

**KINGDOM OF SWAZILAND**  
**LOWER USUTHU SMALLHOLDER IRRIGATION PROJECT**  
**(LUSIP)**  
**IFAD LOAN NO. 574-SZ**

**SUPERVISION MISSION REPORT**  
**REPORT NO. 3062-SZ**  
**01 - 12 OCTOBER 2012**

## **KINGDOM OF SWAZILAND**

### **Lower Usuthu Smallholder Irrigation Project – Loan No. 574-SZ**

#### **Supervision Mission: 01 – 12 October, 2012**

##### **A. Introduction<sup>1</sup>**

1. The overall objective of 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 the Lower Usuthu Smallholder Irrigation Project is SDR 11.9m. The project became effective on 27 January 2004. Project completion and Loan Closing dates are 30 September 2013 and 31 March 2014 respectively.
3. The current mission has focused on key issues including the full utilisation of the IFAD loan, progress on implementation of the LUSIP Exit Strategy, achievements under alternative crops (to sugar) and livestock, progress being achieved by the farming companies that have access to irrigation on SNL land and preparations for assessing the impact of LUSIP and preparation of the Project Completion Report.
4. The mission acknowledges the co-operation and courtesy extended to it by the Government of Swaziland, its agencies, the staff of the Project 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 11 October 2012. The findings and agreed actions will be reviewed and confirmed in a management letter from IFAD.

##### **B. Overall Assessment of Project Implementation Progress**

5. The Project has played a significant role in uplifting the standard of life for many households in the LUSIP project area. A total of 2272 households (87% of the targeted households) are already deriving benefits through participation in the irrigated agriculture (of which 281 have shared an equivalent of US\$428,550, as dividends, with each household receiving an average of US\$1,525). Some 860 homesteads now have access to clean drinking water.
6. Project implementation is far from complete with only 41% of the targeted area having been developed for irrigated agriculture. The project has been very successful agronomically, with sugar cane yields (115 t/ha) exceeding the budgeted levels and also the mill average. Three hundred and sixty new permanent jobs have been created to date, and a further 180 are expected by end of 2012. An additional 3600 seasonal jobs have been created.
7. The Government has, through donor and its own funding (USD 123 million), invested in excess of US\$ 210m in the implementation of the project since 2005. To enable the land to be developed and irrigated the EU has contributed about USD 10M (€6.6m). This has supported the establishment of 1040 ha of sugar cane for Seventeen

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<sup>1/</sup> Louise McDonald, CPM, David Rendall, Agricultural Economist and Management Specialist, Mwatima Juma, Alternative Crops and Conservation Agriculture Specialist, Steven Jonckheere, Land and Institutions Specialist, Godfrey Wanjohi, Financial management Specialist, Fiduciary Specialist (remote support), The Mission was conducted concurrently with the Review Mission of the GEF Grant for the Lower Usuthu Biodiversity, Sustainable Land Development and Climate Change Project.

Farmer companies of sugar cane. Similarly the Government has supported the development of 1156 ha of irrigated agricultural land for sixteen Farmer companies through the investment of USD9.8 million. Additional to these contributions are those from Illovo Mill for out-grower smallholder sugar operations in the PDA.

8. To date the Farmer companies have borrowed the equivalent of USD 2.3 million. in commercial loans. To consolidate these investments the Farmer Companies require continued training support and capacity building to ensure proper business practices. This will strengthen the likelihood of them meeting their loan obligations and providing a reliable income source to their shareholders for the foreseeable future.

9. IFAD has received a GoS request for it to consider participation in the financing of LUSIP II. This will not be possible directly given *inter alia* the need for the LUSIP I activities to be substantially completed and evaluated. The new GoS and IFAD programme – The Smallholder Market Led Production Programme<sup>2</sup> (SMLPP) will be a potential source of financial resources for LUSIP I and II. The goal of SMLPP is to reduce poverty of targeted poor rural households in a sustainable way. The Programme will be national in scope with its initiatives being started through the development of small/medium dam irrigation schemes as identified by GoS in the CAADP Compact and the commercialization of selected government farms using public private partnerships (PPPs). It will target vulnerable households, women and young people. Non-sugar activities in the wider LUSIP PDA will be eligible for consideration under this programme through implementation partnerships (that will be performance based and include the provision of management fees). Further details can be found in Attachment 1

10. The overall status of LUSIP is summarised in Table 1.

## **C. OUTPUTS AND OUTCOMES, BY COMPONENT**

### **Component 1 Chiefdom Development and Land**

#### **A. Community Mobilisation**

11. Chiefdom Development Plans. So far only three chiefdom development plans (CDP) have been successfully launched: Gamedze (2009), Ngcamphalala (2010) and Mamba (2011). The CDP for Shongwe has been developed, but the chief refuses to sign as long as the issue of compensation has not been settled (see below). Two others (Mphumakudze and Lesibovu) are in the process of being developed in collaboration with LUSIP-GEF. As there are too few homesteads present in the seventh chiefdom (Mdlaka), the Project did not undertake any activities here and therefore no CDP is foreseen. The Efforts are needed to ensure that the CDPs for Mphumakudze and Lesibovu are finalized and launched by March 2013 and the CDP for Shongwe is signed by the end of 2012. Prior to the finalisation of the CDPs it is necessary for the Minister of Agriculture to be consulted.

12. There have been some challenges reported regarding the support and understanding of the CDP process from the traditional authorities. In order to ensure adherence to the CDP by the Chiefs, stronger involvement and support of the Tinkhundla for facilitating and monitoring CDPs must be sought. This should be part of the Memorandum of Understanding (MoU) to be signed with the Ministry of Tinkhundla Administration and Development (MTAD) (see below). Often other stakeholders do not use the CDP as entry for their interventions in the chiefdoms. Since January 2012 monthly meetings have been held with the Regional and Sub-regional Development teams. This has allowed for improved coordination of the different interventions around the CDPs. The Project should continue with these monthly meetings and with the promotion of the use of the CDP as entry point for other stakeholders.

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<sup>2</sup> See Attachment 1 for a summary of SMLPP

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Table 1:							
Key Project Performance Indicators							
Status as at Oct 2012							
Project Component Outputs	Unit	Targets & Milestones		Achievement		% Achievement	
		Total Project	AWPB Reporting Period: 2012/13	Total Project	AWPB Reporting Period: 2012/13	Cum	AWPB 12/13 2011/12
Chiefdom Dev Plans (1)	No.	6	3	3	1	50	33
Water Users Assoc. (2)	No.	12	3	8	2	67	67
Farmer Coy formed	No.	65	10	57	4	88	40
Area - sugar	Ha	3500	1075	2196	0	63	0
Area - alt crops	Ha	2057	774	220	185	11	24
Area - commercial gardens	Ha	347	60	221	60	64	100
Not Suitable for dev	Ha	596					
Total Irrigated Area	Ha	6500	1909	2637	245	41	13
Livestock Enterprises	Ha	10	21	12	6	120	29
Livestock Troughs	No.		17	17	17	na	100
Graves relocated	No.	800	0	807	0	101	na
Homestead constructed	No.	157	0	157	0	100	
Irrigation district estab	No.	1	1	1	1	100	100
Domestic Water supply	No.	2600	0	860	0	33	
Sanitation units	No.	2600	1342	2088	330	80	25
Source: ADEMU Quarterly Report		(1) this was originally 7 but as one chiefdom					
		had only minor involvement no CDP was carried out for it					
		(2) three WUAs were formed but 2 were merged into 1					

13. During the period under revision, the Project has organised opportunities for the Chiefs to exchange experiences among themselves during an annual meeting in September 2012 and with the Chiefs from KDDP at the beginning of October 2012. Furthermore, a training was organised for the CDC from Mamba on project proposal writing and communication and the Inner Council of the same chiefdom have been sensitised on their roles and responsibilities. Similar trainings should be organised for the MTAD and the other chiefdoms so they will be capable of presenting project proposals from their CDPs to interested parties. The Project should assist the CDCs in presenting their proposals and brief them on opportunities arising during their monthly meetings with the Regional and Sub-regional Development teams.

