



Enabling poor rural people
to overcome poverty

Kingdom of Swaziland

Lower Usuthu Smallholder Irrigation Project

Supervision report

Main report and appendices

Mission Dates: 6 – 18 October 2013
Document Date: 12-Dec 2013
Project No. 1159
Report No: 3208-SZ

East and Southern Africa Division
Programme Management Department

Contents

A.	Introduction	3
B.	Overall assessment of project implementation	3
C.	Outputs and outcomes	4
D.	Project implementation progress	9
E.	Fiduciary aspects	10
F.	Sustainability	14
G.	Other	14
H.	Conclusion	15

Appendices

Appendix 1: Summary of project status and ratings	17
Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs	19
Appendix 3: Summary of key actions to be taken within agreed timeframes	25
Appendix 4: Physical progress measured against AWP&B, including RIMS indicators	27
Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category	29
Appendix 6: Compliance with legal covenants: Status of implementation	33
Appendix 7: Knowledge management: Learning and Innovation	35

A. Introduction¹

1. The overall objective of the Lower Usuthu Smallholder Irrigation Project (LUSIP) is the reduction of poverty and sustained improvement in the standard of living of the population in the Lower Usuthu Basin through commercialization and intensification of agriculture. The immediate objectives of LUSIP Phase I were: (a) the integration of smallholder farmers into the commercial economy through the provision of irrigation infrastructure, development of the policy and legal framework for smallholder irrigation, as well as the establishment of farmer-managed irrigation institutions; and (b) sustainable improvement in environmental health in the project area to ensure that the population derives the full benefits of agricultural commercialisation.

2. The IFAD component of LUSIP supports the on farm development for Phase I in the amount of a loan of SDR 11.9 million. The project became effective on 27 January 2004. The joint Government of Swaziland (GoS) - IFAD Mid-Term Review (MTR) mission was carried out in July 2007. Project completion and Loan Closing dates were extended in 2011 to 30 September 2013 and 31 March 2014 respectively.

3. The current mission has focused on following up on previous mission agreed actions and key issues in relation to completion of IFAD financing under LUSIP I and the loan closing on or before 31 March 2014

4. The mission acknowledges the co-operation and courtesy extended to it by the Government of Swaziland, its agencies, SWADE, LUSIP staff and community members, for their constructive support throughout the Mission. This Aide Memoire was jointly reviewed under the chair of the Acting Principal Secretary, Finance on 17 October 2013. The findings and agreed actions will be reviewed and confirmed in a management letter from IFAD.

B. Overall assessment of project implementation

5. At the completion of the IFAD loan period LUSIP I had reached 52% of its irrigated land target and around 70% of the target (as revised at the MTR). Progress with regard to domestic water supply and sanitation was much more satisfactory being 78% and 95% respectively. As such much remains to be done if complete and satisfactory implementation of LUSIP and full achievement of the objectives and outcomes of it are to be achieved. Two further financial years of funding (April 2013 to March 2015) will be needed for the outstanding issues and priorities to be addressed satisfactorily. GoS continued commitment is in hand whilst access of additional EU resources under Swaziland Sugar Facility (SSF) is expected to be confirmed shortly. Consideration for funding alternatives to sugar is also being considered under EDF XI.

6. The development of irrigated blocks and establishment of Farmer Companies (FCs) was delayed, due the need for the detailed design review undertaken in 2005 by the project management unit at SWADE HQ (and associated re-design work). This led to the late filling of the reservoir that was aggravated by complicated planning and land allocation work, the negative impact of the global financial crisis and tenuous procurement procedures for the land and irrigation development.

7. LUSIP I has however achieved significant new income streams for at least some of the Project Development Area (PDA) population. So far, most FCs are doing well. Dividends per member are as yet modest, with high member numbers spreading the benefits more widely but reducing the poverty alleviation impact per member. These Dividends will rise as FC loans are repaid. LUSIP I has made commendable, but so far only partial progress in promoting the diversification of irrigated production. It has achieved 17% of the target for 'alternative cash crops' and 40% for 'commercial gardens'. The latter category includes some production for home consumption. These are making a good

¹ Mission composition: Louise McDonald, Country Programme Manager; David Rendall, Consultant Agricultural Economist; Gianluca Capaldo, Consultant Financial Management Specialist

contribution to the food security of those whose FCs engage in it. Solid progress has been made on livestock activities with some 70% of overall targets have been initiated. (see Appendix 4)

8. The achievements of LUSIP I to three 'safety net' measures: a safe domestic water supply; sanitation of a good basic standard; and access to up to 0.5 ha of irrigated land per household for home garden food production is important. There has been good progress towards the installation of ventilated improved pit latrines at all PDA households; but only slow (though now well managed) progress towards the provision of potable water. Four of the six chiefdoms' schemes have been completed so far. It is vital that the full suite of potable water schemes be completed. The other two are under are under final design.

9. By loan closing 98% of the IFAD loan is expected to have been used. The physical progress achieved is summarised in Table 1.

C. Outputs and outcomes

Component 1: Chiefdom Development and Land

10. A key focus since the last Mission has been the remobilisation of resettled homesteads, who are not participating directly in irrigated farming in LUSIP, to start their own businesses. The approach will be to will start by growing alternative crops under green-house tunnels. These equipment for the tunnels was procured prior to the completion of LUSIP I. The resettled homesteads mobilised are the following:

- Mphumakudze / Phunga: (8) homesteads , Ntsabankhulu
- Maphilingo/ Shongwe (11)
- Mahlabatsini / Ngcamphalala (25), Injongoyebesutfu

11. Also other activities were directed towards the consolidation of requirements for six farmers' companies (FCs) to get funding from the Swaziland Sugar Facility (SSF). The Farmers' Federation has recently elected a new committee that needs some capacity building to provide the necessary leadership and 'common voice' for the FCs. Consideration to it taking membership of SNAU needs further consideration as does a role within the Swaziland Cane Growers Association.

12. Chiefdom development planning in this period mainly focused on the progress review and monitoring in Gamedze, Ngcamphalala and Mamba chiefdoms. The development of Gamedze1 CDP was also started, with a new approach whereby the task team took five straight days on a workshop to specifically focus on the development of the CDP. It is currently about 70% complete, and in the next quarter the main activity will be the compilation and documentation of the CDP. This is an interesting evolution of the CDP process. It is important that ADEMU prepare a CDP formation guideline to capture the experience gained and lessons learnt in both LUSIP I and II. This is important as under LUSIP the methodology has combined both traditional and administrative approaches to development planning. This should be carried out in close collaboration with MTAD, MEPD, MoF and the TAs in the LUSIP PDA as a basis for wider application throughout the country i.e. up-scaling. In this process it is important that the emerging conflicts between the traditional approach and modern enterprise requirements be carefully reviewed and incorporated.

13. Other important activities that the PIDU Team was carrying out this quarter were those related to the Project Completion Report (PCR). This Team was tasked with carrying an assessment of the project impact, as per the farmers' assessment. Six FCs, with two cropping seasons behind them were selected to participate in this exercise. The report indicated that there are positive impacts relating to increased income levels and improved social infrastructure. The report also indicated there are some areas needing serious attention such as assistance to resolve social disputes associated with power struggle between farmers, and capacity building for farmers to properly manage these agri-business. It was also a useful exercise for the PIDU to re-visit FCs that they

helped establish. Also, a PCR workshop for other development partners in the PDA was held, whereby they gave feedback on the project impact and suggested areas needing attention.

14. So far, although being the chiefdom most affected by the construction of the reservoir and canals, Shongwe has only benefited from the provision of potable water and VIP latrines. This means that at this moment the chiefdom is worse off than before the dam and irrigation infrastructure was built. Various options including the identification of six farms for potential purchase have been pursued with and on behalf of the Shongwe people. To date it has proved to be an intractable problem. New consultations need to be considered.

