations expand. Foreign investors are also allowed to participate in the stock exchange without restriction. To facilitate and promote the development of the capital market, a Securities Bill has been sent to Cabinet for tabling before Parliament.

2.4 Trends in Poverty and Social Conditions

2.4.1 The strong economic performance and positive forecast of the mid 80’s and 90’s placed the Kingdom of Swaziland at the level of a lower-middle income country. However, despite a relatively high level of per capita income, the human condition is deteriorating in Swaziland and poverty is uncharacteristically widespread and is similar to that found in low-income countries. The percentage of the population living below the poverty line is estimated at 66 per cent, and income distribution is highly skewed with the richest 10 per cent controlling 40 per cent of the nation’s wealth and the poorest 60 per cent controlling only 14 per cent. The main factors responsible for poverty in Swaziland are: high level of unemployment; severe recurrent drought in the southern and eastern regions leading to food

[3] Figure obtained from the 2004 Budget Statement presented to Parliament by the Minister of Finance on 24 March 2004.

insecurity; and the impact of HIV/AIDS epidemic causing the loss of skilled workers and substantial medical and funeral costs. Poverty in Swaziland also poses a significant strain on rural communities, women, the aged and children. The recent drought, by rendering agricultural production unpredictable, has worsened the rural poverty situation. The majority of the uneducated as well as the unskilled and unemployed people live in rural homesteads, and most AIDS-stricken people also opt to return to the rural areas.

2.4.2 *Education*: The Government has taken comprehensive measures to reform the education system at all levels aimed at increasing access, quality and relevance and has stated its goal as ensuring education for all. As a result, the sector has witnessed an increase in the provision of primary, secondary and tertiary education. The combined primary, secondary and tertiary gross enrolment ratio is currently estimated to be 77 per cent. In the budget, education continues to receive the second largest allocation behind general public services. In the 2003/04 and 2004/05 Budgets, education and training accounted for a quarter of appropriated re-current expenditure. However, four major challenges confront the education sector. First, the high levels of unemployment and the harmful effects of HIV/AIDS limit the chances of the children of unemployed or AIDS-stricken parents to stay in school. When parents die children are often forced to drop out of school to look after their young siblings. This results in a vicious circle of lack of education, unemployment, poverty and vulnerability to HIV/AIDS. Second, there is a growing evidence of teachers being increasingly absent from school because of HIV-related illness. Even when communities can afford to build schools, there is a serious shortage of teachers, giving rise to high students/teacher ratios. As a result the quality of education suffers. Third, while Government provides grants and loans for tertiary education, a significant number of students who benefit from this scheme do not return to the country after training. Thus, the record of loan repayments is poor. The fourth challenge is the appropriateness of the curriculum in relation to market development requirements. In terms of mitigation, there is need to re-deploy and train new teachers, to promote advocacy and awareness raising among parents and students, and to propose innovative strategies, including incentives to retain teachers. It is encouraging to note that since the 2003/04 Budget, the authorities have taken measures to assist HIV/AIDS orphans with school bursary. However, the programme still needs further restructuring to ensure its sustainability and viability.

2.4.3 *Health*: The Government of Swaziland has made a commitment to improve the health status of the population through the provision of preventive and curative health services, which are relevant and accessible to all. However, most health indicators suggest that the country displays some of the social characteristics found in countries that are substantially poorer. Infant mortality rates remain high at 78.3 per 1,000 live births. It is even higher for males, at 80.79 per 1000 live births, compared with 73.99 deaths per 1000 live births for females. The leading causes of mortality are HIV/AIDS, tuberculosis, lower respiratory infections and diarrhoeal diseases. HIV infection levels have increased from 3 per cent in 1992 to 38.6 per cent in 2002. With the prevalence of HIV/AIDS, tuberculosis has become and continues to be one of the leading causes of mortality and morbidity.

2.4.4 As a result of the *HIV/AIDS Pandemic,* Swaziland faces an increasing challenge in the medium to long term to sustain past progress towards meeting the health needs of its population (see Box 2). Recent statistics suggest that Swaziland has a serious HIV/AIDS infection rate, and in March 2004, the United Nations declared the Kingdom of Swaziland the priority country for HIV/AIDS intervention. Earlier on in 1999, His Majesty declared HIV/AIDS a national disaster, calling for an emergency response to fight the pandemic. The

HIV/AIDS situation is indeed very worrisome, and given the population and geographic size of the country, and also the fact that the age groups affected are people at the peak of their economic and reproductive careers, these figures could translate into a rapid decline of the population and economic growth over the next decade, as a result of the combined effect of lower fertility, higher mortality rates and productivity.

BOX 2

HIV/AIDS in Swaziland: Level, impact and Government response to the pandemic

In March 2004, the United Nations declared Swaziland a "nation at war with AIDS" because it now has the highest HIV/AIDS infection in the world. Indeed, when the first national survey of women attending antenatal clinic (ANC) was carried out in 1992, HIV prevalence among women aged 15 to 49 was found to be 3.9%. Two years later, the prevalence rate rose to 16.1%, and the most recent data indicates that HIV prevalence rate among ANC patients has more than doubled over the past decade, reaching 38.8% in 2002. A male survey conducted the same year in the country's largest factory showed similar results of high rates of infection. Beyond the debate surrounding the validity of the sample data and their extrapolation to the national level, a threshold of about 40% in any given group or segment of the population is sufficiently worrisome to call for the most adequate response among national and international decision-makers.

The causes of such high levels of infection are threefold: they are epidemiological; cultural and behavioural; as well as socio-economic, including the level of political involvement in effort to combat HIV/AIDS. Unlike other epidemics where victims quickly and visibly fall ill, putting general population and public health professionals on their guard, HIV/AIDS prolonged incubation period (averaging 5 to 8 years), ignorance and unawareness or denial cause AIDS-infected people to unwittingly spread the infection, and it is only later, when substantial numbers are infected that the number of deaths begins to rise. This situation is further aggravated by the fact that people at highest risk are in the 15 to 25-age range, hence causing a momentum effect. As a result, the estimated population size, which currently stands at 1.1 million, will be about 1.6 million in 2015, 40% lower than it would have been in the absence of HIV/AIDS. In addition to reducing life expectancy by almost 25 years (from 59.7 years in 2001 to a projected 38.3 in 2015), the HIV/AIDS pandemic has direct bearing on human resource development. It kills prime-age adults, many of who are skilled workers in key sectors of agriculture, transportation, education and health.

Although there is good evidence of knowledge about HIV/AIDS and its mode of transmission (90 to 97 % in 2003, from the KAP survey), this knowledge often does not translate into meaningful way to fight the epidemic, For instance, 86% of the people interviewed during the national Behavioural Survey said they knew about condoms, but only 18% ever used them. Until recently, an important number of male season migrants crossed the border to work in the farms and mines of South Africa, exposed to the sex workers, and returned home to their wives and partners. Furthermore, Swaziland is a society where polygamy is practiced, and men traditionally perceived as superior. In their upbringing boys are expected to seek sex, and girls to comply. This gender imbalance has led to the situation whereby women's vulnerability to HIV/AIDS infection is increased by economic dependence, lack of access to opportunities and resources, and indeed by high levels of poverty.

The major Government response to the pandemic was to establish the National Emergency Response Council on HIV/AIDS (**NERCHA**), an independent organ under the Office of the Prime Minister. It coordinates the Global funds, efforts by civil society, the private sector as well as the Government's **seven-point plan to fight HIV/AIDS**: i) increase the number of voluntary testing centres throughout the country; ii) rolling out the prevention and all forms of interventions including counselling regarding mother-to-child transmission, expanded to include the male partner; iii) expand and strengthen the national safe blood initiative, in particular the Manzini testing facility, in order to overcome blood supply crisis and prompt voluntary blood donation; iv) making antiretroviral (ARV) drugs available to all patients… this is the greatest challenge that the country is to face, because while the number of patients being treated is raising exponentially, less that one-tenth of the patients will have access to ARVs; vi) expansion of home-based care, especially in rural areas where most patients opt to return once they develop full blown AIDS, and ensure sustainable supply and delivery of appropriate drugs and care givers' equipment such as gloves; vii) reduce time span for STIs lab analysis given the strong correlation between STI infection and HIV/AIDS. The major initiative undertaken so far by the private sector is to equip the testing centres, sponsor radio and TV programs, as well as AIDS-related adverts. Mining and clothing industries, which are loosing their young and skilled workers at a very high rate, have allocated a special fund for Prevention, screening and treatment of AIDS workers and their dependents.

HIV/AIDS financing in Swaziland is largely derived from external sources, both official and private, while the Government provides about a fifth of the funding. Bilateral sources include Italy, the UK and the US, and multilateral sources consist mostly of the EU and UN Agencies. National and international NGOs (e.g. World Vision, Bristol Myers Squibb, Turner Foundation, etc) also provide financing towards combating HIV/AIDS. Swaziland has also received a grant from the Global Fund for prevention, care and support and impact mitigation activities. There are however, problems with utilising the resources from the Global Fund due shortage of human resource capacity, especially in the Ministry of Health.

2.4.5 *Millennium Development Goals*: Swaziland's progress toward the Millennium Development Goals (MDGs) is mixed with good performance in some sectors such as education but slow progress in others such as environment and gender equality (see Table I). In education, Swaziland has made good progress toward the MDGs and the Bank is strongly supporting this effort through its projects. The greatest challenge is in the health sector and in reducing overall levels of poverty. Achieving the MDG targets in health areas such as malnutrition, maternal and under-5 mortality, HIV/AIDS, malaria, and tuberculosis are a major challenge. The Government has increased expenditures on health to support the efforts to improve health services. The Bank has also targeted the health sector for support during the 2005-09 CSP period to support Government efforts. Access to potable water is below the

Africa average. In the environmental area, Swaziland has an active programme to reduce environmental damage.

TABLE I: SWAZILAND - PROGRESS IN MEETING THE MILLENIUM DEVELOPMENT GOALS

Goals 1990-2015	Actual Situation in Swaziland	Probability of Achieving Goal	Situation in Africa
1. Eradicate extreme poverty and hunger			
Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	The number of persons in extreme poverty is high. The Swaziland Household Income and Expenditure Survey suggests that approx. 66 per cent of the population falls below the national poverty line of E71 per month.	Unlikely to be achieved	46.7 per cent of the population in Africa lives in extreme poverty
2. Achieve universal primary education			
everywhere, boys and girls alike, will be able to complete a full course of primary schooling by 2015.	Although gross primary school enrolments for both boys and girls exceed 100 per cent, they are declining. Dropout and repetition rats are also high.	Potentially achievable	In 2000 the total primary enrolment rate in Africa was 89.2 per cent and that for girls 83.7 per cent
3. Promote gender equality			
Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	The enrolment rates for boys at primary school is higher than those for girls, but at secondary and tertiary levels, the gap is much narrower.	Potentially likely to be achieved	The ratio of girls to boys in primary and secondary education in Africa was 81 per cent in 2000
4. Reduce Child Mortality			
Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.	Infant mortality has increased from 72 per 1000 in 1991 to 78.3 in 2002.	Unlikely to be achieved due the widespread of HIV/AIDS	Infant mortality for under fives in Africa was 81.9 per 1,000 live births in 2002
5. Improve maternal health			
Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.	Maternal mortality has increased from 110 per 100,000 births in 1991 to 229 in 210 in 2000.	Unlikely to be achieved	In Africa there are 641 maternal deaths for every 100,000 births.
6. Combat HIV/AIDS, malaria and other diseases			
Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse the incidence of malaria and other major diseases.	Adult HIV/AIDS infection rate is one of the highest in the world, estimated at 38 per cent of the adult population.	Potentially likely to be achieved. HIV/AIDS has been declared a national emergency.	The incidence of HIV/AIDS in adults In Africa is estimated to be 8.58 per cent
7. Ensure environmental sustainability			
Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.	43 per cent of the population has access to potable water, and per capita CO2 emissions were 0.4 metric tons in 1998.	Potentially likely to achieved	60.3 per cent of the Africa's population has access to potable water and per capita CO2 emission was 1.1 metric tons in 1998.
8. Global Partnership For Development			
Address the special needs of landlocked countries.	Swaziland's economy is extremely open. Imports and exports of goods and services respectively account for 81 per cent and 69 per cent of GDP. The country benefits from AGOA, Cotonou Agreement with the EU, is a member of SACU, SADC and COMESA.	Likely to be achieved.	No data

Source: Adapted from the UNDP, Swaziland: Millennium Development Goals

2.5 Cross-cutting Issues

2.5.1 *Population Dynamics*: In 2003 Swaziland had a population of 1.1 million and growing at 2.9 per cent. This growth rate, however, is expected to drop to 1.7 per cent in 2015. The reasons for this decline are the projected rise in new AIDS cases, the limited time from full blown AIDS to death, and the relatively low fertility associated with AIDS among women aged 15 to 49. As a result, the estimated population size will be about 1.6 million in 2015, 40 per cent lower than it would have been in the absence of HIV/AIDS. Because of the small geographic size, population density remains relatively high (65 inhabitants per sq kilometre), with higher densities in the Manzini region, containing 30 per cent of the total population. The projected reduction in population due to AIDS has two major negative economic impacts. First, AIDS deaths affect primarily the size of economically active populations and also women at the peak of their childbearing ages. As a result, it depresses savings and investments. Second, AIDS mortality affects households' economic structure (e.g. as grandparents, and sometimes children take over the headship of the family) and spending patterns (medical and funeral bills). In response to these challenges, the Government of Swaziland has undertaken the formulation of a population policy within the framework of the national development strategy (NDS 1997-2022). The Population Policy, which is multi-sectoral and an integral part of all development policies and programs, proposes the following areas of intervention: i) curb the further spread of HIV/AIDS and attenuate its socio-economic impact; ii) promote reproductive health programs, including IEC and advocacy, with the aim of improving the quality of child care, maternal health and the well being of the household; iii) reduce urban-rural imbalance and pockets of high density populations by promoting decentralization and integrated rural development projects; improve the knowledge on the role that negative cultural beliefs and practices play in population related issues, especially the spread of HIV/AIDS. The strategic focus of the Bank in the 2005-09 CSP, would contribute to the achievement of the goals of this population policy.

2.5.2 *Gender:* Serious challenges remain with regard to gender equality in Swaziland. Discrimination and the feminisation of poverty are experienced throughout the life cycle and are perpetuated by negative cultural practices, traditions and legislative provisions under customary and civil law. Gender disparity in legal rights exacerbates women's vulnerability and has constrained their participation in the economy. In both the indigenous customary law and the Roman-Dutch common law systems governing Swaziland, women are considered minors. As such, women do not control or own major assets, particularly land. This fundamental imbalance in the property rights of men and women leads to gender differences in the pattern of poverty. De facto female-headed households (i.e. where a male co-head is non-resident for large parts of the year) have the highest core poverty levels of any household type.

2.5.3 The Government of Swaziland has demonstrated a strong commitment to achieving gender balance, and has established a fully operational Gender Unit in the Ministry of Home Affairs, to facilitate the mainstreaming of gender concerns in all development tasks. In this regard, the Gender policy is in the process of being adopted by Parliament and focuses primarily on i) the Bill of Marriage and Minority status to ensure the economic empowerment of women, independent access to land and credit, as well as the means to negotiate safe sex and responsible maternity; ii) the administration of the Deeds Registration Act whereby legal access to family property and assets does not proceed only through a father, husband, or son; and, (iii) the ratification of the Beijing Plan of Action. The Convention on Elimination of all forms of discrimination against Women was ratified in May 2004. Within the context of SADC, Swaziland has committed itself to having 30 per cent of all positions in political and decision-making structures to be occupied by women by 2005. Indeed, women currently occupy 20 per cent of the seats in Parliament, with some positions having been exceptionally "earmarked" by His Majesty to bridge the gender gap.