14. Currently, the monitoring of the implementation of the CDPs is done on an ad-hoc basis. It is agreed that that progress regarding the implementation of the CDPs is documented according to the indicators, target dates and proposed budgets included in the CDPs. This should be done by the CDCs and the Tinkhundla centres, with the assistance of the Project and shared with the wider community at regular intervals as well as being on record with MTAD.

15. Chiefdom Development Foundations. As mentioned during the last supervision mission, it has not been possible to register Chiefdom Development Trusts (CDT) due to

legal constraints. The Project has now gone ahead with the registration of Chiefdom Development Foundations (CDF). The idea is that each Farmer Company (FC) gives a contribution to the Foundation for the land they are using and this revenue is then used for the implementation of community development projects identified in the CDPs and, a smaller part, for showing allegiance to the Chief (khonta). At the same time, a plot of 100 hectares would be set aside in each chiefdom and the revenues generated from cultivating this land would also go to the CDF. The foundation would be managed by a CDF committee. So far, only Ngcamphalala has registered their CDF, but they are still waiting for the release of the certificate of incorporation by the Registrar of Companies. The Project has introduced the concept of the CDF in Shongwe, Gamedze and Mamba, but there are still some reservations that need to be addressed with Chiefs. During the Mission, a meeting was held with the traditional authorities of Shongwe where the Project explained the concept of the CDF another time. They accepted to finalize the formation of the Chiefdom Development Foundation Committee by the 17th of October 2012. The Mission noted that the operational modalities of the CDF have still not been worked out, especially with regards to the nature and amount of the contribution of the FCs and the way in which the revenues will be used. It is agreed that ADEMU will develop guidelines to facilitate community based decisions on this matter by the 30th of November, 2012. It is also agreed that more awareness raising is done in the chiefdoms to explain the functioning of the CDFs using simple visual aids, such as a flowchart.

16. Ministry of Tinkhundla Administration and Development. The Tinkhundla Administration and Development Bill (TADB) could provide the required legal framework for the CDPs. Whereas there are already provisions made for the recognition of Integrated Tinkhundla Development Plans, the CDPs are not mentioned in the TADB. The Project has held an internal workshop to compile draft written submissions to the parliamentary Portfolio on the TADB. These submissions were to be presented to the MTAD during a workshop. As the MTAD is still awaiting the approval of Cabinet to hold this meeting, the workshop has still not taken place. It is agreed to that the workshop needs to take place before the 31st of October 2012, given that the Bill is supposed to be passed by the end of the year. If a workshop is not possible then a meeting with MTAD should be held. The MoU between SWADE and MTAD for facilitating and monitoring the CDPs still has to be finalised. This is to be done by 31 December 2012.

## **B. Land Tenure**

17. Chief's Letters of Consent. The Chief's Letter of Consent (CLC) has been an effective mechanism for facilitating the transfer of use rights from customary owners to farmer groups. The CLC has been improved by the Attorney General to ensure compliance with the national laws. So far 56 CLCs have been issued to FCs. A brief report has been produced by the Project on lessons learned on CLCs. Disputes have been reported between the Chief and the FCs, which emerge mainly from a lack of understanding of the general conditions of the CLC. Although a clear conflict resolution mechanism has been stipulated, people do not seem to be aware of this. Refresher courses need to be held with the Chief and the FCs on the specified conditions of the CLCs. Incidents of former owners who try to reclaim ownership of the land they previously owned despite having relinquished their rights do not seem to exist any longer. Only one case has been reported, namely the Ntsatjana/Manzana FC. The Project needs to assist the FC in resolving their conflicts using the appropriate mechanisms. Record keeping is another issue that needs to be tackled. At present copies of the CLC are kept by SWADE, the Chief and the FC. As MTAD has the mandate for this function records should be deposited with MTAD and copies with the Tinkhundla Centre and the Regional Administration. The idea of introducing leasing or sub-leasing arrangements, as identified in the draft Land Policy, has been put on hold for now due to some reservations amongst traditional authorities – these need to be addressed and constructive approaches developed.

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18. Land policy. The study to review relevant sustainable land management policies, laws and by-laws (particularly related to land tenure) across government sectors has been commissioned to the Community Forestry Network. The team of consultants started in July and have produced an inception report, including a time schedule which runs up to March 2013. The multi-stakeholder Land Policy Task Force (LPTF) is supervising and providing support to this process. During the period under review, a very constructive meeting was held between the LPTF and the Land Management Board (LMB). The LMB was reported to be very happy with the on-going review which will help them to define their role.

### C. Equitable access to Project initiatives

19. Resettlement. Resettlement due to the development of the canals and reservoirs has been completed. A total of 157 homesteads have been resettled. It was reported that five houses suffer from various defects. The tender for their rehabilitation has just been published.

20. Compensation for Shongwe. Alternative land for the land lost due to the inundation of the reservoir has not been found for the chiefdom of Shongwe. It was reported that expropriation of the adjacent Title Deed Land (TDL) is not feasible. It was therefore agreed that the chiefdom will be compensated financially. The compensation would be transferred to the CDF, but due to problems with the CDF committee mentioned above this has not been done. The fact that up until now no solution has been found for the compensation has been an impediment for the launching of the CDP. ADEMU needs to follow up with the community by the end of October 2012 to finalise the setting up of the CDF committee and thereafter immediately start the registration of the CDF.

21. 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. The Project mentioned that an irrigation scheme could be developed in Shongwe, but that a big part of the land is disputed with the Gamedze chiefdom. KDDP faced a similar situation of building an irrigation scheme on disputed land and dealt with it successfully by involving the Regional Administration in collaboration with the MOA. It is agreed that ADEMU will take this issue up with the Regional Administration and see if a solution can be found by 30 November 2012.

22. Farmer companies. Up until this moment, the Project has assisted in setting up and registering 57 FCs. More than 50% of the shareholders are poor. Currently LUSIP and SHIP are working to strengthen the functioning of the FCs through issuing share certificates and developing guidelines for constitutions (that will be appended to the articles of association). This is apposite move that should be in place by 31 March 2013.