15. The plan was to register the Shongwe development foundation, but this could not be achieved due to leadership challenges, which have slowed down progress in the implementation of a number of development activities. Also, the process of registering the Ngcamphalala Trust has not been fully completed due to some Trustees needing to comply with tax laws of the country, both as individuals and as board members of certain businesses. This period saw positive developments by the Gamedze's, towards the establishment and registration of their foundation. The Gamedze's have long had a fund which sourced money from various traditional sources. This fund is now being remodelled to become the chiefdom's development foundation.

16. The LUSIP-GEF that was established to address key land sustainability and climate adaption matters has developed parallel activities – these are reflected in the relevant aide memoire for that project.

Agreed action	Responsibility	Agreed date
1. Compile the CDP formation Framework and Guidelines	PIDU and LUSIP II	30 Nov 2013
2. Continue to work with "non-irrigated" communities to develop agricultural enterprises	PIDU and ABU	On-going
3. Capture lessons from formation of Chiefdom Foundations	PIDU and LUSIP II	30 Nov 2013

Component 2: Economic Empowerment

17. A total of 34 Farmer Companies are expected to harvest this season. Projections are that the year's sugar price will increase to E3, 000 per tonne. Yields for this year's crop are good. Currently the average yield is 121 TCH whilst the sucrose has been 13.25% both of which are above last year's achievement. The outputs from the 34 companies currently harvesting is summarised below.

Output of Sugar Farming Companys			
Description	2011/12	2012/13	Total/Ave.
Gross Revenues (E)	29,227,449.12	82,936,728.86	112,164,177.98
Gross Revenue/Ha (E/Ha)	35,201.92	39,370.92	37,286.42
Dividend/SH	6,708.91	8,547.85	7,628.38
Total Dividend (E)	3,871,649.75	11,940,522.18	15,812,171.93
No. of shareholders	546.00	1,678.00	1,678.00
Description	2011/12	2012/13	Total/Ave.
Wage payments	1,583,648.44	4,141,849.78	5,725,498.22
No. of Employees	130	297	427
Description	2011/12	2012/13	Total/Ave.
Area harvested (Ha)	830	2025	2855
Tons cane produced	94552	216903	311455
Tons sucrose produced	12549	27694	40243
Tons Cane per Ha (TCH)	115	107	111
Tons Sucrose per Ha (TSH)	15	13	14
Area under cane (Ha)	880	2,196	2,196

18. The focus on capacity building continued with five University of Swaziland students undertaking internships with the Sugar unit. They completed their nine weeks training. Four Farm Supervisors for Lot 6 completed their on-the-job training with Ubombo Sugar Limited. Lastly, a stakeholder's workshop for the PCR was held with all key stakeholders participating.

19. Continued attention needs to be paid to on-going support for the existing and new FC (with the active support of the EU Business development Unit, protection of the FCs from interference by the traditional authorities, development of a training forum and extension approach for farm supervisors and linkages into the water management and allocation system through the water users associations.

20. In response to the need for additional resources to reach the LUSIP I targets SWADE partnered with Ubombo Sugar Limited (USL) to apply for the EU finance for smallholder irrigated sugarcane development. USL is the lead applicant whilst SWADE is the co-applicant.

21. The specific objectives of the application are to access the EU funds to be used:

- To increase the area of smallholder irrigated sugarcane in LUSIP phase 1
- To improve the sustainability of small and medium scale sugar farmers
- To improve the standard of education and social services to communities in the Ubombo cane supply area.

22. In line with the LUSIP exit strategy targeting 5000 ha of sugar cane development, funding for a total area of 1, 452 ha have been applied for from the SSF. This relates to the MTR agreement that development on the left bank should be provided for when feasible.

23. Over four hundred and five (405.7) hectares are planned for development into alternative crops farms constituting of cash crops farms, backyard gardens and tunnels for the year (table 4). This will bring up the total area developed to 758.7 hectares (table 4). A total of ten (10) livestock enterprises will be established during the year and these will constitute of 4 commercial livestock enterprises and six (6) pilot livestock enterprises

24. During the period, the focus was on developing 4 commercial livestock enterprises constituting of 2 piggery businesses, 1 dairy business, and 1 free range chicken business. 6 pilot livestock enterprises constituting of 4 fish ponds, rabbit pen and a mini feedlot were developed during the last quarter. The rehabilitation of the LnL (formerly KK) pack house and the construction of the banana pack house and ripening facilities were completed. Material and inputs for tunnels earmarked for resettled homesteads and backyard gardens for homesteads with access to potable water was procured. These materials will be applied judiciously for both LUSIP and LUSIP-gef households not participating directly in irrigated agriculture. The assessed status of physical completion is summarised below:

STATUS OF INCOMPLETE CONTRACTS (30/9/2013) and EXPENDITURES ELIGIBLE FROM IFAD F		
SWADE Contract Number	Contract Name	Contract Status
		Comments IFAD Mission
0253	Construction of Packhouse (i)	structure complete, equipment supplied, fitting and external tidying up
	Construction of Packhouse (ii)	Structure 90%, equipment supplied, fitting and external tidying up
0254	Mbazana Piggery	Recommended eligible expenditure to 30/9/13 - 90%
0255	Mabhukweni Dairy	poultry complete
		dairy 100% structure and equipment, fitting and external tidying up
0261	Hhlonhlweni Piggery	95% complete, external tidying up and sty drain covers to be installed
0263	Supply of BYG Materials	delivery 100% see RIR stored at CMC warehouse
0264	Supply of Tunnels materials	delivery 100% see RIR stored at CMC warehouse

based on a) certified completion by SWADE engineer, b) RIR s for equipment and c) mission inspections on

25. The marketing effort for the period focussed on the rehabilitation of the KK pack house and procurement of equipment for the pack house. A market agent from the Durban Fresh Produce Market interested in banana and a local distributor were engaged in discussion on establishing market supply chains with FCs in the PDA.

26. Progress has been achieved in getting the IFAD funded and ILRI executed grant “innovative beef value” chain project initiated. ADEMU has constructed the pilot feedlot at the demonstration unit and agreement has been reached between the Government, SWADE and ILRI for SWADE to act as the implementing and administrative partner for the Swaziland part of this sub-regional grant. No funds have been transferred by ILRI as yet. The Project needs to be formally accepted into the Government budgetary system under the MOA. The current Mission agreed with SWADE that the following aspects should be reviewed with IFAD and ILRI:

- (a) That development investments should be added to the ILRI-SWADE agreement to facilitate field operations
- (b) Consideration be given to purchase a mobile set of scales so that growth rates and extension visits can be more directly linked and better quality information obtained
- (c) The RFEDP (MFU) confirmed its readiness to actively lead the development of suitable financial products
- (d) The collaboration with the LUSIP-GEF programme will be strengthened to enable the “innovative beef value chain” product to work with the two women farmers who are already finishing cattle for the market and to enable these leaders to engage with the project.

Agreed action	Responsibility	Agreed Date
4. Continue support for the existing and new FCs	Sugar/ABU/BDU	On-going
5. Protect the FCs from interference by the traditional authorities,	SWADE/ADEMU	On-going
6. Development of a training forum and extension approach for farm supervisors	Sugar & AB units	15 Jan 2014
7. Strengthen linkages into the water management and allocation system through the water users associations	Sugar/Lebombo	28 Feb 2014
8. Confirm access to SSF resources		
9. Review the ILRI-SWADE agreement to strengthen the linkages with farmers	ABU/ILRI Coordinator	30 Nov 2013
10. Establish ILRI Project in MOA budget	ABU/ILRI Coordinator	immediate

Component 3: Water Institutional Development and Policy

27. **WSP—Long term solution to immediate issue** Water governance and management continue to evolve within LUSIP. From farm level (Water User Associations) through the Irrigation District and nation levels, institutions are beginning to mature to support the appropriate operation and management of the system while delivering water to support agricultural enterprises.