2.5.4 *Governance*: Swaziland operates a dual system of governance that is a product of two influences: the traditional system and western models of governance, with His majesty the King at the apex of both systems. In pursuit of this unique governance system, Swaziland has endeavoured to develop modern political and administrative structures complemented by the traditional institutions. The country operates a decentralised system of governance with three tiers: national/central government, local government, and regional structures known as *Tinkundla*. This system has a number of advantages including national cohesion, which is necessary for peace and stability. However, one of the unintended consequences of the system is that there are de-facto two bureaucracies running parallel though interrelated. The central government and local government systems follow the western model, while Swazi customary law, which is largely unwritten, governs the traditional structures. Other challenges to the governance system include the limited revenue sources for the urban and regional areas, weak administrative and financial management capacity at the local level, and limited decentralisation of power. In recent years, the threat to the rule of law and legal uncertainties, especially with regard to the interference of the executive with the judiciary and Parliament have emerged as major challenges. The government has, however, recently taken significant steps to improve governance in the Kingdom, including the constitution-making process and administration of justice and law reform. Also, in order to prevent corruption, which is considered to be a growing problem in Swaziland, Government has established an Anti-Corruption Commission to carry out corruption prevention measures and investigations on corruption complaints. However, the Commission has been criticised for being slow in instigating actual prosecutions. This is exacerbated by the fact that since its establishment in 2000, there is still no enabling legislation to make it functional.

2.5.5 In the area of economic governance, the authorities have undertaken a number of measures to strengthen the financial accountability framework. The Financial Management and Audit Act (1967) amended in April 1992, provides the legislative framework for receiving, recording and reporting of revenues and expenditures. The Act also provides for the Auditor General to query overspending and other deviations from the Budget, and in cases where a satisfactory response is not received, the matter is referred to the Public Accounts Committee (PAC) of Parliament. Public expenditure policy and the budgeting process is being improved through the MTEF. A serious weakness of the budgeting process in Swaziland is the incomplete capture of expenditures by Treasury on capital projects funded by donors under the direct disbursement scheme. This suggests the need to improve and strengthen the coordination between various ministries, development partners and the Ministry of Finance. Under the PSMP programme, the Government has initiated projects that seek to develop a policy framework and criteria for identifying and selecting public services that would be amenable to alternative options of delivery. The PSMP, the Government is also examining organisational structures and policies in each ministry with the view of improving the efficiency of the civil service.

2.5.6 *Environment*: The main environmental challenges featuring in the 1997 Swaziland Environment Action Plan and articulated in the 1999 Environment Management Act and Regulations include land degradation; drought and desertification; water resource management; environmental pollution and public health; and biodiversity and eco-tourism. These issues have a direct bearing on poverty and are discussed within the context of the country's national development strategy. Drought is a recurring problem in the Lowveld. The exploitation of water resources is a problem as it is governed by bilateral or trilateral negotiations with South Africa and Mozambique. Land degradation is closely associated with population pressure in high density areas in urban and rural settings, and the lack of knowledge regarding deforestation, or soil conservation in drought-affected areas calls for the need to train agricultural extension workers on the practical tools that farmers need to better preserve their land, control overstocking and overgrazing and cultivation of marginal lands. With regard to environmental pollution and public health, the focus is on solid waste management and community involvement in the collection and recycling of solid waste. The innovative approach is to turn the cleaning up of the environment into income generating activities. As for biodiversity conservation and tourism, the Global Environmental Fund (GEF) has committed funds to support conservation.

2.5.7 *Core Labour Standards:* Swaziland has ratified 31 conventions related to international labour standards, including the seven core labour standards (see Annex IX), and has also ratified the Convention on the Rights of the Child. Within the formal sector, the employment of children below the minimum age is not common, though cases of such practices have been reported in the cotton-growing regions of the country. The Ministry of Enterprise and Employment, which is responsible for enforcement is, however, constrained by personnel shortages to monitor and enforce observance of standards. The Amended Industrial Relations Act, which was passed in May 2004, provides for a structured framework for industrial relations and is expected to improve workers' rights and boost investor confidence in the country.

2.5.8 *Regional Integration:* Swaziland's economic integration into the sub regional markets is a vital element in its economic growth and in the creation of opportunities. The country is a member of a number of regional organisations, namely, the Southern African Customs Union (SACU), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the African Union. SACU is the oldest, and possibly the most advanced regional integration community on the African continent, and provides for a common excise tariff for all its members (namely, Botswana, Lesotho, Namibia, South Africa and Swaziland), with all customs and excise duties collected in the common customs area paid into a National Revenue Fund operated by South Africa. The revenue collected is shared between the countries according to an agreed formula. SACU revenues account for close to 50 per cent of total revenues and grants in the Government budget. There is also greater macroeconomic convergence within SACU countries. Swaziland, Lesotho, Namibia, and South Africa are also members of the Common Monetary Area (CMA), which allows for a free flow of funds. Although Swaziland issues its own currency, the lilangeni, which is at par with the South African Rand, it has made the Rand note also a legal tender in the country. Within SADC, Swaziland has ratified the SADC Trade Protocol, which entered into force in January, 2000 seeking to establish a Free Trade Area within 8 years. It is however, still to accede to the COMESA Free Trade Area (FTA), that currently include Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe. Although Swaziland was granted an exemption or derogation from reducing tariffs under COMESA to the rest of the Member States, this exemption has expired and the country, therefore, has to find ways of offering reciprocal tariff reductions to COMESA Member States. Swaziland's exports to the COMESA region have increased from 4.5 per cent of the country's total exports in 1999 to 10.3 per cent in 2003. However, it is important to note that most of these imports are to SADC countries inside COMESA. The delay in acceding to the COMESA Free Trade Area reflects the complications posed by overlapping membership to regional integration communities with different objectives and time-tables for trade liberalisation. Swaziland is also member of the AU and is participating in the NEPAD initiative, which are both important drivers of regional integration on the continent. To ensure that Swaziland obtains maximum benefits from the NEPAD initiative, the authorities are working to align the forthcoming National Development Plans, which are intended to operationalise the country's long-term development strategy contained in the National Development Strategy (1997-2022), with the NEPAD programme.

2.6 Main Obstacles to Sustainable Growth and Poverty Reduction

2.6.1 The major constraints on the achievement of high and sustainable growth and poverty reduction in Swaziland are as follows: (i) lack of employment opportunities; (ii) Agriculture constraints and unstable climatic conditions; and (iii) Health sector constraints and the HIV/AIDS pandemic; and (v) erosion of good governance.

2.6.2 *Lack of employment opportunities:* Swaziland faces a serious problem of unemployment, where about a third of the labour force is unemployed, with the youth and new graduates particularly affected. Although new jobs have been created in the textile and clothing industry (under AGOA) and in the sugar industry and the transport sector, this growth is still too little to tackle the existing unemployment problem. It is estimated that of the over 10,000 school-leavers that join the job market every year, only about 2000 are absorbed into the formal job market. There is, therefore, need to expand the scope of measures to deal with the mismatch in demand and supply in the labour market, such as promoting SME development in promising sub-sectors such as textile and garments and other locally manufactured products; promoting vocational training; improving business conditions in the informal sector, together with the development of community level enterprises and cooperative banks; and establishing a business climate that boosts confidence and retains investors in the country through good corporate governance, transparent contracts and tenders, and involvement of all stakeholders including community representatives in the bidding process.

2.6.3 *Agricultural constraints and unstable climatic conditions:* The constraints inherent in the agriculture sector include the recurrent drought and floods which have adversely impacted on smallholder agricultural production; the small land size and related low productivity; inadequate marketing channels; and, inadequate access to seasonal credit due to lack of collateral to secure the credit. The HIV/AIDS pandemic, which has seriously affected most productive age groups, is also a major limiting factor. For the livestock sub-sector overstocking and related degradation of the nation's rangeland as well as lack of commercial exploitation of the cattle herd are some of the main problems affecting the sub-sector. An institutional constraint also exists at all levels in the Ministry due on one hand to high staff turn-over and on the other hand, due to the HIV/AIDS pandemic. Since 75 per cent of the population are engaged in agricultural activities, constraints in this sector tend to impact negatively on growth and poverty reduction. To reduce the vulnerability of the economy and livelihoods to weather conditions, it will be prudent for Swaziland to diversify the agricultural and manufacturing production base.

2.6.4 *Health Sector constraints and the HIV/AIDS Pandemic*: The health sector faces a number of serious constraints affecting its performance. These include financial and human resources constraints, increased burden of disease, poorly maintained health facilities and inadequate technical and managerial skills. HIV/AIDS is a major challenge in Swaziland. Due to the shortage of financial resources, the Ministry of Health and Social Welfare has had to divert some of its limited resources to address this problem, which in turn has negatively affected the delivery of overall health services. The limited available financial resources have also resulted in shortages of drugs and pharmaceuticals, and lack of training opportunities to up-date managerial and technical skills for health workers. The shortage of space at the Central Medical Stores has contributed to poor drug management. Limitation of space is preventing bulk purchases thereby resulting in poor stock management. To address the critical shortage of health workers, there is need to develop a human resources policy and long-term plan to assure constant supply of well trained staff with appropriate skills mix and retain them in the country after training. Maintenance of buildings and equipment remains another challenge that should be addressed through establishment or strengthening of maintenance workshops.

2.6.5 *Challenges of Good Governance*: As earlier mentioned, the main challenges that Swaziland faces in governance are found in all branches of Government. These include strengthening the capacity of the state to promote better governance; improving the legal framework for delivery of efficient, expeditious and cost-effective legal services; and creating an enabling atmosphere for the appreciation of the role and effectiveness of Parliament. There is, therefore, an urgent need to strengthen rule of law and institutional reforms, and strengthen anti-corruption institutions for the country to achieve a pro-poor inclusive development and attract significant levels of foreign investment.

2.7 Potential for Economic Growth and Poverty Reduction

2.7.1 The potential for economic growth and poverty reduction in Swaziland is strong. The country has substantial natural resources and fertile land, which offer a great potential for agriculture led development, which is key to future economic growth and poverty reduction in the country. The agriculture sector comprises commercial export-oriented production on large farms under TDL growing high value crops, such as sugarcane the main cash crop, irrigated citrus, pineapple, vegetables, and grain. Crops production under the SNL is dominated by maize, which makes up the main staple food, and given the precarious food security situation faced by the country, Swaziland needs to exploit its potential to diversify food production away from maize into other more drought resistant food crops.

2.7.2 Swaziland has a well-diversified agro-based manufacturing industry, with sugar and wood and pulp as the main foreign exchange earners. In recent years, textiles production has picked up, especially with the participation of the country in AGOA. Swaziland also has an excellent infrastructure, making the Kingdom an attractive and comfortable location for doing business. Government considers the manufacturing sub-sector built around the country’s primary products of comparative advantage as key to sustainable growth and development. Thus, the Government has implemented an extensive investment programme to upgrade the infrastructure. The transport network linking major urban centres are efficient and the urban infrastructure is relatively well developed.

III. GOVERNMENT DEVELOPMENT PROGRAMME

3.1 Key Elements of the Government Development Agenda

3.1.1 The main development agenda of Government is articulated in the National Development Strategy (1997-2022), whose vision is that by 2022 Swaziland will have moved to the top 10 per cent of the medium human development group of countries founded on sustainable economic development, social justice and political stability. To achieve this vision, strategies were laid out in seven main areas: sound economic management, economic empowerment, human resource development, agricultural development, industrialisation, research, and environmental management. The NDS provides a long-term strategic development framework that guides the preparation of medium and short-term development programmes. The main medium-term implementation tools are the National Development Plans (NDPs), and up to 2001 the three-year *Economic and Social Reform Agenda (ESRA),* while the Budget used in conjunction with the Millennium Action Plan (MAP) is the short-term implementation tool . The NDPs are three year rolling plans that set out the Government's public expenditure programme. The last NDP, which covered the period 1999/00-2001/02 put emphasis on capital expenditures in agriculture, and transport and communications, which accounted for 56.4 per cent of capital expenditures. The Komati Downstream Irrigation, the Lower Usuthu, and the transport corridor linking Ngwenya, Mbabane, Manzini and Lomahasha were some of the projects implemented under the last NDP, and the Bank provided assistance to some of these projects. Government is currently preparing the second NDP, which will cover the period 2004/05-2006/07.

3.1.2 To monitor the implementation of the NDS/NDP the Government developed the ESRA, whose objective was to synthesise short-term programmes for implementation within a time-bound period of up to two years. To date, Swaziland has implemented ESRA I (1997-99) and ESRA II (1999-2001). In early 2002 ESRA was replaced by a one-year Millennium Action Plan (MAP), though the overall development agenda continues to be basically unchanged. The MAP is essentially the capital expenditure component of the annual Government budget, and is thus revised annually. It places emphasis on the principal objectives of the NDS. Currently, the programmes under the MAP are designed to address the challenges of poverty alleviation, creating employment and combating HIV/AIDS.

3.1.3 Along side the NDP and the MAP, the Government formulated the *Poverty Reduction Strategy and Action Plan (PRSAP)*[4] within the overall context of the NDS. The overall objective of the PRSAP is to reduce the incidence of poverty in Swaziland from its current level of 66 per cent to 30 per cent by 2015, in line with the MDG and eliminate it by 2022. The main pillars of the strategy include rapid acceleration of economic growth based on broad participation; empowering the poor to generate their own income; and, an equitable distribution of the benefits of growth through public spending. The proposed strategy will focus on poverty reduction efforts in the areas where the poor live by improving their access to social services, principally education, health and nutrition. The PRSAP also contains concrete projects and programmes, which are designed to generate income and create employment, combat the HIV/AIDS pandemic and minimise vulnerability, and enhance agricultural production and food security. A Poverty Monitoring Unit has been established in the Ministry of Economic Planning and Development.

3.1.4 *Fiscal Restructuring and Public Sector Reforms*: Government realises that the current state of public finances is not conducive to creating an environment supportive of pro-poor equitable growth. The strategy adopted by the authorities to tackle the problem of fiscal reforms hangs on three main pillars, namely, tax policy and administration reforms; re-orienting government expenditure; and restructuring public enterprises. In the area of tax policy and administration, government will seek to enhance and strengthen the revenue collecting capacity of the tax and customs and excise departments by creating a unified and autonomous Revenue Authority modelled on the South African Revenue Services. The current system of sales tax will be replaced with the Value-Added Tax (VAT) in 2006. The

[4] The document used here is the Prioritised Action Programme on Poverty Reduction issued in March 2002 by the Ministry of Economic Planning and Development

principal challenge of Government in implementing fiscal reforms concerns controlling expenditures, especially personnel costs. The measures to be adopted include implementing the recommendations of the Salaries Review Report, conducting a forensic audit of the Public Service Pension Fund, which is currently under-funded, and minimising possible waste in public expenditure, especially regarding minimising the operating losses of the Central Transport Authority. Government is also reducing transfers to public enterprises and encouraging them to restructure operation by focussing on their key activities.

3.1.5 *Reducing Unemployment*. The problem of unemployment is due to low investment and sluggish economic growth, which has failed to keep pace with the growth of the labour force. Unemployment is seen as a major cause of poverty in Swaziland, accounting for 40 per cent of the core poor. The poor also have lower skill levels and therefore earn lower wages. Thus the main challenge in the labour market is to improve job-creation and reduce poverty. The PRSAP proposes to tackle these challenges through investment promotion and economic growth, supporting the SMEs and the informal sector, development of agriculture and other income generating activities, education and training, and empowering women and young people.

3.1.6 *Enhancing Agricultural Production and Food Security*: The Government, with the assistance of FAO/UNDP has prepared a Comprehensive Agricultural Sector Policy (CASP) under the joint FAO/UNDP funded project. The Government agenda for the sector includes (i) the diversification of the agricultural base to promote/improve the food insecurity situation by diversifying into new areas of intervention such as mushrooms; honey and goats production, promotion of the dairy and piggery industry; (ii) promotion of drought resistant varieties of maize, and other drought resistant crops such as sorghum, cassava, sweet potatoes, indigenous legumes; groundnuts and traditional crops; (iii) agricultural research and training; and, (iv) earth dam construction and irrigation.

3.1.7 *Improving Access to Basic Services and Infrastructure:* In the transport sector, the Government policy implementation is focused on the restructuring of the Ministry of public works and transport (MOPWT) by separation of policy and regulatory functions from the executive function of planning, construction, maintenance, and management of the road network. The other main issue is the sustainability of investment in the sub-sector by an ensuring adequate flow of funds for maintenance, which is the greatest constraint as maintenance budget only meets 70 per cent of maintenance needs. To this effect, Cabinet has approved for presentation to Parliament draft legislations with respect to the establishment of a Road Authority, Road Board, Road Fund and the introduction of tolls for heavily trafficked roads. Successful implementation of the reform agenda in the road sub-sector would improve the level of service and ensure sustainability of investment.