Agreed Action	Responsibility	Agreed Date
<b>Community mobilisation</b>		
1. Launch CDPs for Shongwe, Mphumakudze and Lesibovu	ADEMU, SLMP	31/03/2013
2. Liaise with His Majesty the King to explain the importance of the CDPs and support chiefs to do the same	SWADE	31/12/2012
3. Monthly meetings with the Regional and Sub-regional Development team	ADEMU, SLMP, LUSIP II	Ongoing
4. Finalise operational modalities of the CDF	ADEMU	30/11/2012
5. Facilitate awareness raising of TA and CDCs on the CDFs	ADEMU	Immediate and ongoing
6. Facilitate workshop regarding submissions to the parliamentary Portfolio on the TADB	ADEMU, MTAD	31/10/2012
7. Finalise MoU between SWADE and MTAD for strengthening collaboration in facilitating and monitoring CDPs	SWADE, MTAD	31/12/2012
<b>Land tenure</b>		
8. Facilitate conflict resolution for Ntsatjana/Manzana FC	ADEMU	31/12/2012
9. Share copies of CLC with Tinkhundla Centre and the Regional	ADEMU	30/11/2012

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Administration		
<b>Equitable access to Project initiatives</b>		
10. Facilitate setting up of the CDF committee in Shongwe and registration of CDF	ADEMU	31/12/2012
11. Liaise with the Regional Administration on the disputed land between Shongwe and Gamedze	ADEMU	30/11/2012
12. Assist FCs in getting the necessary documentation	ADEMU	31/03/2013

### Component 2 Economic Empowerment

23. Although the physical progress remains considerably behind schedule there are many positive elements to this key economic component with 58 farmer companies established. Fifty of these are sugar cane companies 22 of which are harvesting sugarcane successfully. Of the other 8 3 are growing alternative crops and 8 are livestock companies. There has been a significant increase in other crops with maize, sweet potatoes and beans being the most popular. The recent approval by IFAD of the beef market linkages grant that will be managed by ILRI with ADEMU will give a further boost to the livestock activities. Continuing support in business governance and business skills is an important need for most of the farming companies.

24. The status of farmer companies is presented in Table 2.

**Table 2:**

Status of Irrigated Development								
Lot No.	Sugar	Other Crops	Com. Garden	Total Area	F/As	No HHs	Area /hh	Status
1	355	0	25.6	380.6	7	168	2.3	2nd Harvest
2	476	0	80.5	556.5	6	381	1.5	2nd Harvest
3	518	0	33.8	551.8	8	280	2.0	1st Harvest
3A	167	0	4.75	171.8	3	77	2.2	1st Harvest
4	618	335.6	66.6	1020	10	549	1.9	1st harvest
Estab	2134	335.6	211.25	2681	34	1455	1.8	numbers to be up-dated
5	475	0	59.9	534.9	5	225	2.4	Plant autumn 2013
6	491		52.4	543.4	13	585	0.9	Plant early 2013
7	900		519	1000	8	700	1.4	Planning
8	800			800		400	2.0	Planning
Planned	2666	0	631.3	2878	26	1285	2.2	
Planning not yet started				440.8				
Not Likely to be developed				500				
<b>Total</b>	<b>4800</b>	<b>335.6</b>	<b>842.6</b>	<b>6059</b>	<b>60</b>	<b>2740</b>	<b>2.4</b>	
<b>Total</b>				<b>6500</b>				

### Sugar

25. A total of 2,196 hectares have been developed to date, which represents a 50% progress toward the project's attainable target ( $\pm 4,000$ ha). A further 2878 ha of irrigated land has been ear-marked pending the availability of financing. The land developed is operated by 34 Farmer companies with a further 16 associated with schemes under active preparation.

26. The LUSIP farmers' performance continues to be excellent with only 3 of the 22 companies that are harvesting not meeting their budgeted sugarcane per hectare target. The situation is not quite as good with regard to sucrose content and purity suggesting that there are opportunities to improve harvest and transportation management due to the long burn to crush delays that have been experienced. Cumulative sales of sugar cane total 211,500 tonnes that has generated significant gross revenue.

27. It is encouraging that 4 FCs have been identified by LUSIP/SHIP and the involve bank as being ready to be 'weaned' from direct supervision (particularly the pre-audit of

expenditure). Three of the FCs are taking up this graduation whilst the fourth decided that it wanted this closer support for some more time.

28. There are on-going concerns about:

- i. the quality of management and oversight of some FCs including a high turnover of farm supervisor's (6 out of 22 FCs that are harvesting)
- ii. the consistency of repairs and maintenance of plant and equipment – for instance the centre-pivot systems have an expected economic life of 15 years but there have been several major repairs in the first two seasons of operation.
- iii. there is a tendency for non-genuine spare parts to be procured, which affects the durability of equipment and may be an indicator of malpractice
- iv. poor procurement practices frequently led to delayed applications of fertiliser and herbicides
- v. Inconsistent attendance at FC meetings by shareholders.

### **Other Crops**

29. There is good progress in development of other crops for both food security and as commercial crops. The dominant crop planted is maize for food security but some maize stands have been planted for sale as dry grain and green mealies. Other crops include seed maize, seed sugar beans and water melons that have also been planted in rotation. This constitutes about 84 hectares of crop planted. The level of planting on the commercial gardens was low due to difficulty in getting funding for the alternative crops. Planted areas have mainly been funded by proceeds from sugarcane sales. Most of the planting were done in Nxutsamlo, Sibhotela, Sukumani, Setamimphilo, Ngcwaleni and Maweni Farming Companies. Progress on development of cassava planting as a joint operation with starch factory of CASQUIP at Mphaphati has been slowed due to delay in availability of Government funds in 2011 for land development. Land preparation has resumed and planting is expected before end of 2012.

30. The plan for the year was to plant 205.3 ha under commercial gardens. Only 161,3 ha have been developed until June 2012. Thirty one hectares has been planted with maize, 10 ha with sweet potatoes, 9.2 ha with seed beans, 4 ha with seed maize, 0.5 ha water melon and 0.2 ha dry beans. These bring the total area planted under commercial gardens to 55.2. Some of these farms have their food security crops in the field and others are harvesting. Bamoyamunye Farmer Company has decided to plant sugarcane on the area for commercial gardens as they will increase their membership in the coming year from 97 to 109 and have only 82 ha under sugarcane which will results in small dividends. The Matimavu FC is reluctant to plant their 14ha to non-sugar crops as the farmers feel the pumps are too big and would be costly to run. Similarly Ndweni FC would prefer to convert their 14ha of commercial gardens to sugarcane. Farmers are taking too long to decide on the cropping programmes which delays the preparation of business plans to procure debt financing from the CFIs to fund the production in the farms.

31. Business plans for Babili and Luphiko LwaMgwagwa were submitted with four (4) CFIs namely Swazi Bank, NEDBANK, Standard Bank and FINCORP to procure debt financing for the FCs. The CFIs are being engaged actively to fast track the approval of the loans. Farmer companies growing cash crops in their commercial gardens were assisted in managing their purchases ledgers. To avoid overhead in parallel financing, it is recommended for LUSIP to engage with SHIP to consolidate the business plans for sugarcane enterprises with commercial gardens enterprises.

32. There is good progress in planning for market linkages through private public partnership. The project has assisted in identification of companies such as Maize and More, Ngwane mills and SDEMANE Investments PTY who are ready to enter in partnership with farmers to provide market for their produce (predominantly maize (dry



and seed, beans and sweet potato). Some MOUs have already been developed. The project should include in such MOUs the provision of extension services to farmers encourage these companies to provide extension services to farmers. Market linkage also needs to expand to local whole sellers and supermarkets where there is a need for appropriate quality and packaging. The business plan for the rehabilitation of KK pack house has yet to done. Initiatives are being taken to encourage large enterprises such a Ubombo Mill to prioritise procurement of vegetables for staff rations form the LUSIP PDA.