28. From commissioning in 2010, water service provision (operation and maintenance of the system including water delivery to balancing dams) in LUSIP has depended upon interim arrangements under the responsibility of SWADE. The current agreement is set to expire in March 2014.

29. Various options are being explored for how best to design, embed and capacitate a permanent water service provider for LUSIP as it stands currently and for future expansion and development. A study is planned that will recommend: 1) the structural requirements of a water service provision unit in terms of roles, responsibilities (for agricultural, human and any other future use), financing arrangements and capacity needed; 2) where such a unit could or should be housed—its institutional home; and 3) a business plan laying out what the water service provider would do with corresponding

budget including any water fees collected. This study needs to be carried out in close collaboration with the RBA, ID and WUAs of the wider LUSIP area. These organisations will of course be intimately involved in the operations of the WSP.

30. While this study is being procured and conducted, it is recommended that SWADE continue in its current interim service provider for a period of a further two years, up until 30 March, 2016. This period would include sufficient time for handover from the current unit to the new unit to emerge after the above mentioned study. SWADE should therefore budget accordingly for on-going WSP costs.

31. **Immediate repairs and longer term mitigation** A number of immediate repairs are needed to the LUSIP infrastructure (and erosion control) to maintain structural integrity of the system. These repairs include mitigation measures to protect against further damage in the upcoming season. Larger repairs can only be done during the dry season and are planned to begin after first quarter 2014. These contracts need to ensure that necessary care be taken to prevent further damage during the repair period.

32. In addition to physical repairs, longer term prevention strategies must be developed and implemented with the surrounding community, Water User Associations and the Irrigation District. The on-going catchment study is expected to provide key guidance for ensuring the sustainability of up-stream structures as well as prudent watershed management.

33. It is noted that construction has taken place within the exclusion zone (100 year flood line) around the reservoir. It is important that the NWA exercise its statutory obligations to enforce the appropriate regulations in this regard.

34. **River Basin Audit** The Department of Water Affairs has trained their staff in conducting river basin audits in order to identify and map permitted water use in basins. It is recommended that the river basin audit of the Usuthu river basin be fast tracked and rolled out immediately as a critical closure activity of the LUSIP project. The audit will be undertaken by DWA with necessary financial and logistical support from SWADE using IFAD funds.

Agreed action	Responsibility	Agreed date
11. Extend appointment of SWADE as interim WSP to 30 Mar 2016	MNRE	30 Nov 2013
12. Carry out WSP study	DWA	31 Dec 2014
13. Carry urgent canal protection mitigation	SWADE	30 Nov 2013
14. Confirm budget provision is made for long-term remedial work	SWADE/DWA	30 Nov 2013
15. Carry out river basin audit	DWA/SWADE	From 15 Nov 2013

Component 4: Life Sustenance and Environment

35. Progress under this component has continued to be positive with access to potable water and improved sanitation reaching 78% and 95% of household targets respectively. The team has also continued to lead the process of environmental compliance with environmental management plans and associated awareness training being provided as new enterprise business plans are developed.

36. Four of the six chiefdoms' schemes have been completed so far. It is vital that the full suite of potable water schemes be completed. The other two are under final design. There are two key aspects that need to be attended to. Firstly the use of OFID funds needs to be optimised before completion of the loan on 31 December 2013. An extension of the completion date to re-instate the full implementation period of four years and too enable inclusion of those schemes provided for in the LUSIP II PDA. Secondly provision for the necessary technical operations and maintenance works to keep the schemes operating should be included in responsibilities of the long term WSP. Maximum self-management has been provided for however the fairly sophisticated equipment involved demands appropriate management. The environmental conservation programmes that are implemented in consultation with the LUSIP-GEF programme continue with mixed reception at

community level due to concerns about equitable access to the benefits of the projects. These need to be jointly attended to on an on-going basis.

37. No recent up-date on the community health status is available although work is on-going to update the epidemiological/communicable disease status report. On-going water quality testing needs to be maintained.

38. Resettlement house defects repairs have been completed and the wood stove programme is virtually complete.

Agreed action	Responsibility	Agreed date
16. Make provision for necessary technical O & M under the WSP	Environment Unit with MNRE	30 June 2014
17. Resolve community concerns in the Logoba Conservation Area Project	Environment Unit	30 Nov 2014
18. Obtain up-dated report on operation of the Siphofaneni Disease monitoring clinic	Environment Unit	30 Nov 2014

D. Project implementation progress

39. **Coordination.** Since the last Mission the SWADE Board has played an active and constructive leadership role in ensuring that the necessary procurement review and approval process has been undertaken in a timely manner. This has enabled has several key initiatives for the agricultural diversification to proceed and be substantially completed by project completion on 30 September 2013. It is noted that the negative impact of PEU Circular No 3 of 2010 on staff morale and retention has been aggravated by latest PEU Circular No 4 of 2013. This has considerably disrupted implementation over the past months and makes recruiting and holding high calibre staff more challenging.

40. It is also positive that the Board has moved ahead with the recruitment process of the SWADE CEO position. Coupled with support under the EU National Adaptation Strategy project that is expected to commence shortly this will provide the needed direction and strategic focus needed for the organisation to grow and fill its obligations as a key parastatal under the Ministry of Agriculture. The Mission wishes to note with appreciation the contributions made by the current acting CEO who has bought stability and focus to the organisation after a difficult period.

41. **The AWPB** for 2013/14 included in the March 2013 A-M differs from the latest version in use by the project (although the total is similar SZL 35.2 million in the Aide-Memoire compared to SZL 33.9 million in the latest version being used). The latter version was not formally submitted through the Ministry of Finance to IFAD for No Objection.

42. The budget is by component broken down by detailed activity. A separate analysis was available by expense category. An analysis of 2013/14 actual costs (Withdrawal applications 124, 125 and 126) against budget was provided in excel; payments and approved expenditures amount to approximately 94% (SZL 32 million out of a total budget of SZL 33.9 million). The annual Financial Statements also contain a comparison against budget. There are some inconsistencies in reporting expenditure against component; The March 2013 Aide-Memoire was January 2013 actuals plus commitments; the October 2013 Aide-Memoire is only actuals; whilst the Project Completion Report data includes forecast costs through to closure. A reallocation exercise was performed between March and September status leading to some large changes between components.

43. **Monitoring and Evaluation** the monitoring of the project activities and outputs continues to improve – the reporting is still produced by individual units with the overall MIS system not being used to its full capacity. The completion base-line survey has commenced with the full report expected by the end of November.

44. Similarly the project completion report is well advanced with the first working draft currently under review. It will be up-dated and strengthened and following incorporation of the completion base-line survey will be shared with IFAD for its review prior to finalisation in January 2014.

Agreed action	Responsibility	Agreed date
19. Monitor progress on completion survey	M & E	15 Nov 2013

E. Fiduciary aspects

45. **Financial Management, System and Internal Controls** compared to the prior mission (March 2013) there have been significant improvements in terms of the ACCPAC accounting software having been more fully implemented and a “mirror” back-up server having been installed and tested for business continuity purposes. The accounting staff do not have access to the system set-up, which the IT staff have to do in their role as administrator providing a good segregation of duties. Approvals are work-flow driven, which again is a good control.

46. SWADE uses the IFRS accrual-basis of accounting and the ACCPAC system is set up accordingly whereas the project has adopted cash basis accounting. Consideration should be given to adopting the accruals basis for project financial reporting to avoid having to manually adjust each time for financial reporting purposes, e.g. for fixed assets and transactions just before year-end that are paid early in the following year. A consistent approach should also be adopted for the budget, i.e. accruals or cash basis.