3.1.8 *Enhancing the Quality of Life*. The thrust of the NDS and the PRSAP is to improve access, quality and efficiency in social services in the areas of education and health as the main tools for achieving poverty reduction and improved income distribution on a sustainable basis, in addition to its being a prerequisite for sustainable growth. Although indicators of education achievements are relatively good, several broad human resource development challenges remain to be addressed in order to facilitate economic progress and reduce social problems. These challenges include improving access, quality and relevance of education; and, strengthening the institutional capacity of the Ministry of Education. Thus the major policy goal of Government is to expand the school network to ensure that more children have access to education. Another challenge is that while tertiary education is subsidised, primary and secondary education are not, with the result that the number of children failing to get basic education is increasing. The PRSAP proposes a shift from a subsidised tertiary education and re-channel the savings to basic education and providing free primary education. Also, as part of the goal of Education For All, Swaziland is moving towards compulsory free primary education. Other challenges that the PRSAP seeks to address include curriculum development, adult literacy and expanding access to vocational and post-secondary education. Furthermore, HIV/AIDS is recognized as a major challenge to the development of the sector. Major challenges in the health sector include high infant, child and maternal mortality rates, and declining life expectancy rates due to the HIV/AIDS pandemic. The objectives of Government under the PRSAP for the health sector include (i) reducing all preventable disease by half by 2010; (ii) protecting the poor from impoverishing health costs; (iii) promoting institutional strengthening reforms for the health sector; and, (iv) re-orienting and supporting private health care providers towards improved health and social status of the poor.

3.2 Assessment of the Government Development Agenda

3.2.1 The Swaziland Government development agenda suffers from important shortcomings that the authorities will need to address as they finalise the new National Development Plan. The most serious shortcoming is that both the NDS and the PRSAP do not have a clear set of targets for the main policies and programmes, including production and employment. As such, the proposals in the PRSAP read more like a wish list than an effective strategy to reduce poverty. Nevertheless, the emphasis of the NDS and the PRSAP on combining high growth with social development, leveraged by improved fiscal management, is a sound strategy to maximize the poverty-reducing impact of development. The objective of the PRSAP to halve poverty by 2015 in line with the MDGs, while commendable, nevertheless appears unattainable within the time scale available. To achieve GDP growth rates that are commensurate with poverty reduction and empowerment of the poor to generate their own incomes will depend on the performance of the agricultural sector, which is the main source of livelihoods in the country. However, the productivity of the sector remains low and the majority of the population operating within this sector face constraints with regard to access to credit facilities, poor infrastructure, and limited opportunities for marketing. Moreover women, who play a key role as farmers cannot own land on SNL, where the majority of the poor live. However, Government is aware of these constraints, and is taking steps to address them, such as by providing support to small-scale farmers in livestock and crop farming. Support to agricultural productivity and food security is also provided through water management and irrigation projects to minimise the impact of the drought and through agricultural diversification.

3.2.2 With regards to reforming public finances, the authorities have made commendable progress. In the 2003/04 and 2004/05 Budget Statements the Government announced important measures to improve the state of public finances, including moving to an MTEF framework, pressing ahead with the restructuring of the Central Transport Authority (CTA), the establishment of the proposed Revenue Authority, reducing subvention transfers to public enterprises, introducing voluntary retirement package for civil servants aged 55 and above, and cutting general government waste. Since 2003/04, the authorities have also taken important steps to expand the revenue base and improve tax collection and administration. As a result of these measures, and the windfall from the Southern African Customs Union (SACU) customs duties revenue, the budget deficit is programmed to fall to 1.4 per cent of GDP in 2004/05.

3.2.3 Another important feature of Government development agenda is its recognition that growth and investment will be led by the private sector, especially the SME sector. In recent years, there has also been an effort by the authorities to limit the role of Government to that of regulator, provider of public services, and creator of an enabling environment for private sector development. In the 2004/05 Budget Statement, the Government announced plans to establish independent regulatory agencies for public utilities. However, the Government's preference to spend on large infrastructure projects, such as those under the Millennium Action Programme without seeking to build public-private partnerships is not conducive to fostering private sector development. Moreover, these projects divert budgetary resources away from social spending.

3.2.4 Both the NDS and the PRSAP lack a candid assessment of the poor quality of governance and the limit this places on economic growth and the recovery of investment. The success of the PRSAP will also rely on co-financing by the international community, which places a high premium on good governance. This could present a major weakness in the implementation of the Plan unless governance problems are addressed candidly. Moreover, given the decline in ODA flows to Swaziland since the country attained a middle-income status, donor support to the PRSAP is likely to remain low. The Government also needs to address more vigorously the issue of building capacity, not just at the central but also at the local level.

3.2.5 With regards to enhancing the quality of life, Swaziland faces a major challenge posed by growing fiscal difficulties. However, it is important to note that the Government still allocates a significant proportion of recurrent expenditure to health and education. Between 2002/03-2004/05, budget allocations to the health sector accounted for 7.3 per cent of recurrent expenditure, and those to education, 24.3 per cent. In the 2004/05 allocations to the health sector increased by 5 per cent over the previous period in order to primarily address the challenges posed by the HIV/AIDS pandemic. The Ministry of Health and Social Welfare also plans to establish a Children's Unit, which would *inter-alia,* address the health needs of HIV/AIDS orphans. Of greater concern, however, is that while the level of spending on health and education is consistent with other countries in the lower-middle income group, in Swaziland, these expenditures tend to be biased towards the urban areas, and mostly in the Manzini and Hhohho regions, whereas the majority of the poor are in the rural areas.

3.2.6 With regard to the transport sector, while the reforms would reduce considerably the backlog of maintenance as it would ensure appropriate funding for the recurrent and periodic maintenance budget, the upgrading component at an estimated cost of E 2.0 billion for the period 2004 -2006 would need substantial donor funding. Among other future strategies to deal with this financing gap for road development is the involvement of the private sector in the construction, operation and maintenance of some links where traffic levels justify public private partnerships. To enhance private sector participation and financing of road maintenance, the tolling of the heavily trafficked Ngwenya – Mbabane – Manzini road has been announced by the Government and would form a basis for BOT arrangements in the future. Nevertheless, the steps being taken to move towards a more commercialised environment in the transport sector are commendable.

3.3 Challenges and Risks

3.3.1 In comparison to the period of the last CSP preparation, Swaziland faces greater political, economic and financing challenges and risks in successfully implementing its development agenda. The main challenge will be to put the economy on the path of high and broad-based sustainable growth and competitiveness, by achieving real GDP growth target of at least 5 per cent per annum in order to significantly reduce unemployment and prevent the number of the poor from increasing[5]. This will require that the authorities tackle the fiscal challenge, which is crucial in terms of economic stabilisation. For 2004/05, the government anticipates satisfactory fiscal returns due to a number of factors and measures, such as higher than expected SACU revenues, improved revenue collection and tax administration, and control on government spending, including a reduction in subventions to parastatals. However, the increase in SACU revenues in 2003/04, which made it possible for the government to reduce the appropriated deficit for 2004/05 is unlikely to be repeated in the future, as this was a one-off windfall. Future trade revenues are likely to fall as the South Africa-EU Free Trade Agreement and other proposed SACU-FTAs take effect. This risk could be minimised by the continued implementation of reforms to assure fiscal sustainability in the medium and long term.

3.3.2 Another risk is the potential slow pace in poverty reduction and social inclusion. Recent poor economic performance has had a serious impact on the ability of the State to reduce poverty levels and to improve the quality of life for the majority of the Swazi population. Although Government has been striving towards increasing social spending, the high poverty level of 66 per cent, however, puts a question mark on the efficiency of that social spending. This means that besides increasing social expenditure, the social strategy of the authorities would need to improve the efficiency, targeting and coverage of social spending. It will also be vital to ensure that the recovery of macroeconomic stability and growth required to bring down poverty levels is equitable and inclusive. A major challenge will be that of enhancing the inclusion of women to participate in the development agenda as their minor status under both traditional and Roman-Dutch law limits their access to productive assets. Other vulnerable groups at risk include the youth, who make the bulk of the unemployed, and the AIDS orphans. To deal with these risks, the Government has initiated a number of social programmes including the Poverty Fund announced by the King at the opening of the Parliament in 2003, and the programme to assist HIV/AIDS orphans with school bursary.

3.4 Strategic Partnership

3.4.1 The External Assistance Unit in the Ministry of Economic Planning and Development is responsible for coordinating, managing and monitoring externally funded projects and the implementation of the Aid Policy. Swaziland has a small number of development partners; most of whom have scaled down their support after the country attained the middle-income status and meaning that it no longer qualifies for concessional borrowing. ODA flows to the country have therefore, declined significantly from US$55 million in 1995 to US$29 million in 2001. Most of the aid that flows into Swaziland is bilateral. Currently, Swaziland does not have any formal consultation mechanism, although there were plans to organise a roundtable to mobilise support for the Poverty Reduction Strategy, with the UNDP as the main convenor. The Bank takes the issue of donor co-ordination seriously, and Bank teams on missions regularly consult Swaziland's locally based development partners. Box 3 presents the main activity areas of Swaziland's Development Partners.

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[5] World Bank (2000): "Swaziland: Reducing Poverty Through Shared Growth" Report No. 19658-SW

Box 3: Major Development Partners

In addition to the African Development Bank Group, the major development partners of are: the IMF, World Bank, European Union, European Investment Bank (EIB), the Development Bank of Southern Africa (DBSA), IFAD, BADEA and the various UN Agencies. Among the bilaterals, the major development partners are Taipei, China, Japan, the United Kingdom, Denmark, Italy, and Germany.

IMF: Swaziland joined the IMF on 22 September 1969. The last Article IV Consultation was in December 2003. The Report concluded that Swaziland's socio-economic situation remains difficult, with persistent high rates of HIV/AIDS, unemployment, and poverty. In addition, to the need to implement structural reforms it also recommended improvements in governance, particularly the rule of law. The IMF currently has no on-going programme in Swaziland.

World Bank: Operations with the World Bank started in 1962, and since then seventeen IBRD loans, two IDA credits, and seven IFC investments were approved for a total amount of US$ 152.1 million. Of these commitments 5.5 per cent were from IDA, 68.9 per cent were from IBRD and 25.5 per cent from IFC. The last IBRD loan was for an Urban Development Project (US$ 29.0 million), approved in 1994, which is still on-going. Cumulative commitments from the International Finance Corporation to Swaziland amount to US$39 million for seven investments.

European Union: The current EU co-operation with Swaziland covers the period 2001-2007, and has, as its fundamental priority human resource development through support to the education sector. Outside this focal area, the EU also provided support to the Lower Usuthu Smallholder Irrigation Project, the participatory and decentralised poverty reduction programme, and the cross-cutting themes of gender equality, HIV/AIDS, decentralisation, capacity-building and, where appropriate, environmental management. Complementary support is also being provided for trade and regional integration and the enhancement of institutional capacities of Government.

European Investment Bank: The EIB provides long term financial resources other than grants, to assist in promoting growth in the private sector and in helping to mobilise domestic and foreign capital. The support is provided either in the form of risk capital from the Investment Facility (IF) or as loans from EIB's own resources. The EIB programme focuses on three main areas of intervention, namely, support to the power sector; support to SIDC or other intermediaries to support small and medium scale enterprises; and, direct funding of large individual projects such as in the agro-industrial sector.

UN Agencies: The main UN agencies operating in Swaziland are the UNDP, UNICEF, UNAIDS and WHO. Swaziland's co-operation with the UNDP is focused on promotion of sustainable livelihood, which includes gender, the environment and disaster management, HIV/AIDS, and Communication, and the strengthening of business development services to provide consultancy services to indigenous Small Medium Enterprises (SMEs), and capacity building for good governance. The UNICEF programme, which covers the period 2001-2005 has the goal of enhancing the capacity of the country to promote, protect and fulfil the rights of children, and to strengthen the capacity of the community to translate those national commitment into practical, positive outcomes for children. UNAIDS in Swaziland works through the UN Theme Group on HIV/AIDS, which consists of Heads of UN agencies and also works through an Expanded Theme Group on HIV/AIDS, which consists of bilateral and multilateral donors and the Director of the National Emergency Response Committee on HIV/AIDS. WHO, in collaboration with other partners, has a programme to address the national emergency due to HIV/AIDS by assisting orphans, people living with HIV/AIDS and the elderly people to obtain facilities that ensure food security and even in some cases, shelter.

Other International and Financial Institutions, including DBSA, IFAD, and BADEA provide support for activities in agriculture and forestry, water, and physical infrastructure. DBSA has provided Swaziland with loans for infrastructure such as telecommunications, the Maura Dam and the Swaziland Electricity Board (SEB). Fad's activities are concentrated in agriculture and food security, HIV/AIDS and gender. BADEA provided funding for the Manta is - Louisa MR11 Phase 2 & 3 Road and is co-financing the LUSIP together with IFAD, African Development Bank, DBSA and European Union.

Bilateral Partners: Taipei, China is the country's largest development partner. Under the Protocol on Technical Co-operation signed in 1997, Taipei, China provides Swaziland US$10 million per annum to finance development projects in agriculture, infrastructure, HIV/AIDS, education, poverty alleviations and rural electrification. There is also significant private investment from Taipei, China, especially in the textiles and garments sector for exports to the United States. *The Government of Japan* provides assistance in increasing food production, through the provision of agricultural equipment, fertilizers and pesticides. In the past Japan had provided technical assistance in the health sector, and in the field of water engineering and funded environmental studies and rural water supply. *The United Kingdom*'s development role in Swaziland is managed by DFID Southern Africa. In 2002-05 DFID provided support to a rural water supply programme and a programme of assistance to the Coalition of Non-Government Organisations. In addition DFID works with NGOs in a number of activities such as the Small Grants Scheme and Joint Funding Scheme. DFID is also supporting Swaziland through a number of regional initiatives; in particular, it provides support on HIV/AIDS, through the International Partnership against AIDS in Africa, and through the Southern African Development Community. *The Danish Government* has assisted Swaziland in a number of areas although their assistance in recent years has declined. They have provided support in the formulation of an Energy Policy, Forest Policy and a Solid Waste Management Strategy for Swaziland. The Government of Italy provides technical support to the health sector, in particular public health including HIV/AIDS prevention. Current support from the United States Government is in three main areas, namely, HIV/AIDS, competition and trade, and, increasing rural income.

IV. BANK GROUP STRATEGY

4.1 Bank Group Portfolio and Management

4.1.1 The Bank Group's Operations in Swaziland commenced in 1972, and as of 31 august 2004, the Bank had approved 31 operations comprising twenty-five (25) projects, four (4) studies and two (2) lines of credit. Total commitments net of cancellations amounted to UA 242.1 million as at 31 December 2004, of which UA187.5 million was from the ADB window, UA47.9 million from ADF, and UA6.7 million from NTF. Of the 31 approved operations, 25 have been completed, two lines of credit to NIDCS and SDSB were cancelled, and four are on-going. Of the four ongoing projects, the Komati Down Stream Development Project, which was approved in 2002 has not yet begun disbursement, because the conditions precedent to entry into force were fulfilled only in February 2004, and the conditions precedent to first disbursement are yet to be fulfilled. The Lower Usuthu Small-holder Irrigation and the Mbabane Bypass Road Project, which were approved in the fourth quarter of 2003, were signed in May 2004. With regards to the Education I project, although the project has been completed and the PCR has been prepared, the Government has requested to utilise savings for additional activities within the scope of the original project.

4.1.2 In terms of sectoral distribution, the Bank's lending activities in Swaziland are concentrated mainly in the transport sector, which accounts for close to 60 percent of the Bank Group portfolio in the country, followed by agriculture sector, which accounts for about 19 percent. Operations in the public utilities account for 9.8 percent, the social sector 7 percent, and the remaining 4.2 percent is accounted for by the industrial sector.

4.1.3 With regards to disbursements, as at 31 December 2004, these amounted to UA 174.3 million representing 72 percent of the total commitments net of cancellations. Disbursement for on-going projects amounted to UA 24.7 million, representing 40.9 percent of total loan amounts on on-going operations. Over the years, Swaziland has maintained a good record with regards to its repayment obligations to the Bank Group, and is also up to date in its capital subscriptions. This has meant that the implementation of Bank Group projects has not been interrupted by sanctions.