33. One of the challenges in production of commercial crops especially vegetable is the lack of technical support similar to that provided to sugarcane. Farmers have been requesting more extension support. The demonstration plot is yet to provide comprehensive extension package for vegetable production. Currently the demonstration farm is trialing and marketing various crops through NAMBoard and monitoring costs and revenues. This information is feeding into the business plans submitted to financial institutions. The demonstration could be used as Farmer Field School (FFS) where by farmers are allowed to participate in all aspects of production process to gain hands on practical experience. The project should involve Ministry of Agriculture staff to be facilitators for the FFS and at the same time provide them refresher knowledge on vegetable and field crops production. The idea of using a lead farmer in training for bee keeping can also be expanded to vegetable garden in an effort to reduce shortage of extension staff. There is also an excellent opportunity of partnering with the RFEDP in developing commodity training and mentoring programme for selected production systems.

34. Farmers in the resettlement homesteads are yet to use the opportunity of availability of domestic water for their home gardens. There is a feeling that it will be an expensive exercise. To date farmers are still depending on rain in their backyard gardens growing paw-paws, mango, maize and some hardy vegetables. There is a need for project to facilitate households in the installation of family drip irrigation which is more economic on water use. Family drippers can even be linked into the water harvesting tanks within homesteads. Close linkages need to be strengthened with GEF/LUSIP project to use its expertise in conservation vegetable production for home gardens with limited water supply using organic and permaculture principles. This will speed up development of home gardens within resettlement homesteads.

35. The horticultural marketing strategy is yet to be finalized due to delay in finalization of the three important studies that are to precede the strategy:

- i. FAO study on competitiveness of vegetable production in Swaziland is still to be formally released
- ii. Institutional assessment of NAMBoard is pending review and adoption by the NAMBoard and the Ministry of Agriculture
- iii. Vegetable Pricing study being funded by RFEDP has just been commissioned.

36. There is an urgent need to speed up on the development of horticulture strategy/plan as it can provide farmers with better guidance on the crops to choose.

### **Livestock**

37. LUSIP livestock development activities experienced improved progress over the last 6 months. However the indigenous chicken enterprises are performing well. There is considerable progress with indigenous chicken enterprise especially on the group collective marketing. Farmers rear the chickens in their homesteads and use the association to market them collectively. Currently there are three (3) free range chicken groups that are operational. There is a room for more engagement of this group in the form of farmer field school to allow for better exchange of learning among members and collective purchase of inputs such as vaccines. There is also a need for development of a model facility for commercial rearing of free range chickens. There is still a need for the project to commission a specific study on market for indigenous chicken to provide

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insight into the real market prospects for this enterprise that has much potential for poor rural households. The existing study of Technoserve provides an overall picture of the poultry industry mainly based on production aspects.

38. The established bee-keeping FC is progressing well. The Project has signed an MOU with an expert bee keeper to be a lead farmer in providing training. A plan is in progress to establish model fish ponds at Mtfweni, Ngugwane, Tikani and at the demonstration centre.

39. Preliminary plans for the innovative Beef Value Chain development scheme is progressing well, with identification of five cattle traders and training them using demonstration feed lot. The recent approval of grant (to be implemented through ILRI) for this project will increase the pace on utilization of the existing potential on cattle. The project could also look into the opportunity of developing zero grazing dairy cattle especially for the resettlement homesteads.

Agreed action	Responsibility	Agreed date
13. Develop partnership with RFEDP for on-going support and mentorship of non-sugar companies	ABDU/RFEDP	31/12/12
14. Strengthen harvest and transport scheduling and management	SCU	On-going
15. Strengthen O & M for plant and equipment	SCU	31/1/13
16. Up-grade farm procurement training and oversight measures	SHIP	31/3/13
17. Introduce audit committees to FC structure	SHIP	31/3/13
18. Deploy the use of FFS approach within the setup of demonstration plots	ABDU	31/1/13
20. Finalise extension and training materials for agriculture, horticulture and livestock initiatives in collaboration with GEF and RFED	ADEMU	30/11/12
21. Ensure close collaboration with the Ministry of Agriculture and other projects as part of sustainability after project end	ADEMU	31/3/13
22. Follow up on completion of pending studies which are prerequisite for development of Alternate Crop Strategy	ABDU	20/12/12
23. Facilitate immediate implementation of the grant project of Innovative Beef Value Chain Development scheme.	ABDU	15/12/12
24. Follow up on completion of prerequisite studies needed before rehabilitation of KK pack house	ABDU	31/12/12

### Component 3 Water Institutional Development and Policy

40. The status of implementation of water institutions development and governance in LUSIP is summarised in the Table below. There have been problems with illegal abstraction of water along the canal causing it to be dirty and suffer damage from vandalism, illegal fishing, cattle grazing and settling of people on the PMF. To address these issues five meetings since March 2012 have been held with executives of Farmer Companies to make them aware of the importance of the canal. Other meetings have been held with individual WUAs on the same matter. Also a couple of meetings have been held the Ngcamphalala Traditional Authorities where vandalism and illegal abstraction was worst. As a result the Ngcamphalala TA has made a ruling that any illegal piping found along the canal should be withdrawn and handed over to the TA who shall then lay charges on the owner. It is also agreed that ADEMU finalize the assessment of the impact of the illegal abstractions on water availability versus future demand (full development) and develop a strategy for dealing with the challenge.

41. The need to establish an independent water service provider (WSP), to authorise collection of water charges and to support the operationalization of the RBA and ID is paramount for the sustainability of water storage and delivery for economic production activities. In particular the establishment of the WSP and authorisation of water charges should no longer be held pending by the relevant authority. The SWADE Board needs to demonstrate clear leadership on these issues. It also needs to make a decision on the

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Dam Inspection and Training Consultancy that also has important implications for the on-going safety and viability of the up—stream works.

No	Institution	Status	Observation
1	National Water Authority (NWA)	Operational	Policy & Advisory Body
2	Pricing Policy (LUSIP)	Approved by NWA	Has been gazetted by NWA, SWADE Board needs to confirm start-up of water charges
3	Usuthu River Basin Authority (URBA)	Approved	Not operational, recently re-activation letters sent by NWA as funds for initial operation now available
4	Siphofaneni Irrigation District (SID)	Approved	Established at the LUSIP Dam Office, operational funds just received.
5	Water Service Provider (WSP) for management of LUSIP infrastructure facilities (Phase I & II)	Assigned to SWADE until March 2013	Feasibility Study contract not approved by SWADE Board, internal study not started – this is now urgent
6	WUAs/FOs	9 WUAs, 57 FOs	3 more to be formed in line with land development

42. It is noted that the NWA has received E 1.98 million to operationalise the Water Act (2003). The NWA has instructed its secretariat (DWA) to prioritise the completion of river audits and the finalisation of the Water Act regulations. The Usuthu RBA and the Siphofaneni ID, along with the Komati RBA and the Emandla Ekuphila ID, the pilot systems that are receiving funding for their establishment and initial operations. These funds will need to be operated and accounted for separately.

43. The review of the operational maturity of the 9 WUAs was up-dated during the mission. This indicated that steady progress is being achieved with four WUA now being rated as performing satisfactorily.

44. It is reported that most of the farming companies are setting aside water fees based on earlier indications of charges of E 450 per hectare. This level of fee is to involve a significant element of subsidy – for instance the Mhlume Water Company charges E 700 per hectare. It will be helpful to review the experience from this WSP as the standard operating procedures (SOPs) for the LUSIP WSP are developed including clarity about delineation of responsibility for the different parts of the system. For instance will the WUAs be responsible for maintenance from the first off-take to or/and including the balancing dams of will the farmer company's be responsible for the balancing dam.