47. The Project uses the SWADE Procedure Manual which provides high-level guidance and has its own procedures manual (PIM), however, it has never been updated since its preparation in 2005. In particular, the manual needs updating for the introduction of the ACCPAC software and mirror back-up facility, delegations of authority and for IFAD specificities such as requests for No Objection.

48. The Special Account reconciliation at 30 September 2013 was reviewed (refer to table below):

	(USD)	(USD)
Initial deposit		1,000,000
Less: Amount recovered by IFAD		(556,658)
Sub-total to be recovered (A)		443,342
Special Account bank balance (in USD)	160,955	
Programme Account bank balance at (Equiv. in USD)	3,864,124	
sub-Programme Account bank balance (Equiv. in USD)	865,016	
Expenditures claimed but not yet credited by IFAD – WA125 (Equiv. in USD)	236,725	
Expenditures not yet claimed for reimbursement to IFAD (Equiv. in USD)	45,662	
Subtotal (B)		5,172,483
GoS Counterpart Funds on the same Account (C)		(4,729,140)
Un-reconciled difference (A) + (B) + (C)		0

49. The reconciliation of the accounts shows that the liquidity position is very good due to counterpart funding. The mechanism of having a single “pooled” Project Account prevents the reconciliation of the different sources of funds thereby undermining its usefulness as an internal control. The mission recommends the opening of a dedicated project account for IFAD funds.

Project Financial Management Capacity

50. **Organization and staffing.** The financial management performance of the project has benefitted significantly from the hiring of the previous accountant as a dedicated consultant to support the team.

51. The external audit 2013 Management Letter highlighted issues with the recording of annual leave days, a matter confirmed also by Internal Audit.

52. From October 2013 the number of staff funded by IFAD will reduce to five, reflecting the funding winding-down period. The staff concerned are the: Project Manager; the Monitoring and Evaluation Officer; the Project Accountant; Agri-business Manager for Diversification and the Agricultural Development Manager Sugar.

53. The Code of Conduct for employees (including ethical behaviour) has remained in draft form for some time and needs to be formally adopted in order to become an effective control.

54. **Financial Reporting and Monitoring.** The chart of accounts used in ACCPAC is able to provide financial information by expense category, component and financier. Quarterly reporting was recommended by the prior mission and a worksheet of the September 2013 financial status was already available in excel in early October prior to the mission's arrival. Although the information is available, a formal report is required which is then formally reviewed. At present no oversight body performs this role. Further, the budgetary monitoring control is ex-post, whereas budgetary constraints should be checked prior to incurring expenditures. The project is working on adopting budgetary control within ACCPAC for the 2013/14 financial year. The goal should also be that management reports can be produced automatically from ACCPAC rather than have to be exported using excel as an intermediate step.

55. Until early in 2013 the capture of beneficiary contributions had not been done routinely. Currently they amount to USD 6.99 or 3% of total project expenditures

56. **Review of the Statements of Expenditures (SoE).** The mission reviewed WA 125 that was pending submission. Most of the supporting documentation was present, however, the following issues were found:

- Some payment approvals/authorisations were missing;
- The supporting documentation under category IX(a) for September 2013 vehicle rental costs of USD 28,047.72 (which can be charged under the SoE procedure according to the Project Loan Agreement) was not available at the time of the mission and consequently the expenses were withdrawn and the WA revised to deduct it; and
- Summary sheet number 5 under category IX(a) for the value of USD 17,686.53 was found to be a duplicate of summary sheet number 1. Consequently this amount will be deducted from the amount to be disbursed.

57. It was also noted that WA123 included SZL 898,802.53 for "Salaries – Refund for salaries paid on behalf of LUSIP – March 2013" whilst WA124 had an item with exactly the same description for SZL 731,030.54, however, it actually related to May 2013 salaries so there was no duplicate payment.

58. **Recovery of the Initial Deposit and Status of Project Closure Activities** as at 30 September 2013 the project had already recovered USD 556,658 (56%) from the USD 1 million advanced under the initial deposit. A specific recovery plan has been prepared to recover the remaining balance on the final withdrawal applications. Please refer to the relevant Annex.

59. Preparations are well underway for the Project Completion Report and the final audit will take place for the year-ending 31 March 2014, which coincides with the closure date. Respecting the usual annual audit timetable is possible because key staff will still be present but working on other activities, whilst avoiding the need for a special audit is cost-effective.

60. **Fund flow and IFAD Loan Disbursement** as at 30 September 2013 (up to WA 124) was SDR 9.5 million excluding the initial deposit, representing 80% of the total. Considering withdrawal

applications already submitted to IFAD, those in the process of preparation and estimated winding-up expenditures the forecast expenditure by the end of the project should reach 96%. The projected expenditures show a significant over-run on expense category I (civil works), however this was discussed at the time and it was agreed not to re-allocate costs due to the late stage of the project and the existence of the unallocated cost category. The Matching Grants were under-spent due to lack of time remaining.

61. Since the last mission, the rate of submission of withdrawal applications has improved with four WAs having been disbursed. Now that the project completion date has passed, the project is preparing another WA for final implementation activities. In the meantime GoS has been providing pre-financing. The ACCPAC software does not have the necessary functionality to automatically prepare the withdrawal applications which therefore have to be prepared manually.

62. The commitments during the winding down period were reviewed and eligible items are: PCR report costs, salaries for 5 staff (specified above), LUSIP catchment management plan, the completion socioeconomic survey, the consultant accountant, the river basin audit, audit fees and operating expenditures. These are estimated to amount to around SZL 3.3 million.

63. The external audit identified that the previous SWADE Acting CEO was still an authorised bank signatory. Whilst the Finance Committee has not met yet to appoint a replacement signatory as one has not been identified, it would be prudent to take the necessary steps to remove him from the list.

64. In addition to the review of WA 125 noted above, all the contracts which had already been paid were included in WA 126 for a total of USD 781,426 which is now circulating for signatures. WA 127 will pick up the balance of contracts as soon as they have been paid by the project.

65. **Counterpart funding.** As noted above, GoS Development and Counterpart Funding are very satisfactory, and substantially exceeds the Financing Agreement contribution of USD 20 million.

66. **Compliance with Loan Covenants.** At this late stage of the project the overall position of the loan covenants is satisfactory. Details can be found in Appendix 4.

67. **Procurement.** The procurement plan was incomplete (e.g. the vehicle rentals had not been included) and would be more effective if it led on directly to the contract register such that progress could be more easily monitored.

68. Both the internal and external audit have highlighted issues with the pre-qualified list of potential suppliers. The main issue was that the annual list was not well-aligned with the required goods and services resulting in non-pre-qualified suppliers being awarded contracts. The SWADE Board has now cancelled the pre-qualified list altogether and competitive quotations will be sought openly in each case.

69. The ACCPAC procurement model has just been purchased and by the end of 2013 should be operational. The new functionality will allow it to be updated from remote locations.

70. The **Contract Register** was amended following the previous mission agreed action to include the completed contracts and now needs updating to include recently approved contracts. The contract monitoring forms are excel-based and contain the major elements. A sample of three 2013 contracts were reviewed. The filing arrangements are that the main tender documentation is filed in the SWADE office with only the supporting documents being available at Mbabane (evaluation report, contracts, invoices, contract monitoring form and payment information). The contract-specific findings of the review follow:

- Contract 0253 - the evaluation report and the IFAD No Objections were not on file;
- Contract 0255 - the IFAD No Objection was only received for the pre-approval of the tender documentation and not for the evaluation result or for the subsequent contract award; and
- Contract 0262 - the IFAD No Objections were not on file.