4.1.4 The last Country Portfolio Review Report (CPRR)[6] for Swaziland was represented to the Board in September 2000, but in between, the Bank has carried supervision of individual projects. Overall management of the portfolio has been assessed as satisfactory. The CPRR and supervision reports for individual projects, however, have identified some generic weaknesses in implementation performance. These include lengthy delays in signing loan agreement and their subsequent entry into force. For a number of projects, especially in infrastructure, costs and implementation period overruns are frequent, the latter sometimes of up to two years. In some instances, as in the case of the Lower Usuthu Irrigation Project, it has been necessary to modify project scope and financing plan, after the project has been approved. The most recent 2003 Bank-wide Annual Portfolio Performance Report (APPR) indicated that the on-going portfolio has no actual or potential problem projects, and no projects at risk. The progressive improvement in the portfolio quality is a result of steps taken by the Bank to address some of the implementation bottlenecks The Bank now systematically undertakes supervision missions for on-going projects at a rate on 1.5 per year.

4.2 Assessment of the Previous Strategy

4.2.1 The previous Bank Group medium-term strategy for Swaziland for the period 2001-03 aimed at contributing to the Government's agenda to reduce poverty through supporting projects and programmes promoting economic growth and sustainable development; creation of employment opportunities; human resource development and creation of an enabling environment for private sector development, particularly by supporting the development of economic and social infrastructure. The strategy was in line with the Bank's Vision, which mandates the Bank to give top priority to projects and programmes that contribute to poverty alleviation in the regional member countries.

[6] ADB/BD/WP/99/05-ADF/BD/WP/99/08 dated 14 January 1999. A new CPRR could not be undertaken because up to 2003 there was only one on-going project, the Education I Project (see Para. 4.1.1)

4.2.2 In terms of lending activities, the strategy emphasized poverty reduction through targeted interventions in three sectors, namely infrastructure, agriculture and rural development, and social sector (mainly education and health). The envisaged level of support during the previous CSP period was UA 27 million per year. Between January 2001 and December 2003, the Boards of Directors approved three (3) loans, two in agriculture, one in transport, for an amount of UA80.82 million (or UA 26.94 million per year), which was within the resource envelope. There was, however, no direct operation approved in the social sector, though the agriculture projects also addressed social concerns (see Para. 4.2.3). Over the years, the Bank has demonstrated a comparative advantage in the road transport sub-sector and in agriculture and rural development. Within the new CSP period, the Bank intends to further deepen this advantage, while making a conscious shift to incorporate the social sector to deal with the country's growing socio-economic challenges, especially the HIV/AIDS problem. The 2001-03 CSP did not clearly identify a results framework, and as such it is difficult to identify the concrete outcomes that it was meant to influence. Project documents, however, do indicate some of the expected outcomes from project implementation, and these provide a useful guide to sectoral outcomes.

4.2.3 In agriculture and rural development, the objective of the strategy was to promote income-generating activities, enhance beneficiary participation in rural development and contribute directly to poverty alleviation. Two projects, the Komati Downstream Development and the Lower Usuthu Irrigation projects were approved for an amount of UA67.03 million. The Komati Downstream Development Project aims to reduce poverty through increased household income, enhanced food security and improved access to social and health infrastructure for the rural population of the Komati Downstream Development area. This is to be achieved by creating the conditions for the transformation of subsistence level smallholder farmers into small- scale commercial farmers. The objective of the Lower Usuthu Irrigation project is to increase agricultural productivity and raise incomes and living conditions of communities in the project area through appropriate irrigation infrastructure and social services. However, both operations are at the very early stages of implementation, which makes it difficult to assess actual performance. When completed, the operations are is expected to have positive poverty reduction benefits, on average generating an annual net-income of E24, 501 (US$ 3,153) for each family household, or US$530 on per capita basis. The Lower Usuthu Irrigation project is also expected to lift 15 000 individuals from below core poverty level to become sugar cane commercial farmers.

4.2.4 In infrastructure, assistance was focussed on the transport sector, where one project, the Mbabane Bypass was approved for an amount of UA13.65 million, with the objective of improving the network and contributing to poverty reduction and private sector promotion. When completed, the project is expected to contribute towards providing an efficient and cost-effective transport system for both national and international traffic within the country. The outcomes of the operation will include an increase in the upgraded roads in Swaziland by 10 per cent in 2006, and an overall growth in traffic by 4 per cent.

4.2.5 On the whole, the implementation of Bank Group's operations during the 2001-2003 CSP period were in keeping with the proposed operation strategy and marked an improvement over the previous 1998-2000 CSP period when there were no operations approved for Swaziland. The country's borrowing policy on non-concessional terms will remain conservative. Therefore, borrowing from the ADB is likely to remain modest over the medium-term, and would likely be limited to meeting the growing challenges faced by the country, especially in the social sector. However, the Government's decision to limit borrowing to Rand-denominated loans puts the Bank Group at an advantage as it is in a position to provide such a loan product.

4.3 Bank Group Medium-Term Strategy

4.3.1 The Bank Group's assistance strategy for Swaziland for the period 2005-2009, which was developed using the participatory approach, in which extensive consultations were held with various stakeholders (see Box 4), is anchored on the National Development Strategy and the Poverty Reduction Strategy and Action Plan. It seeks to promote the pro-poor economic and social development of the country by assisting the government, and the private sector to successfully address the broad range of development challenges facing the country. The Bank's strategic priorities and Swaziland's development agenda are set out in **Figure IV** which links the country's development agenda to specific objectives and expected outcomes. It identifies the main obstacles to longer-term strategic development outcomes and the main focus of Bank assistance in achieving the expected outcomes. Where appropriate, the CSP identifies quantitative targets to be attained during the implementation period. Annex III presents the overall results-oriented framework

Box 4: Participatory Process for the Bank Group Strategy

In line with the directives of the Board of Directors and Management of the Bank, the 2005-2009 CSP for Swaziland was prepared using the participatory approach. During the preparation and dialogue missions, staff held extensive consultations with a cross-section of stakeholders including Government, civil society, private sector and donor representatives to solicit their views and inputs for the preparation and validation of the CSP. As part of the consultation process, two separate meeting were organised during the Dialogue Mission, namely, a one-day stakeholders' workshop, and a joint working session with heads of Government departments to review the draft CSP in detail. During both the Preparation and Dialogue Missions, consultations were also held with Swaziland's major development partners, namely, British High Commissioner; the European Union; the US Ambassador; the Embassy of Taiwan; UNDP, UNICEF, WHO, and German Liaison Office on their on-going operations in Swaziland and future plans.

The stakeholders' workshop was useful in ensuring widespread support for the CSP. The participants commended the Bank for laying emphasis on challenges in the social sector, and noted that HIV/AIDS, which is a development issue and arguably the most challenging should be separated from health as a sector and hence should be treated separately. In Education, the participants welcome the focus of the Bank Group strategy, which is cast in the context of both development effectiveness and children's rights. Both the participants and Government raised concerns that as a lower middle-income country, Swaziland could not benefit from concessional resources from the Bank, and had to finance social sector projects using non-concessional ADB resources.

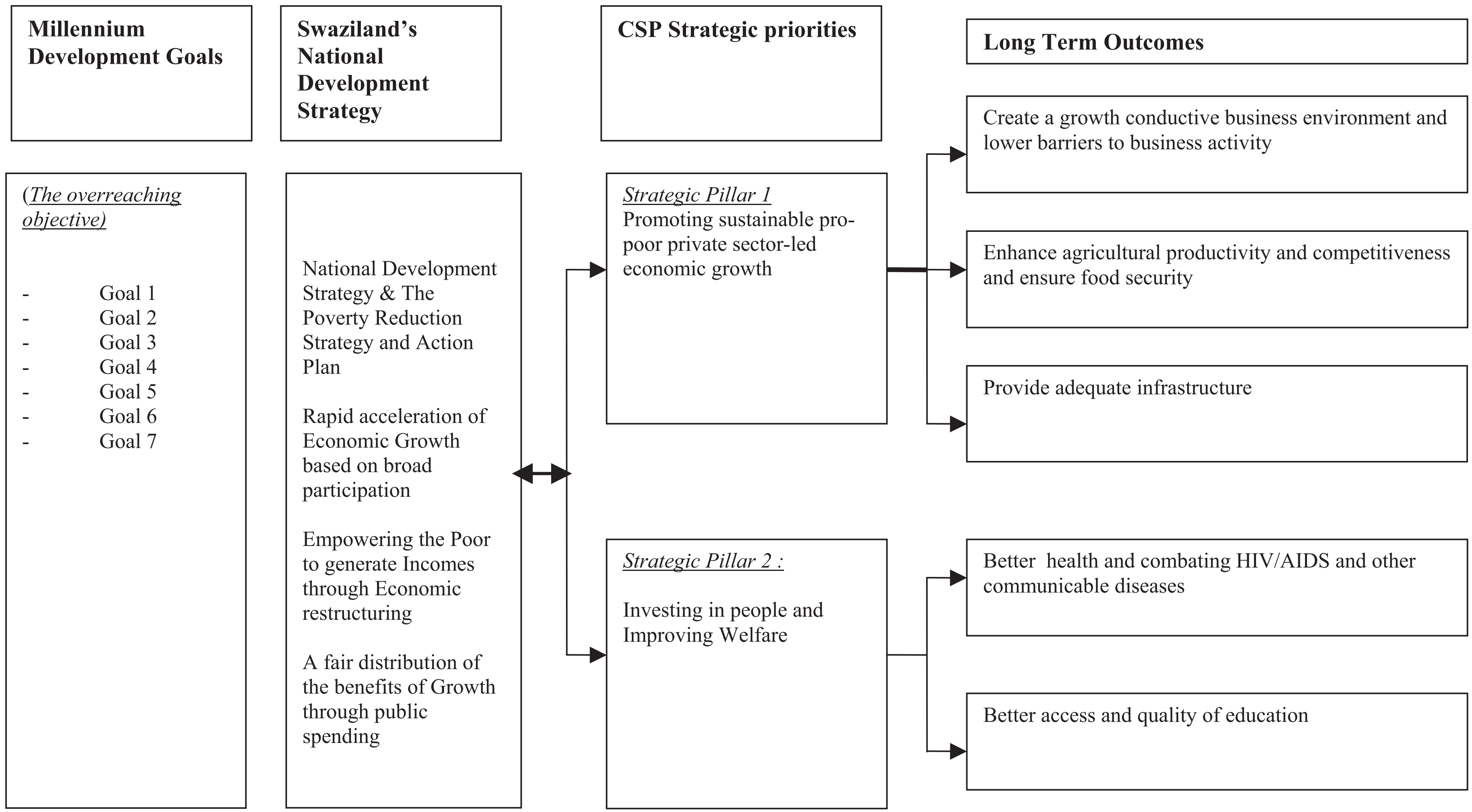
The meeting with the Government officials identified two possible bankable projects in the medium term in health and education. Non-lending activities were also identified, mainly in the form of detailed economic and sector work, which should form the basis for future support for policy reform, capacity building, and institutional strengthening in Swaziland. Specifically, the Bank has started preparing a Governance Profile for Swaziland in 2004, and will initiate a Labour Market study in 2005. The authorities also requested the Bank to consider another study that will examine the effectiveness of expenditures in the social sector.

4.3.2 *Poverty Reduction and Economic Growth* is the overarching goal of Government, thus the selected strategic priorities of the CSP revolve around this goal. The economic growth record of Swaziland has been disappointing since the 1990s and poverty has worsened. Between 1990 and 2003, real per capita GDP growth declined by 0.5 per cent per annum, and in the absence of economic reforms, it is forecast to remain low and may even turn negative over the next few years. In order to reduce the number of the poor and meet the MDGs of halving poverty by 2015, economic growth in Swaziland will need to increase by between 5-7 per cent per annum, well above the current rates of between 2-3 per cent. However, given the high levels of income inequality in the country, the growth elasticity is likely to be low, suggesting that economic growth alone is not adequate for meaningful poverty reduction. Rather it would need to be complemented by effective poverty reduction programmes, such as increasing investments in health, including combating the spread of HIV/AIDS and education, which directly help the poor and ensure social stability needed for sustainable growth. Targeted interventions that help the poor also include on going investments in agriculture, food security, rural development and infrastructure. In addition, promoting good governance would further enhance private sector development and encourage strong economic growth.

4.3.3 In this context, the proposed strategy for Swaziland is selective, focussing on two mutually re-enforcing strategic priorities that seek to address Swaziland's major development challenges:

- ***Strategic Priority 1****:* *Promoting Sustainable pro-poor private sector-led economic growth*
- ***Strategic Priority 2:*** *Investing in People and Improving Welfare*

Fig. IV: BANK GROUP STARTEGY FOR SWAZILAND



Strategic Priority 1: Promoting Sustainable pro-poor private sector-led economic growth

4.3.4 The Government of Swaziland recognises that a dynamic private sector is crucial for promoting economic growth and reducing poverty. The private sector generates jobs, increases productivity, generates revenues for the state and expands the opportunities of the poor to engage in productive activities that enhance incomes and welfare. The development of the private sector is, thus closely associated with the achievement of MDGs. The private sector is also an important development partner in the provision of infrastructure services and is a major driver of growth in agriculture, on which the majority of the people in Swaziland depend for their livelihoods. As mentioned earlier, the private sector in Swaziland faces a number of challenges. These include, among others, the high cost of doing business, the narrow range of domestic and export production caused by the small size of the market and a limited resource base, and a poorly performing agricultural sector. The Government has taken a number of steps to improve the environment for private sector growth through continuously upgrading and developing infrastructure, construction of factory shells and establishing industrial estates, and promoting the development of SMEs. Through past and ongoing operations, Bank is also helping Swaziland improve the infrastructure needed to attract investment and modernise transport, and enhance agricultural productivity and food security. However, more effort is still required to strengthen the business environment, improve the competitiveness of infrastructure services, and further lower the barriers to business activity.

4.3.5 *Creating a Growth Conducive Environment*: The private sector in Swaziland can player a broader role in the development process and participate in achieving the poverty reduction goal by producing goods and services that are needed to enhance the quality of life. Government will, however, need to continue to improve the enabling conditions for private sector growth. First and foremost, there is need to create a stable macroeconomic environment by restructuring public finances and promoting competitiveness and production efficiency. As mentioned earlier, public finances in Swaziland have been deteriorating, which is not conducive to economic growth and poverty reduction over the long run. The revenue situation is weak, while expenditures are growing faster, and the government budget is forecast to remain in deficit over the next few years. The main weakness of the system is the difficulty of enforcing fiscal discipline among line ministries to avoid cost overruns and estimating a credible resource envelope. For example, in the last two years actual tax collections have fallen much below budgeted tax collections, while cost overruns raise accountability issues in the budget preparation process. Further, it is estimated that a significant amount of customs duty is lost because of lack of trained staff to check all imports into the country. Thus, if Swaziland is to generate sufficient revenues and achieve public spending efficiency improvements, fiscal restructuring and public management reforms are urgent priorities. Fiscal discipline is necessary to create the necessary space for private sector development in the economy, which—together with improved climate for growth—will boost investment.

4.3.6 Since the IMF is the lead institution in the support offered by international financial institutions for macroeconomic stabilisation, the Bank will play a supportive role in the form of policy analysis and dialogue. To assist the dialogue process, the Bank will undertake a review of the public finance management system in Swaziland as part of the Country Governance Profile. Good governance, policy predictability, transparency and accountability are central elements of a strong macro environment for private sector-led growth. Major *outcome* measures during the CSP period include an improvement in the management of resource flows, restructuring state-owned enterprises and reducing Government transfers parastatals. These are indicated in results-oriented matrix in Annex III.

4.3.7 *Lowering barriers to business activity, especially for the growth of SMEs*: In addition to improving the macroeconomic conditions for private sector-led growth, there is need to address the institutional constraints, the related high costs of doing business, access to finance and improving the co-ordination of public-private partnerships. Failure to remove these constraints would limit the responsiveness of the private sector to macroeconomic reforms. Swaziland also needs to address the problem of the rule of law, which for the private sector requires that government decisions are made according to a set of written laws and rules that can be adjudicated by a fair, independent and transparent judiciary. A predictable set of rules and an effective enforcement mechanism levels the playing field, ensuring that entrepreneurs have an open access to the market and can do business efficiently. In Swaziland, a well-documented set of modern law co-exists, and is applied together with unwritten Swazi customary law. In general, unwritten law creates uncertainties, ambiguities and inconsistencies in its interpretation and application. The Government of Swaziland has made progress in the process of restoring the rule law, starting with the withdrawal of the so-called “28 November 2002 Statement” in which the previous government refused to recognize two Court of Appeal Judgments. Swaziland is also in the process of updating a number of commercial and financial laws and is, with the assistance of the UNDP, codifying Swazi traditional laws and customs.