45. Key issues that need to be addressed to enhance water management in the LUSIP PDA include:

- i. All WUAs need to be been formally introduced to the Inner Council (Umphakatsi) thus facilitating their operational effectiveness and the support they receive form the traditional authorities
- ii. There is need for collective responsibility (including the traditional authorities to control illegal water abstraction from the canal
- iii. The provision of agreed and standard sitting allowances for the WUAs needs to be addressed once water charges are introduced

Agreed action	Responsibility	Agreed date
25. Establish independent WSP	NWA/SWADE	31/3/13
26. Approve Dam Inspection and Safety consultancy	SWADE Board	15/11/12
27. Start collecting water fees	SWADE Board	1/1/13
28. Activate RBA and ID	DWS/ADEMU	1/1/13

**Component 4 Life Sustenance and Environment**

46. The USD 14.2 million OFID loan that was approved in 2010 has still not be activated however the loan has been approved and is expected to be signed by the end of October, 2012. This will provide critical impetus to the provision this vital human need. It will also free up around E 10 million from the IFAD loan to facilitate completion of key activities prior to project completion on 30 September 2013.

47. To date, 1012 households have access to potable water following the completion of the Gamedze and Shongwe schemes. The Ngcamphalala potable water construction is underway. Todate, a total of 2,088 VIPs have been constructed in the PDA including the 157 VIPs constructed under the resettlement programme. This provides for 2069 household (approx. 13,862 people) in the project area that have access to improved sanitation which is 85.7 % of the project target. These are in the Madlenya, Shongwe, Ngcamphalala, Mphumakudze and Mamba Chiefdoms, and Lesibovu section in Gundvuni Chiefdom. Completion of construction of animal water points and washing trough is at 97% of the project target. Other key achievements include the construction of 17 communal water points (livestock and laundry) and the establishment and effective operation of the Joint Operations Forum.

48. For domestic water supply the fees rates have been established and applied. This payment is done in advance of a minimum of 6 month at the rate of 25 E per month for communal water point. This will ease the process of collection of water fees from individual homesteads. Individual homestead which will need private water will have a meter installed and will be required to pay for the separately from the collective fees. The main challenges facing potable water schemes are the competency of water management committees in performing its duties. Example is the failure to stop leakages in time. Overall management of the water quality and running of pumps is with SWADE. There is a need finalise the permanent institutional arrangements for the operations and maintenance of the potable water supply and sanitation facilities. This should include the establishment of clear standard operating procedures for operations and maintenance.

Agreed action	Responsibility	Agreed date
29. Follow-up on OFID loan signing	MoF/SWADE Board	urgent
30. Re-Visit the Potable water implementation schedule	ADEMU	Immediately loan is signed
31. Establish independent potable water supply service provider including development of a roadmap to end SWADE responsibility in the management of domestic water	SWADE/NWA/??	31/3/13
32.Prepare potable water supply O & M SOPS	ADEMU	31/12/12

**D. Project Implementation Performance**

49. **Project management performance.** There are two major aspects of concern that limit the good work being achieved with the farmer companies that have been established on irrigated land. The first is, of course access to land development and crop establishment finance that is largely beyond the control of SWADE. The second is the disappointing drop of in the quality and timeliness of financial management provided to the project. Addressing these limitations together with the vital on-going support for farming companies hold much of the final success of LUSIP.

50. Physical and Financial Progress Reporting: - The mission reviewed the recent quarterly progress reports and notes the coverage of wide range of subjects including those of the farmer beneficiaries. The reports do not present effective summary data in a consistent manner making tracking of progress difficult. Moreover, the up-to-date financial reports are not included. The mission recommends that in future physical and progress reports should include the financial status of the Project, covering the following key aspects:-

- i. The quarterly and cumulative financial performance in suitably analysed tables by component and expenditure categories, and compared with the underlying budgetary provisions.
- ii. Inclusion of the reconciliation of the SPA in accordance with the IFAD letter to the Grant recipient for use as a management tool.
- iii. A loan utilization status report.
- iv. A review table and report for the period, of the actual costs of the individual activities implemented by ADEMU, with the individual costs suitably compared with the underlying budgets and appropriately commented on.

51. Gender. After the launching of the gender policy at the beginning of this year, the Project was supposed to develop a gender manual to implement to policy together with the Rural Finance and Enterprise Development Programme (RFEDP). The development of the manual has not been commissioned yet. The Mission recommends the Project to select the consultant as soon as possible so the manual would be ready by December 2012. The manual could take into consideration the work done on gender and targeting during the recent design of the Smallholder Market-led Production Programme (SMLPP).

52. Table 3: Financial Expenditure 2012/13

53. Monitoring and evaluation. The development of the MIS has not made very much progress over the past six months. The main stumbling block appears to have been the inability of the end-users to collaborate with the MIS team in developing informative management reports for the different units. It is agreed that the Alternative (non-sugar) Unit will work with the MIS (internal) team to develop useful reports for alternative crop and livestock activities and in parallel populate the data base. Once this unit has such reports the MIS team will work sequentially with other units starting with sugar.

54. Although late in the project the operationalisation of the MIS will be of considerable importance not just for LUSIP but also for SWADE as an organisation especially should to be ready to enter into performance based partnership agreements. Participation in the IFAD Implementation Workshop in Ethiopia on November 2012 will be a useful experience sharing process building and operating MISs is one of the themes this year.

55. RIMS baselines are required to be done for all programmes regardless of the baselines currently available. Funds have been secured by IFAD to recruit SABRI to come to Swaziland and see what needs to be done to establish RIMS valid baselines. The SABRI team will be in touch shortly to establish a schedule for their work in Swaziland. This initiative will establish a common approach across the IFAD portfolio in Swaziland including the planned SMLPP. It will be important that the schedule SHIP baseline survey be consolidated in the wider programme survey that will be needed for the Project Completion Report.

56. Project Completion Report (PCR) It is necessary for ADEMU to start preparation of the PCR that should be ready in final draft form by 31 October 2013. IFAD will share with ADEMU its PCR format and guidelines. The Implementation Support Mission in 2013 will contribute the PCR through peer review and guidance.

Figure 1: Participating and Non-Participating Households in LUSIP I

**To be inserted sent separately**

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Agreed action	Responsibility	Agreed date
33. Improve physical and financial aspects of progress reports	ADEMU	31/12/12
34. Contribute to finalising the Gender manual	SWADE/RFEDP	31/3/13
35. Operationalise the MIS unit by Unit	ADEMU	31/12/12
36. Complete draft 2013/14 AWPB	ADEMU	15/11/12
37. Contribute to RIMS survey	M & E	31/12/12
38. Initiate preparation of the LUSIP PCR	ADEMU	31/3/13

## E. Fiduciary Matters

### Financial management.

57. Systems and Internal Controls: The mission reviewed the Programme financial systems in application for Financial Management. These include financial planning (through Annual Work Planning and Budgeting process (AWPBs)), financial data capturing and accounting system, financial cash flow management, monitoring and reporting, and procurement and auditing. These are incorporated in the SWADE Financial Management Manual. The mission notes gaps in the performance of key systems. The ACCPC accounting system has not been put to full result oriented use, in terms of articulating the chart of accounts that ensures accurate financial reporting of IFAD loan and GEF grant. The flow of funds management is not efficiently and consistently managed within WA claims thresholds as prescribed in the IFAD letter to the borrower. It is agreed to prioritise the improvement of full applications of best practice procedures of the financial management systems.