71. As a general observation a satisfactory number of potential suppliers bid for contracts and the two evaluation reports examined were thorough. Under contract 0255 only one out of the four bidders was declared as being “qualified” as within 15% of the Engineer’s estimate, however, another supplier which was 15.6% under the Engineer’s bid was actually awarded the contract, having scored equally on technical merits and being significantly cheaper.

72. **Asset Register.** The 2013 Management Letter identified issues with the opening balances of the fixed asset register not reconciling with the financial statements. Although not a material issue financially, asset control has a particular sensitivity and will need to be carefully monitored at project closure.

73. **Internal Audit.** Although previous Aide-Memoires commented on the lack of an internal audit function in fact it was found to already exist within SWADE. Whilst there is currently only one staff, the person concerned is well qualified and technically prepared for the work. The Institute of Internal Auditors’ (IIA) Professional Standards are being followed with a charter and functional reporting to the Audit Committee with administrative reporting to the Acting CEO, however, a Quality Assurance check has not yet been performed. The standards require this at least every five years and the benefit to the organisation can be significant. The latest internal audit report for 2013 raises concerns regarding the internal control environment.

74. **Audited Financial Statements for Year-ended 31 March 2013.** The audited financial statements for the year ending 31 March 2012/2013 were submitted to IFAD within the prescribed deadline (30 September 2013), prepared in accordance with the IPSAS cash basis. The auditors were new this year, reflecting SWADE’s policy of mandatory change after three years, in line with best practice. The financial statements contained all the major schedules including an analysis by expense category and component although it was not analysed by financier. The three IFAD disbursements during the year (two replenishments and one direct payment) were clearly visible. The auditor awarded unqualified opinions on the financial statements, SOEs and Special Account. The Management Letter did not include a follow up of the prior year’s recommendations as is required, whilst it did identify minor control issues concerning the recording of leave days, the pre-qualified supplier list and fixed assets in the current year.

Agreed action	Responsibility	Agreed date
20. Adopt automated budgetary control in ACCPAC	CFO	31/3/14
21. Introduce a dedicated bank account for IFAD loan funds	CFO	31/12/13
22. Incorporate the contract register with the procurement plan such that progress can be better monitored	CFO	31/12/13
23. Update the project-specific financial procedures to complement the existing SWADE manual (IFAD No Objection thresholds, ACCPAC system controls, mirror server back-up controls, etc.)	CFO	31/12/13
24. Implement the ACCPAC procurement module	CFO	31/12/13
25. Consider system enhancements to allow management financial reporting directly for ACCPAC	CFO	31/12/13
26. Consider moving from the IPSAS cash-basis of financial reporting to IFRS (accruals basis)	CFO	31/3/14
27. WA125 will be disbursed net of the unsupported vehicle rental cost and duplicate SoE sheet from category IX(a). The total deduction is USD 45,734.25	IFAD	31/10/13
28. Remove the unauthorised signatory from the bank’s list of authorities	CFO	31/12/13
29. Introduce formal and documented monitoring of the project’s quarterly financial reports	SWADE Finance and Audit Committee	31/12/13
30. Perform a Quality Assurance check of the internal audit function as required by the IIA’s professional standards	SWADE Finance and Audit Committee	31/3/14
31. Formally adopt a Code of Conduct for employees	SWADE Finance and Audit	31/3/14

32. Update the fixed asset register for incomplete information	Committee CFO	31/12/13
--	------------------	----------

F. Sustainability

75. Project sustainability is one of the major challenges that SWADE as an organization and LUSIP as a project have to contend with. Key aspects that are being and continue to need to be addressed include:

Aspect of Sustainability	Issue/Observation
Continued operation and maintenance of project facilities	Need to fully operationalise the RBA, ID and the WSP
Continued flow of net benefits	Key is viability of FA's, avoidance of undue interference in membership of Fas, need for mills to maintain constructive support
Continued community participation	Strength of the CDP process a positive, role of Farmers Federation and traditional authorities
Equitable sharing and distribution of project benefits	On-going oversight of MoA, SWADE and the traditional authorities
Institutional stability	Leadership and operational viability of SWADE
Maintenance of environmental stability	Environmental review Panel Report is positive

76. Farming Companies. The two major challenges with regard to the sustainability of the FCs is the need to protect the membership from accepting new shareholders for traditional influence reasons and the need to establish a sustainable business mentoring mechanism. The Farmers' Federation that is in the process of being re-constituted and activated will have an important role in this regard. Identification and agreement on assigned responsibility of a suitable institution(s) to provide these services needs to be carried jointly with MoA, SWADE NamBOARD and other relevant stakeholders including the private sector, over the next 6 months. In the interim the new EU funded project will provide critical with regard to on-going support for existing FC and nurturing the fledging FCs that are developed by the ADEMU team,

G. Other

77. **Environmental Considerations** including the degradation of the Lubovane Reservoir catchment, and the consequent need for effective land use management, remain significant challenges for the project. The Lower Usuthu Sustainable Land Management Project (LUSLM), funded by the Global Environment Facility, has a major role to play in this regard. Strong collaboration is necessary between LUSIP and LUSLM, with adequate staffing for them both in the relevant fields. They should engage with the Irrigation District for this purpose. This needs to include urgently addressing protection planting and other measures on the canal banks.

78. New settlement near and within the reservoir's probable maximum flood line is another challenge that must be tackled. The sustainable solutions in this sector lie within a comprehensive approach that includes commercialisation of livestock to ensure that only productive stock is kept; the detailing of the viability of the alternatives of creating wealth and improving livelihoods that will give assurance enough to warrant destocking; addressing the socio-cultural impediments to the uptake of the commercialisation; and other options available such as ensuring the systematic targeting of the (largely male) decision making group in the households.

79. One of the three areas earmarked for biodiversity conservation has been gazetted and is being developed for this purpose. A second has been settled and is no longer available. The third, the

Logoba area, should urgently be fenced and declared as a conservation area (subject to affirmative community consultations) – this is currently under process.

80. Heavy infestation of the PDA with invasive alien species is a significant and growing problem. LUSIP should work with PDA communities to agree and implement a detailed plan for the management of these species as soon as possible.

81. Engaging schools, the University and NGOs in long-term environmental monitoring in the PDA remains a necessary strategy.

82. **Gender.** The Project, together with the Rural Finance and Enterprise Development Programme (RFEDP), has recently developed (with the assistance of the IFAD Regional Gender Specialist) the gender manual to implement the policy developed in 2011. Specific attention has been paid in the terms of reference with regard to gender for the on-going impact assessment study. This will enable this key aspect of the project to be reported on objectively in the final version of the PCR.

83. Currently 39% of shareholders in the FCs are women. Of the 718 women headed homesteads 348 or 48% are involved in irrigated agriculture FCs. Most of those not included reside outside the irrigable areas and are being actively included in the homestead garden tunnel and livestock initiatives. All these activities are for households not involved in irrigated agriculture.

Agreed action	Responsibility	Agreed date
33. Assess the sub-catchment study and make necessary budget submissions for 2014/15 FY	ADEMU Manager	20 Dec 2013

H. Conclusion

84. Much remains to be done if complete and satisfactory implementation of LUSIP and full achievement of the objectives and outcomes of it are to be achieved. Two further financial years of funding (April 2013 to March 2015) will be needed for the outstanding issues and priorities to be addressed satisfactorily. GoS continued commitment is in hand whilst access of additional EU resources under Swaziland Sugar Facility (SSF) is expected to be confirmed shortly. Consideration for funding alternatives to sugar is also being considered under ECF X. These measures are critical to the future expansion of the overall LUSIP programme.