4.3.8 Bank interventions will be geared towards assisting the government to foster private-public partnerships (PPPs) and to develop local entrepreneurship, especially for micro-enterprises and small- and medium-scale enterprises (SMEs) operators. Microenterprises and SMEs play a leading role in creating jobs and contributing to poverty reduction in Swaziland. However SMEs in the country still face a number of barriers, including access to credit and other financial services, poor management skills and high transactions costs. The Government, through the Ministry of Enterprise and Employment is in the final stages of preparing a Policy Statement on the Development of SMEs in Swaziland. The Bank will work together with the Government and existing financial institutions to give microenterprises and SMEs broader and deeper access to the financial markets, by supporting the government's plan to develop microfinance programmes. This will mean promoting financial products that can lower intermediation costs, and developing services to better mobilise domestic saving. During the CSP implementation period, the Bank will organize workshops and road shows to promote its financial products in the country. Major outcomes during the CSP period include reducing transactions costs by simplifying the procedures and time for establishing SMEs, finalisation of the privatisation and competition policies, enhancing the capacity of the judiciary and re-instating the Court of Appeal.

4.3.9 *Enhancing Agricultural Productivity and Ensuring Food Security*: The agriculture sector recorded a poor performance over last few years and its contribution to GDP and productivity has fallen significantly. The poor performance of the sector has exacerbated unemployment and poverty problems particularly in the rural areas, while the food security situation has deteriorated. The production of local cattle for quality export of beef, especially to fulfil its quota to the European Union (EU), remains a challenge for Swaziland. There is recognition in the country that sustainable agricultural recovery requires that attention be paid to economic and institutional reform and the rationalisation of agricultural practices. The challenge is to enhance food security and increase the well being of all citizens through equitable and sustainable use of existing natural resources. To achieve this, government will need to create conditions for the emergence and strengthening of smallholder farmers as a commercially oriented sub-sector; modify the role of the public sector from direct intervention to support; and, facilitate and catalyse community initiatives in agriculture.

4.3.10 Bank interventions in agriculture and rural development remain an important area of focus in mainstreaming poverty reduction, since the majority of the poor depend on this sector. In the medium term, the sub-sectoral strategy will seek to support the diversification of the agricultural base to promote non-traditional high-value crops and a gradual shift from subsistence to commercial farming using irrigation and the identification of regional and international markets for Swaziland's agricultural commodities. In this instance, the Bank will assist in promoting small-scale irrigation to mitigate the recurrent drought, which has adversely impacted on smallholder agricultural production and support to research activities in drought resistant crops.

4.3.11 The main instruments for assistance are the two on-going projects, namely, the Lower Usuthu Irrigation Development and the Komati Downstream Development Projects. The targeted outcomes during the CSP period include the intensification and commercialisation of livestock production, the diversification of agricultural output to high value crops, and an increase in the number of farmers shifting from subsistence to commercial farming using irrigation facilities. Any expansion of irrigated agriculture needs to be matched by expansion and development of additional water collection and storage facilities as all the available water has been committed to existing schemes. Thus, the on-going operations, especially the Lower Usuthu Irrigation Development Project, are expected to result in the provision of off-water course storage facilities to harness excess water during peak floods, which would otherwise pass unutilised.

4.3.12 *Providing Adequate Infrastructure for Poverty Reduction*: The availability of adequate infrastructure facilities, which includes roads, power, water and telecommunications, is critical to stimulate economic growth, improve competitiveness and globalisation of the economy, and reduce poverty. It improves the lives of the poor directly, and facilitates the growth of the private sector. The Government of Swaziland recognizes that the removal of infrastructure constraints and increased investment will play a critical role in supporting private sector development, as well as enhance sustainable growth, improve income levels, and reduce poverty. Significant progress has been made in addressing the infrastructure needs of the country. Given that the country is land-locked, the overall policy and vision in Swaziland is to provide safe, efficient, cost-effective, and fully integrated infrastructure to best meet the needs of country and to promote economic and social development. The policy commits the government to create an enabling environment to best serve the needs of the infrastructure users in country. In this role the Government is refocusing its primary role to that of policy and strategy formulation and regulation of the sector with a reduced direct involvement in operations and the provision of infrastructure services. Most of provision of infrastructure is to be run on a commercial basis, while recognizing that government still has responsibility to provide socially necessary infrastructure in rural areas, and to ensure improved mobility and accessibility. For example, in the transport sector, such interventions will be in the feeder roads system, which provide access to the rural areas, and also for rural travel and transport. For regional integration and trade, priority is given to those roads that connect Swaziland to the sub-region especially those in the regional trunk road network.

4.3.13 The Bank is currently supporting this objective of the CSP with an ongoing operation: the Mbabane Bypass Road Loan, which was signed in May 2004. This operation will seek to support outcomes towards improving the quality of road transport services and reducing vehicle-operating costs on the Mbabane Bypass. A cardinal concept and rationale behind the operation is to bring positive impacts in the form of enhancement to safety for vehicles and pedestrians as well as improve business/developmental opportunities in terms of employment, income, convenience, and linkages to regional development. It will result in improved accessibility to industrial and agricultural settings and will also promote regional integration and trade. In the past, Bank support to the sector has concentrated entirely on the road sub-sector. This is principally because as a land-locked country, road transport has emerged as the dominant mode of transport in Swaziland, accounting for a substantial share of passenger traffic and freight movement. While maintaining its support for the road sector, over the next five years, the Bank will also seek to provide support in other areas of physical infrastructure, including energy, and water and sanitation, which are also critical for the efficient functioning of the private sector.

Strategic Objective 2: Investing In People and Improving Welfare

4.3.14 Swaziland has achieved impressive levels of social development relative to most countries on the continent. However, the spread of HIV/AIDS threatens to reverse most of the past gains in human and social development, thus posing a major challenge in meeting the MDGs. As pointed above, the country's progress towards the MDGs is mixed, with good performance in some areas but slow progress in others. Poverty levels are still relatively high while the distribution of income and wealth is seriously skewed. Thus a key feature of the Bank Group strategy will be to place more emphasis on promoting social development and welfare. This is in line with the government's own position, which considers investment in the social sector as a means of laying a strong foundation for sustainable growth and development. Also, the Bank, in line with its Vision Statement, views the challenges in the social sector as immediate and of pressing concerns.

4.3.15 *Better Health and Combating HIV/AIDS and other Communicable Diseases*: The MDG targets in health areas such as malnutrition, maternal and under-5 mortality, HIV/AIDS, malaria and tuberculosis still remain a major challenge. According to the 2004 HMIS, illness and death in the country are mostly driven by preventable health conditions. Morbidity is frequently a result of skin disorders (17.2 per cent), upper acute respiratory diseases (16.8 per cent), diarrhoea (6.3 per cent), genital disorders (6.3 per cent), lower acute respiratory infections (5.5 per cent), digestive disorder (5.3 per cent), acute watery (4.2 per cent). The leading causes of mortality are tuberculosis (19 per cent), Gastroenterities (11 per cent) and AIDS (7 per cent). In common with most other Sub-Saharan countries, HIV/AIDS has become by far the greatest health and development problem facing the country. Already the impact is being felt in every sector of the Swazi community. This has manifested itself in the increased demand for health care and human resources for health. Currently, it is estimated that 80 per cent of the bed occupancy in in-patient facilities are HIV/AIDS related. The number of people infected with HIV is projected to have increased from 170,000 in 2001 to 180,000 at the end of 2002, and projected to rise to a peak of about 200,000 by 2006 and stabilize thereafter, thus leading to a low net case reproductive rate. It is estimated that over 50,000 adults and children have already died of AIDS as of end of 2001, leaving behind 35,000 orphans (UNAIDS report, 2002). AIDS mortality will, however, only peak in 2009, when it is projected that 24,000 people would die in one year. In addition, with the annual infection rate of about 2.5 per cent since 2000, it is expected that by 2007-09, the HIV prevalence would be about 52 per cent. In addition, other diseases, such as TB and malaria also pose a major health challenge. The increase in TB cases, both in terms of morbidity and mortality is fuelled by HIV infection, with close to 80 per cent of TB patients co-infected. Malaria infections are also on the increase due to poor management of malaria cases and increased resistance to anti-malaria drugs. The health sector is extremely overwhelmed in the light of limited additional budgetary support.

4.3.16 In 1996 the Bank financed a Health Sector Study in Swaziland that reviewed the entire health care system with a view to identifying major problems and designing appropriate interventions in terms of project packages for the African Development Bank and other donor funding. Based on the findings of the study and the country's priorities, the Bank has proposed a strategy which is aimed at supporting the Government goal of promoting the health and social welfare status of all Swazi people by providing preventive, curative and rehabilitative services that are of high quality, relevant, accessible, affordable, equitable and socially acceptable. The Bank will assist the Government to tackle a number of challenges in the health sector, including unsatisfactory levels of performance and productivity of the public sector to deliver efficient health care services, falling health sector expenditure and waning donor support, increased burden of disease, poorly maintained health facilities at all levels, inadequate capacity and professional, technical and managerial health personnel at all levels, and worsening poverty levels. Further, most of the health system infrastructure at the regional level is very weak and will require considerable investment in repair, rehabilitation and replacement of basic capital equipment essential for effective provision of quality health care. Organisational and management capacity is also lacking, while inadequate resources affect overall operational and technical capacity. Support and supervision to primary health care facilities in the regions and their communities are limited. As a result of the weak management and technical capacity at all levels, most regional facilities have not been able to establish adequate referral mechanisms with corresponding information, communication, logistics, and managerial and technical support.

4.3.17 Given the magnitude of the problems in the health sector, the Bank strategy will focus on improving access of the population to quality health care. This will be achieved by strengthening the public and primary health care system with the objective of accelerating progress towards the health and other social sector-related MDGs. Thus, Bank interventions will seek to strengthen the management capacity of public health sector at all levels. This will include improving the ability of MOHSW management personnel at the central level to provide strategic support to the technical and operational levels of the health sector and supporting the development of new strategies for human resource to enhance skills and ensure efficient operation of the public health systems. Support will also target the development of referral services, inpatient and outpatient health care relevant to the needs of people in the regions, including effective provision of laboratory and other diagnostic services. In the context of Bank-financed health sector programmes, support will be provided to the government's efforts in combating and mitigating the impact of the HIV/AIDS pandemic by strengthening maintenance system, drug management system, laboratory services, provision of equipment and human resources development to improve service delivery. The Bank will also provide support for combating other communicable and non-communicable diseases, such as TB and malaria. Major expected outcomes include a strengthened health sector institutional capacity, a stronger health care delivery system, increased community awareness and participation in the reduction of HIV/AIDS infection and other communicable diseases (see Annex III).

4.3.18 *Social Protection*. Jointly with other development partners, the Bank will assist in concretising the strategy, which will ensure that orphans and other vulnerable groups receive adequate social protection. By the end of 2003, the number of orphans increased to 67,000 and it further estimated that by the year 2010 there will be 120,000 orphans who will have lost their mothers or both parents to AIDS. Most of the orphans largely remain under the care of their grandparents and other traditional support systems. In most instances these traditional systems are not economically empowered to provide for the orphans. As a result these children remain unattended to and suffer from malnutrition and other diseases. A number of development partners, such as UNICEF, the EU, the United States Government, and other NGOs such as World Vision are complementing government resources put towards strengthening social protection. In addition to programmes designed to reduce poverty and vulnerability, enhancing the operation of labour markets is a key elements of a social protection strategy designed to facilitate employment. The Bank will support this component of the strategy through analytical work by undertaking a labour market study. The Bank will also undertake a review of social sector targeting and spending with a view to enhancing the efficiency of social sector delivery, targeting of resources to the most needy groups and regions and improving the quality of the services provided.

4.3.19 *Better Access and Improved Quality of Education:* Education, particularly raising the quality of basic education is key to improved productivity and competitiveness needed for sustained economic growth, income distribution and poverty reduction in the medium and long term. It is also key to addressing the challenge posed by the co-existence of skills shortages and unemployment. The major long term goals of the government in the education sector are achieving universal basic education for all children by 2015, and improving the quality and the relevance of the education provided at all levels. However, the impact of HIV/AIDS on the education system is a major constraint to achieving these national goals. Although access to primary education for all children was attained in Swaziland in 1985, student enrolment has shown a negative growth in recent years. Between 1999 and 2001, primary school enrolment declined by –0.46 per cent. The decline in student enrolment is correlated with the prevalence of HIV/AIDS and the attendant increase of Orphans and Vulnerable Children (OVC). In 2001, it was estimated that there were about 75,000 OVC. Increased teacher absenteeism and mortality also parallel the increased number of teachers living with HIV/AIDS. Along with the problem of HIV/AIDS, a second major constraint to achieving the national education goals is the high proportion of education expenditure going to tertiary education at the expense of primary basic secondary education. In 2002/2003, about 37 per cent of recurrent education expenditure was allocated to tertiary education compared to 29 per cent for primary education and 24 per cent for secondary education, thus limiting improvements in access to and quality of basic education.

4.3.20 Given this context, in the medium term, the government aims to achieve a net enrolment rate of 90 per cent in basic education by 2009, from the 2004 level of 83 per cent. This is to be attained through improvements in the efficiency of the education system and support for OVC, which will be achieved through shifting of resources from tertiary to basic education, reducing repetition rates from 18 per cent in 2001 to 7 per cent, drop-out rates from 5 to 3 per cent during the CSP period and by providing bursaries to OVC. Also of concern is the lack of employment and the poor welfare conditions of those who complete school. Improving the relevance of education, especially that provided at the secondary level to job market conditions, is therefore a priority for the government. The aim is to provide skills that will increase opportunities for employment and self-employment.

4.3.21 The Bank will support the Government's efforts to achieve good quality and economically relevant basic education for all so that those who attend school could acquire skills that maximise their opportunities for employment. In this regard the Bank will participate in the development and funding of programs that aim to bring about these outcomes. It will seek to provide support for a phased expansion of basic education, the modernisation and expansion of post- secondary, technical and vocational education, and strengthening of the capacity of the Ministry of Education. It will also contribute to improving the relevance of the curriculum at the secondary level; promote the improvement of female participation rates in technical education at the post-secondary level; improve the efficiency and quality of schooling for the disadvantaged and vulnerable groups; and improve planning capacity of the Ministry of Education.

4.4 Risks associated with the Bank Group Strategy

4.4.1 There are three main risks that could seriously affect implementation of the strategy: (i) capacity constraints in key areas of Government, (ii) the current political situation, and (iii) lack of donor support for the Poverty Reduction Strategy. In the first case, the public service in Swaziland is characterised by shortage of skills in a number of areas, including administration, strategic planning and public financial management. The problem of skills shortage has been made worse by the negative impact of HIV/AIDS, which is leading to serious loss of skilled staff across Government Ministries, thus weakening the capacity of the Government to formulate, execute and monitor policies and plans. There is, thus, an urgent need to enhance institutional support services in a number of government departments. To this end Bank funded projects will include components for capacity and institutional building.

4.4.2 Second, there is currently some tension between the different branches of government and civil society, especially the labour movement, and this has tended to weaken the country's governance situation. If this were to continue into the medium term, it could hinder the country's ability to engage with the international community, and may harm the country's prospects of continued access to US markets under AGOA. It is expected that the new constitutional framework will address some of these issues of governance, especially in clarifying the role of the monarchy. The Bank is preparing a Country Governance Profile for the country, which will assist in identifying the major governance challenges and the remedial actions that need to be taken.

4.4.3 Third, since Swaziland acquired a middle-income status, it has found it difficult to mobilise sufficient donor interest for its development programmes, despite the fact that it has higher poverty levels than a number of low income countries. Instead, the country now attracts only loans provided at commercial rates. This situation has not been helped by the governance problem that besets the country. The authorities have also indicated that they find borrowing from the ADB window too expensive, especially when the loans are to finance operations in the social sector. There is, therefore, a risk that the two operations envisaged in the social sector may not materialise, should the country find cheaper alternative sources of financing its development agenda in the social sector. To mitigate this risk and achieve maximum results, the Bank will place a lot of emphasis on co-financing in order to mobilise additional resources. The Bank has also set up a taskforce to look into the competitiveness of its loan products in the middle-income countries, the recommendations of which, once implemented would further mitigate this risk.