58. The Financial Management Capacity, Performance and Financial Reporting: The team agreed upon at design and made up of the Finance Manager and Assistant Accountant, was to be fully dedicated to the LUSIP financial management. This team is adequate for the level and volume of the financial transactions of the Project, and the mission notes that the level of dedication of this team has weakened and all the processes are carried out from SWADE. The mission observes that the timeliness and accuracy of the financial accounting and reporting as well as effective cash flow management has been adversely affected. The withdrawal Applications for replenishment is sometimes 3 times the prescribed threshold of 20 % of the SPA allocation or USD 200,000 and is affecting the project cash flow. The accounting of salaries charged to GEF Grant and LUSIP IFAD Loan require separation and accurate reporting in the GEF and LUSIP financial reporting. The mission notes that the Project is entering the final implementation phase of activities completion and Loan closure, when the recovery of the SPA initial deposit will be expected to be carried out without negatively affecting the finalization of the last batch of approved activities. It is agreed to devolve the financial management team from SWADE HQ back to the project, to ensure a focused and full dedicated management of the financial resources, accounting, reporting during the last phase of the project.

59. Review of the Statements of Expenditure (SoEs): The mission has carried out a review in depth of SoEs supporting Withdrawal Applications 120, 121, and 122. WA 120 was submitted for replenishment of the SPA, while the other two, were submitted for reimbursement to SWADE, for having pre-financed the various expenses as claimed. WA's 121 and 122 are defective, each with apparent ineligible expenditure and the mission recommends amendments and re-submission. The following are the issues to be addressed in each of the WA's:-

60. WA 120: The addition tests reveal that the correct total claim should be USD 700,017.82. The mission recommends that the WA is amended to this amount.

61. WA 121: The amount claimed for re-imbursement totaling SZL 6,047,428 includes SZL 5,773,885 described as salaries and reported paid during the 12 months period to 31 March 2011. This expenditure to qualify as eligible will have to be justified as part of staff and underlying salaries forming part of the approved AWPB for the relevant

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2010/11 financial year. It is not clear from the information provided to the mission, whether this is the case, since the budget lines have been presented under log-frame descriptions. The ADEMU will have to provide background information that supports the above figures in the budget. In addition also the Salaries include GEF unit staff and should be separated, and WA amended and resubmitted. Full-time LUSIP II staff and expenditures should be separately coded and are not eligible under the IFAD loan,

62. The other unclear expenditure claim relates to invoices emanating from 2 old contracts, GFA medical GmbH, and DHV Agricultural and Natural Resources BV. The Contract Monitoring Form for the GFA contract indicates two contract amounts, E 384,971 and EURO 818,880.25. The first amount is fully paid with an overrun balance of E479, 175.81 indicating overpayment by this amount. The last transaction is dated 2 May 2008. The EURO contractual amount is yet to be exhausted with a balance of EURO 354,011.78. The last transaction is dated 25 November 2008. The total amounts claimed total Emalangeni E377, 895.21 and the invoices are for July 2007.

63. The DHV invoice of September 2008 totaling to E360, 811 cannot be accommodated since the CMF indicate an overpayment of 623,576.63 of the Local currency contract of E26.6 million. However the EURO currency contract amount appear un-exhausted, by having a balance of Euro271, 314.31

64. WA 122:- The claim includes salary costs of SZL 3.9 million. The ADEMU will have to provide background information that supports the above figures in the budget. In addition also the Salaries include GEF unit staff and should be separated, the WA amended and resubmitted.

65. Review of the IFAD Special Account and other Programme Accounts:- The mission notes that the initial deposit of USD 1 million for Special Programme Account (SPA) is fairly accounted for as at 30 April 2012. The combined cash balances in the SPA as of this date amounted to USD 1.4 million. This amount includes cash balances for GoS counterpart Funds and the Interest earned on the cash balances of USD 1.1 million and USD 5,586 respectively. The other key reconciling item is the WA 120 proceeds of USD 700,000 which is in the process of submission to IFAD.

Table 1: Summary of Reconciliation of the SPA and other Programme Accounts:

	US \$	US \$
1 Total amount Advanced		1,000,000
2 Cash balance in the Special Account	305,586	
3 Cash balance at the PMU's Local Bank Account	824,456	
4 Cash balance at the Local Sub-Bank Accounts	262,692	
5 Petty Cash in PMU -Petty Cash	1,168	
6 Expenditure in the process of submission under proposed WA 120	700,000	
8 Interest earned	-5,586	
9 GoS Counterpart Funds	-1,088,315	
Total		1,000,000

66. The mission notes the irregular practice of preparing the reconciliation only for the purpose of supporting the WA's. In addition the levels are in many cases, more than twice the prescribed threshold of USD 200,000. The mission recommends the need to regularly submit WAs upon reaching the prescribed threshold. Further the reconciliation should be carried out at the end of each quarter to facilitate effective cash flow oversight review by the Project Director and the ADEMU Manager as well as assistance in the tracking of the levels of expenditures with the aim of earliest submission of WA's for replenishment claim.

67. Recovery of the Initial deposit: The USD 1 million, forming the SPA allocation is an advance to be recovered through justified expenditures when the balance of funds in the loan account is USD 2 million, or on 30 September, 2012, whichever trigger point is achieved earlier. On the basis of expenditure trend and projections, the mission observes that the trigger point of USD 2 million will be achieved first, and may land by 31 January

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2013. It is necessary to formulate a cash flow plan that incorporates the remaining 2012/2013 AWPB activities. The plan will need to ensure that the funding of these activities is not affected by the reduced in flows from IFAD in the SPA as a result of recoveries. In addition, once the plan is formulated IFAD should be consulted for agreement of the graduated recovery rates.

### Disbursement

68. IFAD Loan Disbursement: As at 25 September, 2012, the actual IFAD Loan disbursement up to WA 119, amounted to SDR 8.87 million, representing 75% of the total IFAD Loan of SDR 11.9 million. This disbursement includes the SPA's allocation of USD 1 million or SDR 679,000 equivalent, and all these inflows have been reconciled to the IFAD statements. However, excluding this SPA allocation, the utilized loan is SDR 8.19 million or 69% of the total loan. If this is factored with the expenditures of the above WA's; 120,121, and 122, totaling USD 2.33 million or SDR 1.55 million equivalent, the projected loan utilization rises to 9.74 million or 82% of the total loan. The projected loan balance is SDR 2.16 million or USD 3.24 million or E 25.94 million at the current exchange rates. For all but Category VI-(contracted staff), the expenditures are within the levels of their respective allocations. As for Category VI, the over expenditure is at 130% of the current allocation which is the maximum limit allowed. There is therefore an urgent need to allocate additional funds to this category in order to cater for the 2012/13 budget execution to 31 March 2013.