85. The Way Forward: The Government of Swaziland (at a meeting between the Ministries of Finance, Economic Planning and Development and Agriculture) agreed that they wish to have IFAD continue working with the Ministry of Agriculture. The collaboration would include other donors, especially the European Union, based around the document prepared by IFAD in 2012. The collaboration will take account of respective comparative advantages of the financiers involved. The scope of the work and loan from IFAD will be discussed in detail following the completion in early 2014 on the EU programme for the agricultural sector.

Appendix 1: Summary of project status and ratings

A. Basic Facts

Country	Swaziland	Project ID	1159	Loan/Grant No.	574-SZ
Project	Rural Finance and Enterprise Development Programme				
Date of Update:		Last Supervision	Mar-13	Financing terms	I
Supervising Inst.	IFAD	No. of Supervisions	13		

				USD million	Disb.rate%
Approval	06 Dec 2001	Quality at entry rating		Total costs	119.59
Agreement	24 Feb 2003	Effectiveness lag	26.1	IFAD loan	14.96
Effectiveness	27 Jan 2004	Problem project	no	Domestic/GoS	31.45
MTR	14 Jul 2007			Co-financing	73.18
Current completion	30 Sept 2013	Last Amendment		Government	2.37
Current closing	31 Mar 2014	Last Audit	On time	Beneficiaries	
No. of extensions	1				

B. Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	2	3	1. Quality of project management	4	4
2. Acceptable disbursement rate	4	5	2. Performance of M&E	4	4
3. Counterpart funds	6	6	3. Coherence between AWPB & implementation	4	4
4. Compliance with loan covenants	4	4	4. Gender focus	4	4
5. Compliance with procurement	4	4	5. Poverty focus	5	5
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	5	5
			7. Innovation and learning	5	5
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Upstream Development	5	5	1. Institution building (organizations, etc.)	4	4
2. Downstream & Agricultural Commercialisation	4	4	2. Empowerment	5	5
3. Project Coordination & Management	4	4	3. Quality of beneficiary participation	5	5
			4. Responsiveness of service providers	5	5
4. Physical/financial assets	5	5	5. Exit strategy (readiness and quality)	5	5
5. Food security	5	5	6. Potential for scaling up and replication	5	5

C. Overall Assessment and Risk Profile

	Last	Current
C 1 Overall implementation progress (Sections B1 and B2)	4	4
C 2 Likelihood of achieving the development objectives (section B 3 and B4)	4	5
C 3 Risks <i>Short description of major risks for each section and their impact on achievement of development objectives and sustainability</i>		

Fiduciary aspects	A consultant was recruited by SWADE to address the short-comings of the financial management. SWADE needs to follow-up in detail on the monthly performance of the CFO.
Project implementation progress	Following the closure of the IFAD loan the Project will continue implementation for a further two years and physical targets are expected to be met during this period from GoS and the EU. Funding from EU is in advanced planning stage
Outputs and outcomes	While there are some delays (mainly around ready finance from GoS due to the financial crisis) it is anticipated that 90% of production targets are likely to be realised, with 100% of households having benefitted from the project.
Sustainability	The two most critical areas for sustainability are mentoring of farmer companies and operationalising higher level water institutions.

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

1) Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
Goal			
Standard of living of the population in the Lower Usuthu Basin area of Swaziland improved through an environmentally and culturally sustainable process.	<ul style="list-style-type: none"> ◆ Reduction in the percentage of the absolute poor living in the lowveld area (from 40%) ◆ Reduction in rate of illiteracy (from 17%) ◆ Reversal in the rate of outmigration ◆ Reduction in the prevalence of chronic malnutrition among children under five. 	<ul style="list-style-type: none"> • Baseline Studies • Case studies • Household surveys. • Census reports • Population survey (sampling) 	
Objective			
Smallholder farmers (approximately 2 600 households residing within the boundaries of the five Chiefdoms affected by LUSIP Phase I) directly integrated into the commercial economy through the establishment of farmer-managed and self-financing irrigation schemes.	<ul style="list-style-type: none"> ◆ Change in production system (from extensive rainfed to intensive irrigated), hectares under cultivation by commodity ◆ On and off-farm paid employment (days or equivalent) ◆ Increased diversity and nutritional content in household diet ◆ % of O&M met by WUAs, annually 	<ul style="list-style-type: none"> • Quarterly and annual project reports. • Quarterly and annual ADEMU reports. • Satellite imagery and GIS. • Farm surveys and annual farmer association/WUA accounts. • Participatory diagnostic studies • Food frequency surveys (24 hour dietary recall) 	<p>World price of sugar remains stable and Swaziland maintains current sugar quotas.</p> <p>No abrupt changes in macro-economic context.</p> <p>Increased incomes at household level used to reduce the effects of poverty.</p> <p>Interim Water Agreement signed</p>

1) Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
<p>Outputs</p> <ol style="list-style-type: none"> 1. Adequate and environmentally sustainable supply of irrigation water assured for some 6 500 ha of high-value commercial crop production assured. 2. About 130 new farmer owned and managed irrigation schemes (50 ha each), growing high value commercial crops, established by PY 8. 3. Legal framework put in place for water user associations (WUAs), economic interest groups and irrigation district and catchment authorities by PY3. 4. Policy for participatory and equitable resettlement process, including environmental mitigation and compensation payments, operational by PY 3. 5. Fully equipped and staffed health clinic self-financing by PY 8. 6. Provision of improved Household water supply and sanitation by PY8. 7. Strategies for community-based natural resource management put in place, by PY4. 8. Process for effective project management established, with particular emphasis on participatory planning process and environmental issues 	<ol style="list-style-type: none"> 1.1. Amount, proportion of requirement, and timeliness water delivery to plots 1.2. Water delivery data and system performance. 2.1. Payment of water delivery charges 2.2. Cropping patterns, intensity and yields per ha 3.1. About 130 WUAs operational by PY 8. 3.2. # of irrigation and catchment authorities operational with WUA representatives. 3.3. # of economic interest groups operational. 4.1. # of civil/traditional actions alleging unfair compensation. 4.2. Environmental mitigation measures adopted. 5.1. Water-borne illnesses reported and treated. 5.2. % of clinic expenses met by clients. 6.1. Prevalence of hygiene related illnesses reduced. 7.1. # of new hectares planted to local grasses/vegetation 7.2. Intensification of livestock activities 7.3. Reduction in degraded land 8.1. Water quality and downstream flows sustained 8.2. Acceptable disbursement rate & progress reporting 8.3. Completion of activities as compared to APW&R 	<ul style="list-style-type: none"> • Quarterly and annual project reports. • Water service provider and WUA records and reports • Participatory diagnostic studies. • MOAC records (extension service) • Case studies; EDDMU reports. • Trade & EDDMU reports. • EDDMU & Auditor's reports • Quarterly and annual project reports. • Legal/court records. • Chiefdom reports and interviews • Health clinic records and reports • Cattle census and production data 	<p>Average annual rainfall remains constant.</p>

1) Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
Activities			
1.1. Upstream civil works including diversion weir, feeder canals, dams and traps completed by PY 5.	1.1.1. Construction contracts awarded to qualified firms by PY 2. 1.1.2. Detailed design completed by PY 2. 1.1.3. Physical progress of civil works by type	<ul style="list-style-type: none"> • Quarterly and annual project reports. • MOAC reports 	ICB regulations followed. No unforeseen geographic features discovered. Private sector organisation appointed as water service provider.
<p>2.1. Secondary and tertiary distribution system, including earth works, structures, pipelines, road works, fencing, etc. completed by PY 6 with the participation of the beneficiaries in the design and construction of schemes.</p> <p>2.2. Training in business planning, agricultural diversification and commercial management provided to government staff and scheme shareholders.</p> <p>2.3. Credit for on-farm works made available beginning in PY 4.</p> <p>2.4. Matching grant funds available for establishment of small and medium-scale enterprises in support of commercial agricultural production.</p>	<p>2.1.1. Construction contracts awarded to qualified firms by PY 3.</p> <p>2.1.2. Detailed design completed by PY 2.</p> <p>2.1.3. Land use planning surveys undertaken by future scheme shareholders with external assistance</p> <p>2.1.4. 26 schemes completed annually beginning in PY 3.</p> <p>2.2.1. # of WUA members attending courses, from PY 3.</p> <p>2.2.2. # of extension staff (crops and livestock) attending courses</p> <p>2.3.1. Loans made to schemes (number and amount, by type of scheme)</p> <p>2.3.2. Repayments of loans by shareholders</p> <p>2.4.1. # of grants made disaggregated by purpose</p>	<ul style="list-style-type: none"> • Quarterly and annual project reports. • MOAC reports • Beneficiary interviews/focus groups 	ICB regulations followed. No unforeseen geographic features discovered. Use of fragile soils possible under good management practices. Future shareholders recognise the advantage of irrigated agriculture over other income-generating opportunities and land use systems.
<p>3.1. Water user associations and other economic interest groups established.</p> <p>3.2. Irrigation and catchment authorities established with representatives of user groups.</p> <p>3.3. Policy and legal reforms completed</p>	<p>3.1.1. # of WUAs established annually.</p> <p>3.1.2. # of economic interest groups established annually.</p> <p>3.2.1. # of authorities established annually, membership disaggregated by gender and interest group.</p>	<ul style="list-style-type: none"> • Government policy statements; legislation/regulations. • Quarterly and annual project reports. • Beneficiary 	Government committed to land, water and farmer organisation reform.

1) Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
in the area of land and water use.	3.3.1. Legal acts and regulations drafted approved by PY 2	interviews/focus groups <ul style="list-style-type: none"> • Project Steering Committee meeting reports 	
4.1. Comprehensive Environmental Mitigation Plan (CMP) completed by PY 1. 4.2. Resettlement Action Plan operational with effective participation of the community. 4.3. Equitable compensation payments (in cash or kind) made to individuals and communities.	4.1.1. CMP completed and adopted. 4.2.1. CMP completed and adopted. 4.2.2. # of <i>Sigodzi</i> , zonal and chiefdom planning committees established and consulted. 4.2.3. # of h/hs resettled, by gender of head of h/h 4.3.1. % of eligible h/hs receiving compensation, by gender of h/h.	<ul style="list-style-type: none"> • Government records; legislation • Committee meeting records • Project Steering Committee meeting reports • Quarterly and annual project reports. • Beneficiary interviews/focus groups 	Traditional authorities willing to allocate land for cross boundary resettlement. Draft Resettlement Action Plan ready by end-June 2001.
5.1. Health clinic built and fully operational by PY 2.	5.1.1. # of patients treated annually. 5.1.2. # and type of health information campaigns completed. 5.1.3. Staffing levels by PY 8.	<ul style="list-style-type: none"> • Clinic records • Beneficiary interviews/focus groups 	Medical clients willing and able to pay for treatment.
6.1. Boreholes and hand pumps installed (15 by PY 8) 6.2. Latrines, sand pits and washing areas provided.	6.1.1. # per year beginning in PY 4. 6.2.1. # per year beginning in PY 3.	<ul style="list-style-type: none"> • Quarterly and annual project reports. • Beneficiary interviews/focus groups 	
7.1. Community-based natural resource management plans defined. 7.2. Matching grant facility for community-based natural resource management established.	7.1.1. # of plans elaborated annually. 7.2.1. # and types of grants applied for and made.	<ul style="list-style-type: none"> • Quarterly and annual project reports. • Beneficiary interviews/focus groups 	Livestock production and range management commercialised
8.1. Project staff employ participatory methods in the elaboration of APW&B and for M&E. 8.2. Independent environmental monitoring system established.	8.1.1. # of workshops/meetings held annually with beneficiaries or their representatives. 8.1.2. M&E system established in PY 1. 8.2.1. Water and air quality	<ul style="list-style-type: none"> • Quarterly and annual project reports. • Beneficiary interviews/focus groups 	

1) Narrative Summary		Objectively Verifiable Indicators		Means of Verification	Assumptions
Inputs		Financier			
Expenditure Account	<u>USD '000</u>		<u>USD '000</u>		
Civil and Earth Works	67 672	IFAD	14 958	Loan Agreement	IFAD Executive Board approves project
Vehicles, Equipment and Goods	990	African Development Bank	22 277	Subsidiary Agreements	Co-financing made available
Technical Assistance	17 933	BADEA	8 304	Appraisal Report	Government financing made available
Training, Studies and Workshops	3 250	Development Bank of South Africa	7 165		Government financing made available
Credit and Matching Grants	13 129	European Union	10 999		Subsidiary/Implementing Agreements approved and executed
Contracted Staff		EIB/Others	32 576		
Resettlement Compensation	4 728	Beneficiaries	4 894		
Other Operating Costs	7 219	Government	15 370		
Total		Total	116 545		

Appendix 3: Summary of key actions to be taken within agreed timeframes

Agreed action	Responsibility	Agreed date
1. Compile the CDP formation Framework and Guidelines	PIDU and LUSIP II	30/12/13
2. Continue to work with “non-irrigated’ communities to develop agricultural enterprises	PIDU and ABU	On-going
3. Capture lessons from formation of Chiefdom Foundations	PIDU & LUSIP II	30/12/13
4. Continue support for the existing and new FC	Sugar/ABU/BDU	On-going
5. Protect the FCs from interference by the traditional authorities,	SWADE/ADEMU	On-going
6. Development of a training forum and extension approach for farm supervisors	Sugar & AB units	15/01/14
7. Strengthen linkages into the water management and allocation system through the water users associations	Sugar/Lebombo	28/02/14
8. Confirm access to SSF resources		
9. Review the ILRI-SWADE agreement to strengthen the linkages with farmers	ABU/ILRI Coordinator	30/11/13
10. Establish ILRI Project in MOA budget	ABU/ILRI Coordinator	immediate
11. Extend appointment of SWADE as interim WSP to 30 Mar 2016	MNRE	30/11/13
12. Carry out WSP study	DWA	31/12/14
13. Carry urgent canal protection mitigation	SWADE	30/11/13
14. Confirm budget provision is made for long-term remedial work	SWADE/DWA	30/11/13
15. Carry out river basin audit	DWA/SWADE	From 15/11/13
16. Make provision for necessary technical O & M under the WSP	Environment Unit with MNRE	30/06/14
17. Resolve community concerns in the Logoba Conservation Area Project	Environment Unit	30/11/14
18. Obtain up-dated report on operation of the Siphofaneni Disease monitoring clinic	Environment Unit	30/11/14
19. Monitor progress on completion survey	M & E	15/11/13
20. Adopt automated budgetary control in ACCPAC	CFO	31/3/14
21. Introduce a dedicated bank account for IFAD loan funds	CFO	31/12/13
22. Incorporate the contract register with the procurement plan such that progress can be better monitored	CFO	31/12/13
23. Update the project-specific financial procedures to complement the existing SWADE manual (IFAD No Objection thresholds, ACCPAC system controls, mirror server back-up controls etc)	CFO	31/12/13
24. Implement the ACCPAC procurement module	CFO	31/12/13
25. Consider system enhancements to allow management financial reporting directly for ACCPAC	CFO	31/12/13
26. Consider moving from the IPSAS cash-basis of financial reporting to IFRS (accruals basis)	CFO	31/3/14
27. WA125 will be disbursed net of the unsupported vehicle rental cost and duplicate SoE sheet from category IX(a). The total deduction is USD 45,734.25	IFAD	31/10/13
28. Remove the unauthorised signatory from the bank’s list of authorities	CFO	31/12/13
29. Introduce formal and documented monitoring of the project’s quarterly financial reports	SWADE Finance and Audit Committee	31/12/13
30. Perform a Quality Assurance check of the internal audit function as required by the IIA’s professional standards	SWADE Finance and Audit Committee	31/3/14
31. Formally adopt a Code of Conduct for employees	SWADE Finance and Audit Committee	31/3/14
32. Update the fixed asset register for incomplete information	CFO	31/12/13