V. BANK GROUP ASSISTANCE PROGRAMME

5.1 Focus of the Assistance Programme

In line with the proposed strategy outlined above, the 2005-2009 Bank Group assistance programme in Swaziland will combine lending and non-lending activities. In the short- to medium-term period covering 2005-2007, the strategy proposes to concentrate the lending activities on the social sector, while the challenges in agriculture and rural development, and physical infrastructure will continue to be addressed through the on-going projects that the Bank is currently implementing. The focus on the social sector was arrived at through extensive consultations with the Government and other major stakeholders in view of the serious social challenges, including the negative impact of the HIV/AIDS pandemic. The non-lending programme will comprise economic and sector work, capacity building for results-oriented development agenda and policy dialogue.

5.2 Lending Activities

5.2.1 *The Business Plan:* For the period 2005-2007, two operations in the social sector are likely to materialise: a *Health II Project* and an *Education II Project*. The envisaged Health II project will seek to increase access of the population to quality health care and include components to address the spread of communicable diseases, especially HIV/AIDS. The education project will seek to build on the results of Education I Project. The Education I Project, aimed to equip secondary school students with skills that will prepare them for the world of work and enable them to become self-employing entrepreneurs or be attractive to employers. The project principally supported the introduction of prevocational education at the upper two grades of the secondary cycle at 16 secondary schools. The government plans to expand the coverage of the prevocational programme and would require the Bank through a second education project loan to mobilise the resources required to support the expanded programme.

5.2.2 *Sustainable Lending Limits*: Swaziland's risk exposure ratios remain below the Bank Group critical threshold levels and also the country's total debt to export ratio is sustainable. Swaziland has a satisfactory record of meeting its debt obligations to the Bank and currently has no debt repayment arrears. Based on the country risk scenario, the country's sustainable lending limits range from UA 17 million to UA 36 million per year, reflecting the small size of the country. However, the country's lending limits are reviewed yearly to reflect improved performance and absorptive capacity. Thus, these lending limits may increase over time.

5.2.3 *Lending Scenarios*: Three lending scenarios, based on the country's performance will determine the size of the resource package for Swaziland, namely, a *base case scenario (UA24 million)*, a *high case scenario (UA36 million)*, and a *low case scenario (UA17 million)*. Transition between the three scenarios will depend on the triggers listed below. The 2005-07-work programme proposes a *base case scenario* corresponding to the criteria of the risk management framework that allows for the financing of a reform programme and investment projects. The base case scenario will allow investment projects in the social sector, namely Health II and Education II projects.

5.24 *The Trigger Mechanism*: The triggers which will determine Swaziland's transition from one scenario to another will be measured by relative progress in two areas: (i) macroeconomic management; and (ii) progress with good governance. Two indicators are used to evaluate macroeconomic management, namely, the inflation rate and the fiscal reforms. These indicators reflect macroeconomic stability and the creation of a favourable climate for investment and growth required for poverty alleviation. Progress with good governance, which is necessary for sustainable recovery will be evaluated on the basis of the civil service reforms, the successful adoption of a new constitution, and pro-poor expenditure. The indicators are listed in Table VI below.

Table VI: Summary of Lending Triggers

Criteria	Low Case Scenario	Base Case Scenario	High Case Scenario
Macroeconomic Management • Reduce Inflation • Fiscal Reform	• Record inflation above 6 per cent. • Increase fiscal deficit above 5 per cent of GDP. • Make no progress on reforming the tax system including the introduction of the VAT by 2006	• Maintain inflation rate between 3-6 per cent. • Maintain fiscal deficit to between 3-5 per cent of GDP • Expand the coverage of the MTEF to all ministries	• Keep inflation rate below 3 per cent. • Reduce fiscal deficit to 1 per cent of GDP. • Establish a Revenue Authority by 2006 • Introduce VAT by 2006
Progress in Good Governance and Poverty Reduction • Civil Service Reform • Constitutional Making Framework • Budget Allocations to Health and Education	• Abandon the PSMP • Fail to adopt a constitution that is acceptable to the majority of the population • Fail to maintain an increase in public spending on health at current level of 7% of recurrent expenditure. •	• Develop training packages for the new performance management system for civil service and commence training in 2005/06. • Submit the Draft Constitution to Parliament in 2004 • Keep public spending on health to between 7-10% of recurrent expenditure.	• Introduce new performance management systems for the civil service in all ministries by 2007. • Adopt the New Constitution in 2005. • Share of health in recurrent expenditure should be above 10 per cent. •

5.3 Non-Lending Activities

As part of its non-lending activities, the Bank will use bilateral resources to undertake two studies, namely, a Labour Market study and a Social Sector Expenditures Assessment and Review study. The Labour Market study will seek to analyse the flexibility of the labour market, wage bargaining mechanisms, and explore the paradox of skills shortages co-existing with significant unemployment. The Social Sector Expenditures Assessment and Review study will analyse the problems of providing social sector assistance in Swaziland, given the serious decline in the standard of living of the population and recommended some solutions. In addition, the Bank is already preparing a Country Governance Profile that will be useful for conducting dialogue in the area of Governance. The Bank would also undertake institutional capacity building to enhance economic analysis and statistical capacity for results-oriented development agenda.

5.4 Co-financing and Mobilisation of External Resources

Co-financing is an essential part of the Bank's operational programme. In the previous CSP, co-financing was successfully mobilised for projects in agriculture and infrastructure. The Bank co-financed projects in agriculture with BADEA, the European Union, the Development Bank of Southern Africa, IFAD and the European Investment Bank. During the current CSP period, the Bank will continue to pursue co-financing to address the strategic areas of interventions, and minimize the overall cost of project financing. Consultations with Development Partners already started during the CSP Dialogue mission and will continue at the project level as well. There are also possible areas of collaboration with other partners in the area of non-lending activities, for example, with the UNDP and EU, in the area of governance and capacity strengthening for the implementation of Swaziland's poverty reduction strategy. Also, in implementing the ESW work program, the Bank will seek collaboration with other development partners, to benefit from their knowledge and field presence, and to avoid duplication of efforts.

5.5 Solvency of the Country and Risks Incurred by the Bank

Swaziland's creditworthiness is moderate. The country's total external debt as at end 2002 amounted to US$ 377 million, equivalent to 31.9 per cent of GDP and 35.1 per cent of exports. The respective critical limits are 220 per cent and 50 per cent. As a share of GDP, total external debt is estimated at 25 per cent in 2004. The Bank's exposure in Swaziland is only 0.9 per cent, compared with a critical limit of 15 per cent. Nevertheless, there is cause for concern, given the recent poor economic performance and the growing pressure on public finances. Although Swaziland is not rated by most international rating agencies, a new rating agency called Coface puts the country's risk at A4, which indicates that the country's payment record could be further worsened by a deteriorating political and economic environment, although the probability of that causing a large number of payments defaults remains moderate. The Bank's Country Risk Profile for Swaziland, the overall outlook for the country is weak, with a composite risk rating of 3.

5.6 Monitoring Outcomes

To measure achievement of the Bank strategy objectives, monitoring will be based on three criteria: (i) macroeconomic indicators; (ii) progress in performance indicators for each of the strategic areas which the Bank would be supporting; and (iii) the indicators of portfolio performance. Monitoring of the macroeconomic situation will follow the IMF Article IV Consultations, while the CPR and the APPR would monitor the portfolio performance benchmark attainment. The main monitoring indicators are spelt out in the CSP Policy Matrix in Annex III.

5.7 Issues Requiring Dialogue

5.7.1 To ensure a successful implementation of the Bank strategy for Swaziland, it is important for the Bank to maintain its open dialogue with the government and other stakeholders on a number of key issues. These include macroeconomic policy dialogue, the need for good governance, creating a conducive environment for private sector development, portfolio performance, and building a sound pipeline of projects.

5.7.2 *Macroeconomic Policy Dialogue.* Given that a sound macroeconomic framework for sustained growth is important for the success of the proposed strategy, the Bank should continue to discuss with the authorities the most recent developments in this area. The fiscal situation will require close scrutiny in the near term because of its implications for the size of the government's investment programme. It is envisaged that the Bank will collaborate with the Bretton-Woods Institutions in undertaking macroeconomic policy dialogue.

5.7.3 *Need for Good Governance*. A successful implementation of the Government Development Agenda and the Bank strategy will depend upon improved governance. The perception of pervasive corruption inhibits investment by foreign and domestic entrepreneurs. Corruption particularly burdens the poor. Efforts to improve governance will require the Government persistence on public sector and civil service reforms, improve financial management, promote greater transparency at all levels of government, introduce legal and judicial reforms and respect for rule of law, and ensure that the finalisation of the constitution making process is transparent and responsive to the aspirations of the Swazi society. This dialogue will be facilitated by the Country Governance Profile, which the Bank is currently preparing.

5.7.4 *Dialogue with the Private Sector.* Thus the Bank will focus on the Government's current policies and practice towards private sector participation in infrastructure, and the process/pace of privatisation. The government is currently finalizing a privatisation policy, which will form the basis of further dialogue.

5.7.5 *Portfolio Performance.* Although the performance of the Bank portfolio is satisfactory, as discussed above, generic problems still persist. Satisfactory management and performance of the portfolio helps deliver project benefits on a timely basis, and also serves as a foundation for effective strategy implementation. Thus to ensure a smooth implementation of the work programme, further improvements in this area will be required.

5.7.6 *Development of a Strong Pipeline of Projects.* Progress in implementing the strategy and planning for the future partly requires an effective pipeline development. Since several of the projects approved in the previous CSP period have made little progress, their implementation will overlap into the current CSP period. Possible operations after the CSP Mid-term review in 2007 in infrastructure and agriculture will be contingent on undertaking and completing related operations approved in the last two years. In the intervening period, it would be important to identify and prepare new operations in these sectors to improve the pipeline. Similarly, it will be important for government to establish capable counterpart teams, within respective executing agencies, that are charged with the responsibility for coordinating and follow-through of project preparation activities.

VI. CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

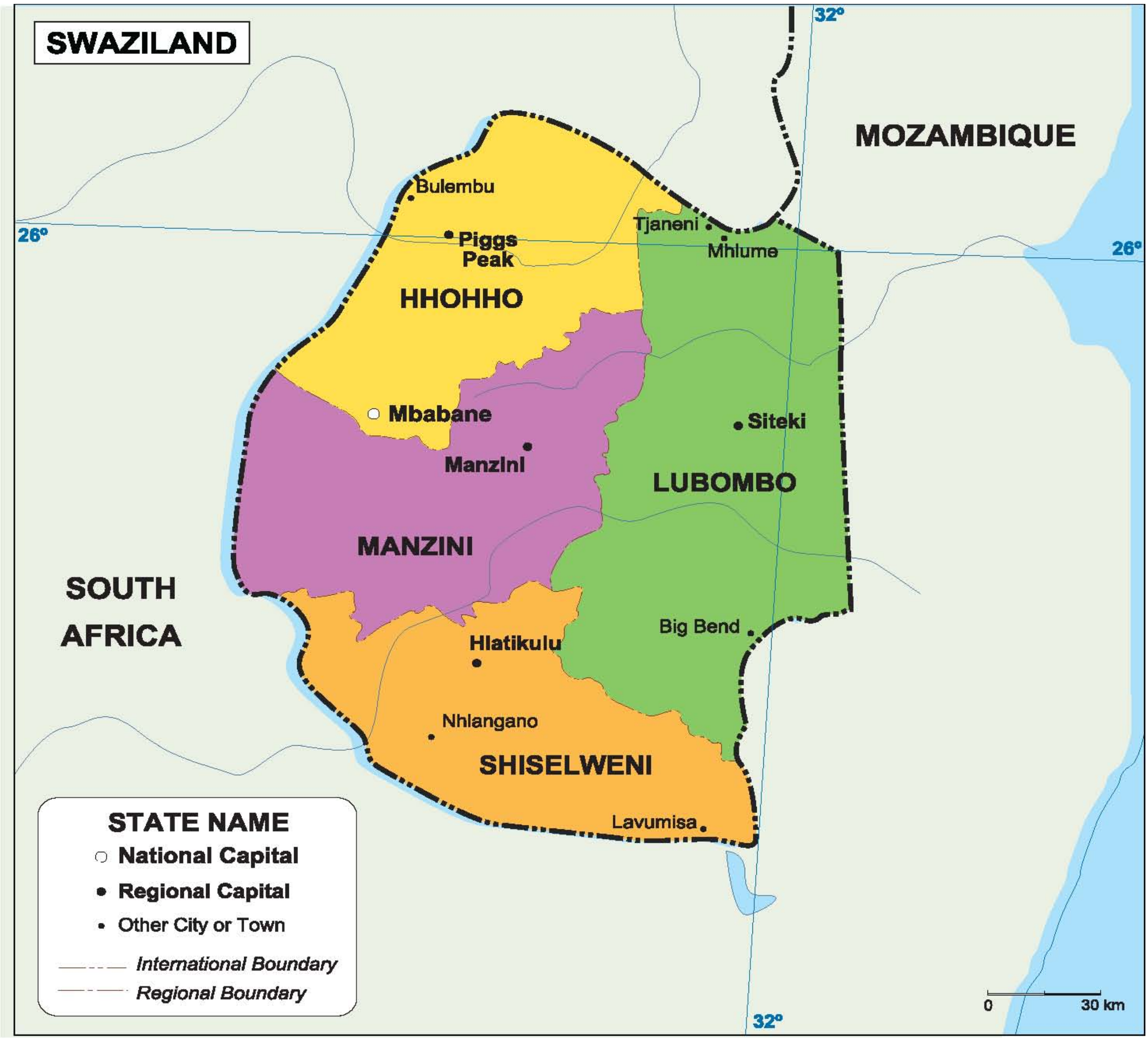
Over the current CSP period, Swaziland will face major challenges in reducing poverty and inequality, in combating the spread of HIV/AIDS, ensuring food security and reducing unemployment. While attempting to tackle these challenges, the country is facing a crisis in its public finances, requiring major fiscal restructuring. The social challenges faced by Swaziland will also require higher levels of financing. Over the medium-term (2005-07) assistance will therefore, focus on the social sector and economic and sector work. Beyond this period, new projects could be processed in the agriculture and infrastructure sectors, following a mid-term review of the strategy in 2007.

6.2 Recommendations

In view of the foregoing, the Board is invited to consider and adopt the Country Strategy Paper for the Kingdom of Swaziland for the 2005-2009 period.