Table 2: **IFAD Loan Disbursement and proposed re-allocations as at 31.3.2013.**

Category description	Financing	Original Allocation	Disbursement to date up to WA 119	% age Disbursement	Expenditure in submission WA under WA's 120,121,122		Projected Loan Utilisation	Projected Loan Balance at 30.9.12	Projected utilisation 30.9.12	Balance-2012 AWPB	Balance-2012 AWPB	Loan Balance for Period to Loan Closure 31.3.14
	%age	SDR'000	SDR'000	%age	USD'000	SDR'000	SDR'000	SDR'000	%age	USD'000	SDR'000	SDR'000
I Civil works	100	370	0					370	0%	535	356	14
II Vehicles	100	860	426	50%	39	26	452	408	53%	16	10	397
III Technical Assistance	100	5750	5,537	96%	107	72	5,608	142	98%	-	-	142
IV Training, Studies and Workshops	100	940	320	34%	195	130	450	490	48%	703	468	22
V Investment Matching Finance	100	600	-	0%	0	0	0	600	0%	648	432	168
VI Contracted Staff	100	1450	552	38%	1,493	995	1,547	- 97	107%	881	587	684
VIII Recurrent Allowances	100	40	32	79%	30	20	51	- 11	129%	-	-	11
IXA Incremental Operating costs of ADEMU	100	1800	1,323		460	307	1,630	170	91%	153	102	68
Unallocated		90	-	0%			-	90	0%	-	-	90
Subtotal		11,900	8,191	69%	2,325	1,549	9,740	2,160	82%	2,935	1,955	205
Initial deposit			679				679	- 679				
<b>Total</b>		<b>11,900</b>	<b>8,870</b>	<b>75%</b>	<b>2,325</b>	<b>1,549</b>	<b>10,419</b>	<b>1,481</b>	<b>88%</b>	<b>2,935</b>	<b>1,955</b>	<b>205</b>
USD equivalent			13.43million									307,000
Emangaleni Equivalent			107 million									2,456,000

69. Proposed Re-allocation: The over-expenditure for Category VI as at 31.3.13 is projected at SDR 684,000 equivalents. The reallocations for covering this deficit will be drawn from Category II-vehicles, Category III-Technical assistance, Category IV-Training and from unallocated category. ADEMU should request for re-allocation of the loan as indicated in the table above and in accord with the cash flow plan.

70. Forward Strategic Loan Utilization Plan: As of 1 October 2012, the project has 12 months of implementation period plus the 6 months closure period. The mission proposes that ADEMU formulates an 18 months financial projection plan that takes into account key priority activities including staff salaries for the skeleton staff who will oversee the Project completion and loan closure, as well as other project assessment and completion costs. The Plan should be harmonized with the proposed cash flow. ADEMU should ensure that the 2013/14 AWPB is consistent with these projections.

71. GoS Counterpart Funds. The Financing Agreement requires that the Borrower contribute resources for the financing of the activities of the Programme in the aggregate of SZL 139.8 million. As at 30 September, 2012, the GoS had contributed SZL 1.13 billion. This contribution includes funds for development hence the excess over and



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above the design allocation. The mission commends GoS for meeting the required obligations.

72. Procurement Under LUSIP, the bulk of procurement is for development that is financed by the GoS and other development partners. As for IFAD, funds remaining AWPB provisions include procurement of civil works activities estimated to cost USD 535,000. The process is under way.

73. There are problems with the contract register in that expired contracts have been delete thus losing valuable historical information – e.g. the TA contracts that were terminated in 2007 and 2008 – and for which detailed reviews now need to be undertaken. The contract register should be re-built. It is also important that it be used much more as a management tool to reduce the likelihood of delays in payment leading to closure of necessary goods and services.

74. Statutory Audit The Statutory audit is up-to-date. The audit for the 2011/212 financial year has been carried out on a timely basis and the audited financial statements, Accounts and reports were submitted to GoS and IFAD within the prescribed deadline. The auditors awarded clean and unqualified opinion to the financial statements, accounts and reports. The management letter was also submitted by the auditors. The management letter was also submitted and does not contain major issues. The mission recommends that ADEMU addresses all the routine issues raised in the auditors' management letter.

75. Review of the Compliance of the IFAD Loan Covenants The Mission reviewed the compliance of the Loan covenants and confirms that no contravention was noted.

	<b>Action Agreed</b>	<b>Date</b>	<b>By Whom</b>
39	The ADEMU to address all the issues raised in the Auditors Management letter.	31 10 2012	Finance Manager
40	Formulate a Financial projection that includes key priority activities to 31. March 2014	31 12 2012	Project Manager
41	Urgently submit a request to IFAD for re-allocation of Funds	30 10 2012	Programme Director/Programme Manager/Finance Manager
42	Prepare SPA reconciliation at the end of each month for use as a management tool.	31 10 2012	Programme Manager/ Finance Manager
43	Submit WA's upon reaching USD 200,000 threshold	31 10 2012	Finance Manager
44	Revise WA's 121, and 122 and separate salaries between LUSIP and GEF, amend and resubmit	31 10 2012	Finance Manager

## F. Conclusion

76. It is agreed that the final supervision and implementation missions will be scheduled for March and October 2013 which will then be followed by undertaking the Project Completion Report.

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## Appendix 1: Summary of Programme Status and Ratings

### Basic Facts

Country	Swaziland	Project ID	1159	Loan/DSF Grant No.	574
Project	Lower Usuthu Smallholder Irrigation Project - Phase I			Financing terms	I
Date of Update	4 December 2012	No. of Supervisions	11	No. of Impl Support Follow up missions	5
Supervising Inst.	IFAD/IFAD	Last Supervision	29 March 2012	Last Impl Support Follow up missions	October 2012

				USD million	Disb.rate %
Approval	06-Dec-2001			Total costs	119.59
Agreement	24-Feb-2003	Effectiveness lag	26.1	IFAD Total	14.96
Effectiveness	27-Jan-2004	PAR value	-----	IFAD loan	14.96
MTR	14-Jul-2007			DSF grant	70
Current completion	31-Mar-2012	Last Amendment		IFAD grant	
Current closing	30-Sep-2012	Last Audit	30-Sep-2009	Domestic Total	31.45
No. of extensions	0			Beneficiaries	4.89
				Government (National)	26.56
				Co-financing Total	73.18
				African Dev. Bank	12.68
				BADEA	11.68
				DevBank S.Africa	100
				European Investment Bank	9.38
				European Union	23.40
				Taiwan/ICDF	11.04
					5.00
					100

### Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	5	4	1. Quality of project management	5	4
2. Acceptable disbursement rate	3	3	2. Performance of M&E	4	3
3. Counterpart funds	5	5	3. Coherence between AWPB & implementation	4	4
4. Compliance with loan covenants	5	5	4. Gender focus	5	5
5. Compliance with procurement	4	4	5. Poverty focus	5	5
6. Quality and timeliness of audits	5	4	6. Effectiveness of targeting approach	5	5
			7. Innovation and learning	5	4

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Building Entrepreneurial Capacity in Rural Economy	5	5	1. Institution building (organizations, etc.)	5	4
2. Deepening the Rural Financial Sector	4	4	2. Empowerment	5	5
3. Programme Management and Coordination	5	4	3. Quality of beneficiary participation	5	5
4. Upstream Development			4. Responsiveness of service providers	5	5
			5. Exit strategy (readiness and quality)	3	4
			6. Potential for scaling up and replication	5	5

### B.5 Justification of ratings

During the. The other two areas which have shown improvement are the targeting approach now being implemented and thus a better focus on poverty. This is reflected in the programme delivering to poor women headed households for the poultry activities and these will be expanded.