33. Assess the sub-catchment study and make necessary budget submissions for 2014/15 FY	ADEMU Manager	20/12/13
---	---------------	----------

Appendix 4: Physical progress measured against AWP&B

LUSIP I Summary Physical Progress (as of Sept 2013)					
Key LUSIP I Outputs	UNIT	TARGETS		ACHIEVEMENT	%
		Origin	Amended MTR	TOTAL PROJECT	
Chieftdom Development Plans	No	7	6	6	100
Chieftdom Development Foundation	No		6	1	17
River Basin Authority	No		1	1	100
Irrigation District	No		1	1	100
Water Service provider	No		1		0
WUAs	No	130	12	9	75
Farmer Companies Formed	No	130	65	70	108
Area-Sugar	No	6500	4355	3004	69
Area - Alternative Cash Crops	Ha		1085	197	18
Commercial gardens	Ha		405	161	40
Not suitable for development	Ha		645		0
Total Irrigated Area	Ha	6500	6500	3362	52
Livestock Enterprises Developed	Ha		25	6	24
Irrigation District Established	Ha		1	1	100
Domestic Water Supply	Ha		2600	2029	78
Sanitation Units	Ha		2400	2290	95
Livestock Troughs/Washbays	No		17	30	176
Environmental Panel Reports	No	8	4	4	100

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier

Financier	At MTR (USD'000)	Disbursements USD'000	%age disbursed
IFAD Loan***	17,850	15,563	87%
Government of the Swaziland-Counterpart Funds	20,000	140,400	702%
Total	37,850	155,963	412%

***Includes the Initial deposit net of recovery to date and expenditure of USD 473 450 for WA125

Note: The Financing Agreement states GoS contribution will be SZL 139.8 million (equivalent to approx. USD 20.0 million)

Table 5B: Financial performance by financier by component (USD '000)

Component	IFAD			GoS			Total		
	At MTR appraisal	Actual	%age	At MTR Appraisal	Actual	%age	At MTR Appraisal	Actual	%age
	USD'000	USD'000		USD'000	USD'000		USD'000	USD'000	
CDPs and Land	3,495	-	0%	-	-	0%	3,495	-	0%
Economic Emp.	5,568	3,740	67%	-	26,390	0%	5,568	30,130	541%
- ADEMU				-	-		-	-	
- Land & Crop Dev				-	-	0%	-	-	0%
Water Institutions	489	70	14%	-	2,550	0%	489	2,620	536%
Life Sus & Environ	3,310	2,960	89%	5,086	1,630	32%	8,397	4,590	55%
Project Management	4,383	7,800	178%	13	5,390	40526%	4,396	13,190	300%
Water Management Unit	-	-	0%	-	-	0%	-	-	0%
Civil Works	-	-	0%	-	-	0%	-	-	0%
Total	17,245	14,570	84%	5,100	35,960	705%	22,344	50,530	226%

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Compliance Status	Remarks.
Section 2.03 (c)	The Borrower shall operate the Special Account in accordance with Section 4.08 of the General Conditions.	Complied	
Section 3.02	Annual Work Plans and Budgets: (a) the ADEMU Manager shall, for each Fiscal year, prepare draft annual work plans and budgets (AWPBs) for the Downstream Development and Agricultural Commercialization Component and the Environmental Mitigation Component of the Project	Complied	
	(c) The Lead Project Agency shall adopt the AWPBs in the form approved by IFAD and the other Financing Partners and shall provide copies thereof to WAD and UNOPS prior to the commencement of the relevant Fiscal Year.	Complied	
	(d) If required, the PMU, the ADEMU may propose adjustments in the AWPB during the relevant Fiscal Year, which shall become effective upon approval by the Lead Project Agency, IFAD and the other Financing Partners.	Complied	
Section 3.03	Project Accounts. (a) The Lead Project Agency shall open and thereafter maintain in a reputable commercial bank in Swaziland, accepted by IFAD, a current account denominated in Swaziland Lilangeni for Project operations (the "Project Account").	Complied	
Section 4.01	Monitoring. As soon as practicable but in no event later than the end of the first quarter of the second Project year, the ADEMU and IEMU shall, respectively, establish and thereafter maintain appropriate information management systems to enable them to continuously monitor the Project.	Complied	
Section 4.02	Progress Reports. The Lead Project Agency shall submit to progress reports on Project implementation, no later than two months after the end of each six-month period during the Project Implementation Period.	Complied	
Section 4.03	Mid-Term Review. (a) The Lead Project Agency, the Financing Partners and the Cooperating Institution, shall jointly carry out a review of Project implementation no later than the fourth Project Year (the "Mid-Term Review") based on terms of reference prepared by the Lead project Agency and approved by IFAD, the other Financing Partners and the Cooperating Institution. (b) The Borrower shall ensure that the recommendations resulting from the Mid-Term	Complied	

Section	Covenant	Compliance Status	Remarks.
	Review are implemented within the specified time therefore and to the satisfaction of IFAD and the other Financing Partners. It is agreed and understood that such recommendations may result in modifications to the Loan Documents or cancellation of the loan.		

Appendix 7: Knowledge management: Learning and Innovation

Learning

There have been many positive and some negative lessons learnt during the implementation of LUSIP. These lessons are summarised below.

Design of Large Scale Water Development Initiatives

Ensure design provides for multiple use – here the possibility of power generation and eco-tourism could have been taken up earlier than they have

The need to provide for watering points with safe human and livestock access to reduce using the canal directly to meet these real needs

Carry out detailed design review as part of appraisal to avoid long delays once funding budgets have been set

Ensure that land and soil surveys are of sufficient detail and quality to support the envisaged irrigation systems

Land and Traditional Authorities

Recognise the tremendous effort and time required to work with traditional authorities and rural communities with regard to land

Provide for shared incentives across the community empowerment is an essential base for development with poor rural areas as it provides a basis for governance and responsibility;

support for decision making carries over into business processes / practices;

Provide for cross institutional learning and experience sharing

Irrigated Agriculture and the transition from Subsistence Farming

establishment / development of good farmer organisations that are well supported increases leverage for better returns;

technical support for production issues is particularly essential;

production must be planned based on market demand; and

demonstrating market demand, with a good business plan, significantly increases access to finance;

market behaviour is significantly influenced by policy and regulatory issues and these must provide an enabling environment for agricultural enterprises to succeed.

Innovation: Describe any interesting innovation noted during supervision

Key elements of innovation include CDPs, Land Tenure, Farming Companies and economies of Size. The development of a CDP model (that needs further documentation), the development of the “enhanced” chiefs letter as mechanism for participatory reallocation of land and the adoption of farmer companies as a means of incorporating small-farmers and landless people in a large scale irrigation development are all more meritorious in that they have drawn significantly on relevant Swazi and regional experience especially the Komati scheme that was implemented by SWADE and from where a significant proportion of ADEMU staff were progressively drawn. In particular, the impact of the Chiefdom Development Plan (CDP) process – developed under LUSIP - has been significant in relation to empowering people, decision making processes, access to the means of production, and natural resource management at the local level. It has provided a platform on which to base group formation for social, traditional and economic opportunities in the chiefdoms.