ANNEX 1

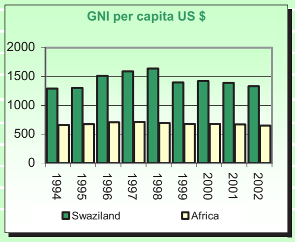
ADMINISTRATIVE MAP OF SWAZILAND

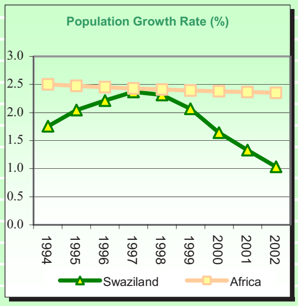


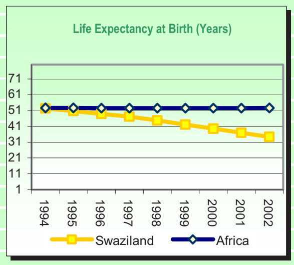
Swaziland

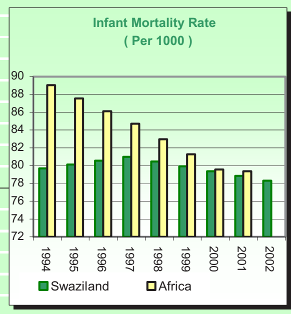
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Swaziland	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)		17	30 061	80 976	54 658
Total Population (millions)	2002	1.1	831.0	5,024.6	1,200.3
Urban Population (% of Total)	2002	27.1	38.6	43.1	78.0
Population Density (per Km²)	2002	61.6	27.6	60.6	22.9
GNI per Capita (US $)	2002	1 240	650	1 154	26 214
Labor Force Participation - Total (%)	2002	34.4	43.1	45.6	54.6
Labor Force Participation - Female (%)	2002	39.1	33.8	39.7	44.9
Gender -Related Development Index Value	2001	0.536	0.484	0.655	0.905
Human Develop. Index (Rank among 174 countries)	2001	133	n.a.	n.a.	n.a.
Popul. Living Below $ 1 a Day (% of Population)	1999	...	66.0	23.0	20.0
Demographic Indicators					
Population Growth Rate - Total (%)	2002	1.0	2.2	1.7	0.6
Population Growth Rate - Urban (%)	2002	4.2	3.9	2.9	0.5
Population < 15 years (%)	2002	43.9	43.2	32.4	18.0
Population >= 65 years (%)	2002	3.3	3.3	5.1	14.3
Dependency Ratio (%)	2002	88.8	86.6	61.1	48.3
Sex Ratio (per 100 female)	2002	91.2	98.9	103.3	94.7
Female Population 15-49 years (% of total population)	2000	...	24.0	26.9	25.4
Life Expectancy at Birth - Total (years)	2002	34.4	50.6	62.0	78.0
Life Expectancy at Birth - Female (years)	2002	35.4	51.7	66.3	79.3
Crude Birth Rate (per 1,000)	2002	34.5	37.3	24.0	12.0
Crude Death Rate (per 1,000)	2002	25.4	15.3	8.4	10.3
Infant Mortality Rate (per 1,000)	2002	78.3	81.9	60.9	7.5
Child Mortality Rate (per 1,000)	2002	147.0	135.6	79.8	10.2
Maternal Mortality Rate (per 100,000)	1992	560	641	440	13
Total Fertility Rate (per woman)	2002	4.5	4.9	2.8	1.7
Women Using Contraception (%)	1989	19.8	40.0	59.0	74.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	1999	8.1	57.6	78.0	287.0
Nurses (per 100,000 people)	1990	167.9	105.8	98.0	782.0
Births attended by Trained Health Personnel (%)	1998	69.0	38.0	56.0	99.0
Access to Safe Water (% of Population)	1993	43.0	60.3	78.0	100.0
Access to Health Services (% of Population)	1991	55.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	1993	36.0	60.5	52.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2001	33.3	5.7	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2000	635.5	198.0	144.0	11.0
Child Immunization Against Tuberculosis (%)	2002	95.0	76.4	82.0	93.0
Child Immunization Against Measles (%)	2002	72.0	67.7	73.0	90.0
Underweight Children (% of children under 5 years)	1996	10.0	25.9	31.0	...
Daily Calorie Supply per Capita	2001	2 593	2 444	2 675	3 285
Public Expenditure on Health (as % of GDP)	1998	2.7	3.3	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2000	125.0	89.2	91.0	102.3
Primary School - Female	2000	121.2	83.7	105.0	102.0
Secondary School - Total	1999	60.0	40.8	88.0	99.5
Secondary School - Female	2000	60.0	38.2	45.8	100.8
Primary School Female Teaching Staff (% of Total)	1998	75.2	49.9	51.0	82.0
Adult Illiteracy Rate - Total (%)	2002	19.1	37.9	26.6	1.2
Adult Illiteracy Rate - Male (%)	2002	18.1	29.2	19.0	0.8
Adult Illiteracy Rate - Female (%)	2002	20.0	46.4	34.2	1.6
Percentage of GDP Spent on Education	1998	6.6	3.5	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2002	9.8	6.2	9.9	11.6
Annual Rate of Deforestation (%)	1990-95	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	1981-90	...	4.0	...	...
Per Capita CO2 Emissions (metric tons)	1998	0.4	1.1	1.9	12.3









Source : Compiled by the Statistics Division from ADB databases; UNAIDS; World Bank Live Database and United Nations Population Division.
Notes: n.a. Not Applicable ; ... Data Not Available.

ANNEX IIIA

FRAMEWORK FOR A RESULTS BASED CSP

Strategic Pillar I: Sustained Economic Growth anchored on Private Sector Development

Results Linkage to Global, Swaziland and Bank Priorities				CSP Results Chain			
MDG	Goal statements from Government Development Agenda	ADB Vision for the Sector and thematic priorities	Major Issues which hinder the ability to achieve national goals	Long term outcome Results Statements, Indicative target timeframe	Corresponding priority sectors and Crosscutting Themes	Outcome Indicators during the CSP Period (2005-2009)	Contributing Projects/Programs
By 2015 Eradicate poverty and hunger Promote Gender Equality Ensure environmental sustainability Develop a global partnership for development	Accelerate economic growth based on broad participation Empower the poor to generate their own income	Create a Growth Conducive Macroeconomic Environment and Promote private sector development	Slow progress in improving governance and reducing corruption Adverse economic impact of the HIV/AIDS pandemic Failure to control the fiscal deficit arising from spending on Millennium projects and civil service salaries Slow progress in strengthening commercial and legal infrastructure (updating the Companies Act) Failure to address shortcomings in labour market and in availability of skills Privatisation and civil service restructuring may meet with opposition from the trade unions and civil society	Halve the incidence of poverty from the current 66% to 33% by 2015 and eliminate it by 2022 Achieve annual real GDP growth of 7% required to halve poverty by 2015 Reduce subventions to state-owned enterprises SMEs: develop procedures and update legislation to facilitate the establishment and growth of SMEs Accelerate the privatisation and restructuring of state owned enterprises Economic growth and private sector development is underpinned by good governance and public sector management Employment growth to match the growth of the labour force	Private sector Governance	Increase real GDP growth by between 3-5%; inflation between 3-6% and a fiscal deficit of between 3-5% of GDP Improve the management of resource flows including the introduction of VAT and creation of the Revenue Authority by 2006 Reduction of the civil service wage bill to less than 50% of recurrent expenditure for 2004-06 Privatisation Policy submitted to Parliament by 2005 and the restructuring of CTA and NAMBOARD completed by 2005 3% increase in the number of jobs created in the formal sector between 2005 and 2009 300 planned SMEs with a minimum of 1000 jobs by 2007	*Planned*: Economic and Sector Work (Country Governance Profile) Institutional capacity building to enhance economic analysis and statistical capacity for results-oriented development agenda. *Partner Institutions*: EU Project of Fiscal Restructuring
	Revamp research activities in drought resistance varieties of maize and other drought resistance crops.	Support the diversification of the agricultural base and enhance food security	Adverse impact of HIV/AIDS on farmers and farm labour	Increase household income of the rural poor and enhance food security	Agriculture and rural development Gender	Diversification of agricultural output to high value crop expected to lead to 10% increase in export earnings.	

	Undertake extensive dam constructions. Provide an efficient and cost effective transport system for both national and international traffic within the country	Eensure availability of adequate infrastructure facilities in order to stimulate economic growth, improve competitiveness, and reduce poverty	Lack of specialised extension staff Limited amount of water resources available for expansion of irrigated agriculture	Develop the water resources in the country and the provision of irrigation infrastructure Providing Adequate Infrastructure Provide efficient and cost-effective transport system for both national and international commerce and trade	Infrastructure	Increase in the number of farmers shifting from subsistence to commercial farming using irrigation Construct 3 dams with reservoir capacity of 155 million m3 10% increase in the upgraded roads by 2006 4% overall increase in trade traffic between 2004 and 2006.	*Ongoing*: Komati Downstream Development and Lower Usuthu Smallholder Irrigation Projects *Ongoing*: The Mbabane By-Pass Road Project

FRAMEWORK FOR A RESULTS BASED CSP

ANNEX IIIB

Strategic Pillar II: Investing in People and Improving Welfare: Health and HIV/AIDS

Results Linkage to Global, Swaziland and Bank Priorities				CSP Results Chain			
MDG	Goal statements from Government Development Agenda	ADB Vision for the Sector and thematic priorities	Major Issues which hinder the ability to achieve national goals	Long term outcome Results Statements, Indicative target timeframe	Corresponding priority sectors and Crosscutting Themes	Outcome Indicators during the CSP Period	Contributing Projects/Programs
By 2015 Eradicate extreme poverty and hunger Promote gender equality and empower women Reduce Child Mortality Improve Maternal Health Combat HIV/AIDS, Malaria and other diseases	Improve and expand comprehensive primary and reproductive health care programmes Improve the health infrastructure and delivery system in the Kingdom Strengthen and support the home-based health care delivery system for the terminally ill The declaration of HIV/AIDS as a national crisis by his Majesty King Mswati III in 1999.	Promote reproductive health, family planning, maternal health and safe motherhood, and child survival Prevent and control HIV/AIDS and other sexually transmitted infections Develop capacity to analyse current health policy and formulate comprehensive new health policies, health development/action plans, health programmes and projects Design and implement appropriate health financing systems (appropriate mix of public and private financing)	Inadequate capacity of professional, technical and managerial health personnel Inadequate health facilities Increased demand for health care resources due to the HIV/AIDS pandemic Declining public health expenditure which is also skewed towards curative care An inadequate multi-sectoral national response to HIV/AIDS Lack of sustained behavioural changes for the prevention of the spread of HIV/AIDS The lack of a social protection strategy to complement the informal safety nets, which have been weakened by the adverse effects of HIV/AIDS on the extended family support network.	By the Year 2010: Life expectancy at birth increased from 40 to 55 for women and 36 to 45 for men; Reduce IMR from 78 to 60 per 1000 live births; Reduce U5M from 122 to 100 per 1000 live births Reduce MM from 229 to 120 per 100,000 live births; Reduction of HIV prevalence from 38.6% Strengthened primary and preventive health care services Increased retention of well trained health care personnel A well targeted social protection programme for the poor and vulnerable in place	• Health • Water & Sanitation • Nutrition	Health sector institutional capacity strengthened Health care delivery system reinforced Social Protection strategy and schemes for the poor and vulnerable developed The primary health service delivery facilities (health centres, units and clinics) provided with drugs, medical supplies, equipment and communication equipment and essential accommodation.	Global Global AIDS Fund Roll Back Malaria Initiative ADB Planned Health II Project Planned Economic and Sector Work: Social Sector Targeting and Expenditure Review

Strategic Pillar II: Investing in People and Improving Welfare: Education

Results Linkage to Global, Swaziland and Bank Priorities				CSP Results Chain			
MDG	Goal statements from Government Development Agenda	ADB Vision for the Sector and thematic priorities	Major Issues which hinder the ability to achieve national goals	Long term outcome Results Statements, Indicative target timeframe	Corresponding priority sectors and Crosscutting Themes	Medium-Term Outcome Results Statements	Contributing Projects/Programs
By 2015 Eradicate extreme poverty and hunger Achieve universal basic education Promote gender equality and empower women Reduce child mortality	Achieving universal access to 10 years of basic education Improving the quality and relevance of education at all level	Support achievement of basic education for all Support efforts to bring about improvements in the quality and relevance of the education provided	The impact of HIV/AIDS on the effective delivery of educational services The high proportion of education expenditure committed to tertiary education Weak education management information system (EMIS)	Achieve universal basic education by 2015 Increase access to basic education for the 75,000 out of school Orphans and vulnerable Children (OVC) Improve employability of school leavers	Education Gender	By 2009, Achieving net enrolment ration of 90% in basic education from the 2004 level of 83%; Reducing repetition and drop out rates from the 2001 rates of 18% and 5% to 7% and 3% respectively	*Planned*: Education II Project *Planne*d: Economic and Sector Work: Labour Market Study

ANNEX IV

Macro-economic Indicators

	2001	2002	2003 Est.	2004 Proj.
	(Annual percentage change, unless otherwise indicated)			
GNI at Current Price				
Real GDP	1.7	3.6	2.9	2.2
Inflation rate	7.5	11.9	8.1	5.1
Gross Domestic Investment/GDP (per cent)	18.1	17.7	17.3	17.0
Public Investment/GDP (per cent)	7.3	6.8	6.5	6.5
Private Investment/GDP (per cent)	10.8	11.0	10.8	10.5
Gross National Savings/GDP (per cent)	14.0	14.4	14.2	13.8
Av. Official exchange rate (Lilangeni/US dollar	8.49	10.52	7.5	…
Unemployment Rate	31.3	30.0	29.8	30.2
	In Million of US Dollars, unless otherwise specified)			
External debt	288.5	376.7	477.8	513.8
Public	233.9	294.8	371.8	397.0
Private	54.6	81.9	105.9	116.7
External Debt/Exports (per cent)	24.5	34.2	31.8	32.4
External Debt/GDP (per cent)	22.6	31.9	26.6	26.9
	In Million US Dollars, Unless otherwise specified			
Overall balance of payments	-57.3	-29.2	-39.5	-8.0
Gross official reserves (end of period)	267.4	258.9	271.7	252.4
In months of imports of goods and services	2.1	2.2	1.6	1.4

Sources: Central Bank of Swaziland and ADB Statistics

National Accounts - Gross Domestic Product at Factor Costs

Kind of Economic Activity	1998/99	1999/00	2001/01	2001/02	2002/03
Agriculture-SNL Crops	40.2	41.4	29.5	28.7	22.3
Agriculture-ITF Crops	80.2	87.4	91.2	86.6	92.8
Other Agriculture	16.7	19.2	20.2	13.1	13.1
Agriculture-Sub Total	137.1	148.1	141	128.4	128.2
Forestry	16.8	17.1	17.4	17.9	18.2
Mining	22.8	19.6	15.1	12.1	13.4
Manufacturing	500.3	506.7	513.4	518.9	527.8
Construction	72.8	81.1	88.9	102.4	105.6
Wholesale, Retail, Hotels & Restaurants	144.6	156	163.8	172.1	183.1
Transport & communications	75.3	80.4	86.5	88.5	88.8
Banks, Financial, Insurance, Real Estate, etc	101.5	105	110.5	110.9	122.1
Owner-Occupied Dwelling	35.2	35.8	37.2	39.1	40.2
Government Services	223.5	228.4	237.4	242.5	243.8
Other services*	68.8	71.6	68.9	71.9	74.4
GDP (Factor Cost)	1398.6	1449.8	1480.2	1504.7	1545.4
Indirect Taxes Less Subsidies	277	283.3	289.8	295.6	305.7
GDP (Market Prices)	1675.6	1733.1	1770	1800.3	1851.1
GDP Growth Rate (per cent)	3.3	3.7	2.1	1.7	2.7
GDP Per Capita (emalageni)	1743	1752	1738	1718	1717

*NB: Imputed bank service charge is weighted and distributed across all the sectors.

Source: Central Statistics Office

ANNEX VI

Central Government Revenue and Grants

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
			(In millions of emalangeni)			
Tax revenue	1,883	2,042	2,369	2,574	2,785	3,107
Taxes on net income and profits	529	582	697	678	725	827
Companies	250	262	276	233	245	260
Individuals	258	299	397	431	431	494
Nonresident dividends and interest	21	21	24	14	49	74
Taxes on property	3	4	4	5	6	6
Taxes on goods, services, and international trade	1,347	1,451	1,665	1,886	2,047	2,269
Southern African Customs Union (SACU) receipts	1,007	1,076	1,222	1,407	1,504	1,619
Sugar export levy	27	19	19	15	28	22
Hotel and gaming taxes	3	3	3	3	3	4
Licenses and other taxes	54	77	88	89	104	97
Sales tax	255	275	334	372	408	529
Other taxes	5	6	4	5	7	5
Nontax revenue	137	188	167	139	199	157
Property income	90	138	117	91	137	109
Fees, fines, and nonindustrial sales	47	50	49	48	62	49
Total revenue	2,020	2,230	2,536	2,713	2,984	3,265
Grants	18	45	110	112	127	163
Total revenue and grants	2,039	2,275	2,646	2,825	3,111	3,428
			(In percent of GDP)			
Tax revenue	27.6	26.6	27.2	25.9	24.8	24.3
Taxes on net income and profits	7.8	7.6	8.0	6.8	6.4	6.5
Taxes on property	0.0	0.1	0.0	0.1	0.0	0.0
Taxes on goods, services, and international trade	19.7	18.9	19.1	19.0	18.2	17.8
Of which: SACU receipts	14.8	14.0	14.0	14.2	13.4	12.7
Other taxes	0.1	0.1	0.0	0.1	0.1	0.0
Nontax revenue	2.0	2.4	1.9	1.4	1.8	1.2
Grants	0.3	0.6	1.3	1.1	1.1	1.3
Total revenue and grants	29.9	29.6	30.4	28.4	27.7	26.8
	(In percent of total revenue and grants, unless otherwise indicated)					
Tax revenue	92.4	89.8	89.5	91.1	89.5	90.7
Taxes on net income and profits	25.9	25.6	26.3	24.0	23.3	24.1
Of which						
Companies	12.2	11.5	10.4	8.2	7.9	7.6
Individuals	12.7	13.1	15.0	15.2	13.9	14.4
Taxes on property	0.1	0.2	0.1	0.2	0.2	0.2
Taxes on goods, services, and international trade	66.1	63.8	62.9	66.8	65.8	66.2
Of which: SACU receipts	49.4	47.3	46.2	49.8	48.3	47.2
Other taxes	0.3	0.2	0.1	0.2	0.2	0.1
Nontax revenue	6.7	8.3	6.3	4.9	6.4	4.6
Grants	0.9	2.0	4.2	4.0	4.1	4.8
Memorandum item:						
GDP at current market prices						
(in millions of emalangeni)	6,822	7,690	8,715	9,933	11,243	12,778

Source: Ministry of Finance and the IMF

1/ Fiscal year runs from April 1 to March 31.

Functional Classification of Central Government Expenditure and Net Lending

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Total expenditure and net lending	1,850	2,239	2,776	2,968	3,455	4,018
Current expenditure	1,532	1,689	2,194	2,364	2,542	3,045
Wages and salaries	797	833	1,077	1,071	1,155	1,417
Other purchases of goods and services	436	463	542	679	778	906
Interest payments	43	51	76	63	102	167
Subsidies and other current transfers	256	342	499	550	507	555
Capital expenditure	323	483	585	604	867	936
Net lending	-4	67	-3	0	46	38
			(In percent of GDP)			
Current expenditure	22.5	22.0	25.2	23.8	22.6	23.8
Capital expenditure	4.7	6.3	6.7	6.1	7.7	7.3
Net lending	-0.1	0.9	0.0	0.0	0.4	0.3
Total expenditure and net lending	27.1	29.1	31.9	29.9	30.7	31.4
	(In percent of total expenditure and net lending, unless otherwise indicated)					
Current expenditure	82.8	75.4	79.0	79.6	73.6	75.8
Wages and salaries	43.1	37.2	38.8	36.1	33.4	35.3
Other purchases of goods and services	23.6	20.7	19.5	22.9	22.5	22.5
Interest payments	2.3	2.3	2.7	2.1	3.0	4.2
Subsidies and other current transfers	13.9	15.3	18.0	18.5	14.7	13.8
Capital expenditure	17.4	21.6	21.1	20.4	25.1	23.3
Net lending	-0.2	3.0	-0.1	0.0	1.3	0.9
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum item:						
GDP at current market prices (in millions of emalangeni)	6,822	7,690	8,715	9,933	11,243	12,778

Source: Ministry of Finance and the IMF.

1/ Fiscal year runs from April 1 to March 31.

ANNEX VIII

Monetary Survey#
(End of period)

	2000	2001	2002	2003
				In Millions of Emalangeni
Monetary Authorities				
Net foreign assets	2,216	2,769	2,102	1,403
Central Bank of Swaziland (CBS)	1,600	2,387	2,092	1,376
Of which Capital Investment Fund managed by CBS	941	1,537	1,220	713
Government	617	382	10	27
Net domestic assets	-1,748	-2,097	-1,287	-1,018
Central Government (net)	-1,765	-2,112	-1,300	-1,031
CBS Claims on Government	0	0	57	83
Government Deposits with CBS	1,765	2,112	1,357	1,113
Domestic	207	193	127	374
Foreign	1,557	1,919	1,230	739
Private Sector	16	15	13	12
Commercial Banks (net)	0	0	0	0
Other items (net)	-164	-418	-486	46
Reserve Money	304	254	329	430
Commercial Banks				
Net Foreign assets	546	866	715	469
Reserves	128	110	176	194
Domestic Credit	1,368	1,443	1,985	2,614
Central Government	59	60	215	286
Claims on government	59	60	215	286
Government Deposits	0.2	0.2	0.2	0.3
Claims on private sector	1,3.8	1,384	1,770	2,328
Other Items (net)	-180	-333	-519	-613
Private sector deposits	1,862	2,087	2,357	2,664
Monetary Survey				
Net Foreign assets	2,761	3,635	2,817	1,872
Domestic credit	-381	-654	469	1,595
Central Government (net)	-1,706	-2,052	1,314	-744
Private sector	1,325	1,399	1,783	2,340
Other items	-302	-680	-682	-499
Broad money				
Currency in circulation	2,078	2,301	2,602	2,969
Deposit	148	135	155	213
	1,930	2166	2,447	2,756
	(Annual change in per cent of beginning-of-period broad money unless otherwise specified)			
Broad Money	-6.5	10.8	13.7	14.6
Net foreign assets	2.0	42.4	-37.3	-37.7
Domestic credit	-4.5	-13.2	8.4	45.0
Central government	8.4	16.9	-33.6	-22.8
Claims on private sector	3.9	3.6	17.5	22.2
Other items (net)				
Memorandum items:				
Currency/broad money (per cent)	7.1	5.9	6.0	7.2
Reserve money/deposit (per cent)	15.7	11.7	13.5	15.6
Money multiplier (broad money/reserve money)	6.9	9.1	7.9	6.9
Velocity (GDP/period average broad money)	4.6	5.1	5.1	5.2

Source: Central Bank of Swaziland

ANNEX IX

Balance of Payments
(in million of U.S. Dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004
					Proj.
Current account balance	-65.1	-54.1	33.4	10.5	-92.2
Trade balance	-136.6	-77.0	-52.9	-49.9	-152.0
Exports, f.o.b.	908.6	1,043.9	925.6	1,460.5	1405.3
Imports, f.o.b.	1,045.2	1,120.9	978.5	1,510.4	1557.3
Services (net)	-77.3	-66.3	-88.9	45.9	-44.3
Export of Services	214.5	121.2	117.6	220.0	178.9
Imports of Services	291.8	187.5	206.5	174.1	223.2
Goods and Services Balance	-142.4	-143.3	-141.8	-4.0	-196.3
Income (net)	41.0	54.6	-1.1	13.1	48.9
Income (credits)	154.1	160.7	142.6	136.1	200.8
Income (Debits)	-113.1	-106.1	-143.7	-123.0	-151.8
Of which : interest	10.7	7.9	10.5	20.3	-26.0
Transfers (net)	108.5	115.2	99.5	112.5	55.2
Official sector (mainly SACU receipts)	102.3	108.4	96.2	108.5	53.8
Private Sector	6.2	6.8	3.3	4.0	1.4
Capital and financial account balance	12.01	-45.4	-86.2	-86.8	-84.2
Capital Account Balance	.01	-0.2	0.5	0.0	0.00
Financial account bal. (excl. reserve assets)	12.0	-45.2	-86.7	-86.8	-84.2
Direct Investment	73.3	67.9	54.6	-7.4	-71.5
Portfolio Investment	-2.6	-6.5	0.4	-0.9	1.1
Other Investment	-58.7	-106.7	-141.7	-78.4	-13.9
Errors and omission	46.9	42.8	23.4	36.8	0.00
Overall Balance	-6.5	-56.8	-29.4	-39.5	-8.0
Memorandum items					
Current account/GDP (in per cent)	-4.7	-4.3	2.8	0.6	-4.8
Goods and services balance/GDP (per cent)	-10.2	-11.3	-11.9	-0.2	-10.3
Direct Investment/GDP (in per cent)	5.3	5.4	4.6	-0.4	3.7
Net Official Reserves (end of period)	292.9	228.5	216.3	226.8	209.4
In months of imports of goods & services	2.6	2.1	2.2	1.6	1.4
Gross Official Reserves (end of period)	338.5	267.4	258.9	271.7	252.4
In months of imports of goods & services	3.0	2.4	2.6	1.9	1.7
External Debt Service (in per cent of exports of g & s)	2.17	1.71	2.22	2.48	
Total External Debt/GDP (in per cent)	28.12	31.88	24.67	22.32	26.9
GDP at current prices (at market exchange rate)	1,393	1,264	1,190	1,892	1,907
Emalangeni per US Dollar (end of period)	7.5687	12.0050	8.6355	6.6150	…
Emalangeni per US Dollar (period average)	6.9127	8.5751	10.4523	7.5586	…

Source: Central Bank of Swaziland

ANNEX X

List of Ratifications of International Labour Conventions

Member since 1975. Number Conventions Ratified: 33; In Force: 31

No.	Title of Convention	Date
1	The Right of Association (Agriculture) Convention, 1921 (No. 11)	26/04/1978
2	Workmen's Compensation (Agriculture) Convention, 1921 (No. 12)	26/04/1978
3	Weekly Rest (Industry) Convention	26/04/1978
4	Equality of Treatment (Accident Compensation) Convention, 1925 (No. 19)	26/04/1978
5	Minimum Wage-Fixing Machinery Convention, 1928 (No. 26)	26/04/1978
6	Forced Labour Convention, 1930 (No. 29)	26/04/1978
7	Underground Work (Women) Convention, 1935 (No. 45)	5/06/1981
8	Recruiting of Indigenous Workers Convention, 1936 (No. 50)	26/04/1978
9	Contracts of Employment (Indigenous Workers) Convention, 1939 (No. 64)	26/04/1978
10	Penal Sanctions (Indigenous Workers) Convention, 1939 (No. 65)	26/04/1978
11	Labour Inspection Convention, 1947 (No. 81)	5/06/1981
12	Contracts of Employment (Indigenous Workers) Convention, 1947 (No. 86)	26/04/1978
13	Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)	26/04/1978
14	Night Work (Women) Convention (Revised), 1948 (No. 89)	5/06/1981
15	Night Work of Young Persons (Industry) Convention (Revised), 1948 (No. 90)	5/06/1981
16	Labour Clauses (Public Contracts) Convention, 1949 (No. 94)	5/06/1981
17	Protection of Wages Convention, 1949 (No. 95)	26/04/1978
18	Fee-Charging Employment Agencies Convention (Revised), 1949 (No. 96) *Has accepted the provisions of Part II*	5/06/1981
19	Right to Organise and Collective Bargaining Convention, 1949 (No. 98)	26/04/1978
20	Minimum Wage Fixing Machinery (Agriculture) Convention, 1951 (No. 99)	5/06/1981
21	Equal Remuneration Convention, 1951 (No. 100)	5/06/1981
22	Holidays with Pay (Agriculture) Convention, 1952 (No. 101)	5/06/1981
23	Abolition of Penal Sanctions (Indigenous Workers) Convention, 1955 (No. 104)	5/06/1981
24	Abolition of Forced Labour Convention, 1957 (No. 105)	28/02/1979
25	Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	5/06/1981
26	Minimum Age (Underground Work) Convention, 1965 (No. 123) *Minimum age specified: 16 years*	5/06/1981
27	Minimum Wage Fixing Convention, 1970 (No. 131)	5/06/1981
28	Minimum Age Convention, 1973 (No. 138) *Minimum age specified: 15 years*	23/10/2002
29	Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)	5/06/1981
30	Labour Statistics Convention, 1985 (No. 160) *Acceptance of Articles 7, 8, 10 and 12 to 15 of Part II has been specified pursuant to Article 16, paragraph 2, of the Convention.*	22/09/1992
31	Worst Forms of Child Labour Convention, 1999 (No. 182)	23/10/2002

Bank Group Operations							
Projects by Sector	**Guichet**	**Date Approved**	**Date of Signature**	**Status**	**Amount Approved (UA mil.)**	**Amount Disbursed**	**per cent Disbursed**
A- Agriculture and Rural Development							
1. Ngwavuma Irrigation Studies	ADF	22/03/1974	03/01/1975	Completed	0.281	0.281	100.0
2. Sugar Project	ADB	06/04/1977	29/11/1977	Completed	4.883	4.883	100.0
3. Integrated Development	ADB	18/08/1997	29/11/1977	Completed	4.284	4.284	100.0
4. Institu. Support in Agriculture Sector	ADB	17/04/1990	29/05/1990	Completed	0.612	0.612	100.0
5. The Komati Down Stream Development	ADB/NTF	12/12/2002	20/10/2003	On-Going	13.79	0	0
6. Lower Usuthu Small-Holder Irrigation Project	ADB	27/11/2003	26/05/2004	On-Going	9.310	0	0
Total Sub Sector					**33.16**	**10. 061**	**30.34**
B- Industry							
1. Coton Yarn Manufacturing	ADB	13/02/1985	30/04/1985	Completed	4.981	4.981	100.0
Total Sub Sector					**4.981**	**4.981**	**100.0**
D- Transport							
1. Manzini Mahamba Road Studies	ADB	24/06/1975	06/11/1975	Completed	0.170	0.170	100.0
2. N'kondo-Mahamba Road Construc.	ADF	07/06/1978	03/04/1979	Completed	7.368	7.368	100.0
3. Road Project	ADB	29/12/1981	05/05/1982	Completed	4.115	4.115	100.0
4. Nkondo River – Mahamba Road Cons.	ADF	24/08/1984	11/09/1984	Completed	4.280	4.280	100.0
5. Mafutseni – Mliba Road	ADB	25/08/1996	10/06/1987	Completed	6.167	6.167	100.0
6. Mafutseni-Milba Road	ADF	25/08/1986	09/06/1987	Completed	3.113	3.113	100.0
7. Road Network Studies	ADF	17/09/1987	11/12/1987	Completed	1.200	1.200	100.0
8. Mbabane – Mbalambanyasti Road	ADF	15/12/1987	22/11/1988	Completed	4.789	4.789	100.0
9. Feeder Roads Study (Grant)	ADF	23/02/1989	15/11/1989	Completed	0.269	0.269	100.0
10. Road Rehabilitation	ADB	23/02/1989	15/11/1989	Completed	1.519	1.519	100.0
11. Main Roads Rehabilitation	ADF	23/02/1989	15/11/1989	Completed	4.627	4.627	100.0
12. Transport Sector Project	ADF	26/08/1992	13/05/1993	Completed	0.921	0.921	100.0
13.Transport Sector Project	ADB	26/08/1992	13/05/1993	Completed	39.500	39.500	100.0
14. Transport Sector Project	ADF	26/08/1992	13/05/1993	Completed	9.395	9.395	100.0
15. Two International Roads Project	ADB	18/11/1994	29/05/1997	Completed	24.730	24.730	100.0
16. Two International Roads Project	ADB	20/10/1999	/ /	Completed	11.112	11.112	0.0
17. The Mbabane By-Pass	ADB	17/12/2003	26/05/2004	On-Going	37.19	0	
Total Sub-Sector					**160.465**	**123.275**	**76.8**

E- Energy							
1. Lupholo-Ezulwini Electricity	ADB	28/11/1980	12/08/1981	Completed	4.699	4.699	100.0
Total Sub-Sector					**4.699**	**4.699**	**100.0**
F- Communications							
1. Telecom. Network Phase I	ADB	22/11/1972	08/05/1973	Completed	1.500	1.500	100.0
2. Telecom Network Phase II	ADB	24/06/1975	06/11/1975	Completed	0.700	0.700	100.0
3. Telecom Network Phase II	ADB	20/12/1976	01/03/1977	Completed	4.921	4.921	100.0
4. Telecom Network Phase III	ADB	24/11/1981	05/05/1982	Completed	7.740	7. 740	100.0
5. Telecommunication Master Plan Study	ADF	10/05/1993	13/05/1993	Completed	0.553	0.533	100.0
Total Sub-Sector					**15.414**	**15.414**	**100.0**
G- Finance							
1. Line of Credit	ADB	22/05/1980	12/05/1981	Completed	0.914	0.914	100.0
2. Agricultural Line of Credit to SDSB	ADF	16/12/1991	12/05/1992	Completed	0.484	0.484	100.0
3. Agricultural Line of Credit to SDSB	ADB	16/12/1991	12/05/1992	Completed	2.520	2. 520	100.0
Total Sub-Sector					**3.919**	**3.919**	**100.0**
H- Social							
1. Health Service Improvement	ADB	15/12/1983	10/05/1984	Completed	1.676	1.676	100.0
2. Health Services Improvement	NTF	15/12/1983	10/05/1984	Completed	1.729	1.729	100.0
3. Education Study	ADF	15/02/1990	29/05/1990	Completed	0.467	0.467	100.0
4. Health Sector Strategy and Plan of Act.	ADF	18/10/1993	03/12/1993	Completed	0.462	0.462	100.0
Education I Project	ADF	24/11/1993	12/07/1994	On-going	9.21	8.540	92.7
Total Sub-Sector					**14.335**	**12.874**	**89.7**
General Country Total					**242.1**	**174.2**	**72.3**