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**Overall Assessment and Risk Profile**

	Last	Current
C.1 Physical/financial assets	5	5
C.2 Food security	5	5
C.3 Overall implementation progress (Sections B1 and B2)	4	4
Rationale for implementation progress rating LUSIP		
C.4 Likelihood of achieving the development objectives (section B3 and B4)	4	4
Rationale for development objectives rating Last year the project		
<b>C.5 Risks</b> <i>Short description of major risks for each section and their impact on achievement of development objectives and sustainability</i>		
Fiduciary aspects – the deterioration in the quality of financial reporting is of increasing concern leading to the project being assigned a risk assessment rating of high. There is a clear need for better monitoring and of expenditure and loan utilisation.		
Project implementation progress the sugar groups continue to make very good progress with some real achievements emerging for non-sugar activities		
Outputs and outcomes these are likely to be substantially achieved		
Sustainability – the first group (3) of FC have reached sufficient maturity to be assigned full responsibility for their financial and farm management		

**Proposed Follow-up**

Issue / Problem	Recommended Action	Timing	Status
Partners (EU, WFP, Illovo)	.	Immediate	On-going
Sustainability	.	Immediate	On-going
Fiduciary	.	Immediate	On-going

**Additional observations**

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**Appendix 2: Status of previous recommendations**

	Key Issues	Action	When	Who	Progress Update
1	Resources for Land Development and Crop Establishment	Partner with Ubombo to apply for EU AAP 2011 funds	Dec-11	ADEMU	Formal Partnership waiting for EU guidelines. USL to be lead applicant
2	Support to and Quality of Farmers Associations	Increase staff to adequate levels and hand over of some of the work to other key stakeholders	Jan-11	ADEMU	Progress made towards weaning-off some farmers. 4 schemes identified (2 LOT1 and 2 in LOT 2) to manage own budgets, and post audit to be done
3	Maintenance of Water Supply – Establishment of WSP	Preparations to handover to DWA by 2013.	on-going	WMU/DWA	Ongoing, Govt staff already working with WMU
4	Market awareness and development of private sector				Ongoing
5	Effectiveness of ADEMU as a development institution and its exit strategy	Obtain Board's decision/ Request for IFAD no objection for the appointment of ADEMU Manager	December 2011	Acting CEO/Board	Exit strategy in place. ADEMU position filled
6	Lubovane Dam Zoning	Re-submit to SWADE Board to consider financing	30 November 2011	Acting CEO/Board	Zoning of dam done, gazetted
7	Land policy-still a Draft since 2003	Advocacy and lobbying relevant institutions			Ongoing, consultant engaged to draft land Act. Inception report delivered.
8	Land Act Task Force	Advocacy and lobbying relevant institutions			Ongoing
9	Decentralisation Policy-but there is no Decentralization Act	Advocacy and lobbying relevant institutions			Ongoing, tinkhundla bill discussed be stakeholders
10	Registration of Chiefdom Development Trusts	On-going to be registered through notary publics	30 March 2012	SWADE	Changed to community foundations, Registration process completed, awaiting issuance of certificate (Ngcamphalala)
11	Financing of CDPs and monitoring of implementation	formation of partnerships with other financing Agencies			Financing pending registration of foundation.
12	Funding for alternative crops	Solicit government funding.	Dec-11	ADEMU/BOARD	Partial Funding enough for 236ha secured, instead of 774ha
13	Lack of experience in producing fresh produce crops in significant quantities against markets needs	Training program for Farmers	30 November 2011	Agribusiness Diversification	Training Program in place, Practical training to continue as they produce crops (Hands-on training)
14	The need to progressively build capacity to produce and link market related investments (by private sector) to that growth	see 15 below			Ongoing
15	Challenge of establishing and maintaining market based quality including certification	Create certified dispatch centers i.e packhouse			Ongoing. Farmers forming a partnership with a private investor with experience in packhouse

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	Key Issues	Action	When	Who	Progress Update
16	Establishment of market information system (Farmer Information System)	Create web-based Market information system		IMS/Agribusiness	FARMER Information System in place, being populated with information, linked to SWADE website
17	Maturity and governance of farmer associations	To be addressed by SWADE exit strategy	30 November 2011	Task Team	Maturity assessment indicators under development.
18	Growth of higher level farmer based organisations – federations and union(s)	Mentor and establish linkages with ther Unions		ADEMU	ADEMU assisting FF resuscitation. Detailed action programme under development
18a	Access to fiannce for operating budget				Not Done
19	Maintenance of water infrastructure – under SWADE to March 2013	In progress		DWA/SWADE	Water Infrastructure Maintenance in progress.
21	Operating budgets for RBA and Lower LUSIP Irrigation District	Advocacy and lobbying relevant institutions to release funds to operationalize RBA		DWA/SWADE	Government budget available, but not yet released.
22	Seepage from 9 balancing dams				Board paper to seal dams prepared.
23	Technical mentoring support for ADEMU water and engineering unit	Technical assistance - discussions expected to conclude by December, for operationalization in January	15 December 2011	IMAWESA/SWADE	IMAWESA training outstanding? SABI Irrigation design training ongoing
25	Growth of Canal Committees, Irrigation Districts and the RBA	Capacity building program in place	15 December 2011	IMAWESA/SWADE	IMAWESA training not done?
26	Establishment of water charges and O&M operational model	Draft pricing policy in place, implementation outstanding			Draft Pricing policy done, and approved by NWA. Awaits SWADE Board approval.
27	Establishment of communal livestock watering troughs and communal wash-bays	Engage service provider	30 November 2011	ADEMU	Done. 14 troughs and 16 washbays constructed.
28	Ratification of the OFID funding	SWADE to follow-up with government			OFID passed by parliament.
30	Establishment of on output based MOU with the GEF Project and planning/coordination mechanism	draft MoU prepared for SWADE Management by 30 Nov. 2011	30 November 2011	GEF PM	Not done
31	Development of sustainable land management and conservation agriculture model	GEF-LUSIP project to ensure it is incorporated in plans	October 2011		Done
32	Governance - effectiveness and timeliness of Board guidance and decision making	SWADE management to take this matter to the Board			Not done
34	Representation of LUSIP farmers on Board	Matter to be taken up by SWADE Board Chair/ MoA		MoA/SWADE Board	Not done
35	Timely and adequate provision of counterpart funding	Finance commitment from Government	30 November 2011	BOARD	Not done
33	Establishment of fair and realistic HRD guidelines including job descriptions and associated salary structure	Speed up consultancy study (KQ)	30 November 2011	Acting CEO/Board	ADEMU Manager needs to call staff to adress this issue
34	Regularisation of posts where staff have been in an acting role for more than 3 months	Obtain Board's decision			Only ADEMU Manager post filled, others Not done
35	LUSIP II feasibility studies supervision	To be addressed by Acting CEO	30 November 2011	A. CEO	Supervisor Appointed

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### Appendix 3: Financial progress

**Table 1: Performance by financier**

Financier	At MTR (USD'000)	Disbursements USD'000	%age disbursed
IFAD Loan***	17 850.0	14 130	79%
Government of the Swaziland-Counterpart Funds	5 099.7	7 275.0	143%
Government of the Swaziland-Development	-	113 717	
<b>Total</b>	<b>22 949.7</b>	<b>135 122</b>	<b>589%</b>

\*\*\*Includes the Initial deposit of USD 1 million together with expenditure of USD 700,017 WA.

**Table 2: IFAD loan disbursements (SDR at 31 July 2012)**

Category description		Financing	Original Allocation	Disbursement todate up to WA 119	% age Disbursement	Expenditure in submission under WA's 120		Projected Loan Utilisation	Projected Loan Balanceat 30.6.12	Projected utilisation	Balance- 2012 AWPB	Balance- 2012 AWPB	Loan Balance for Period to Loan Closure 31.3.14
		%age	SDR'000	SDR'000	%age	USD'000	SDR'000	SDR'000	SDR'000	%age	USD'000	SDR'000	SDR'000
I	Civil works	100	370	0		-			370	0%	535	356	14
II	Vehicles	100	860	426	50%	28	19	445	415	52%	16	10	405
III	Technical Assistance	100	5750	5 537	96%	-	-	5 537	213	96%	-	-	213
IV	Training, Studies and Workshops	100	940	320	34%	58	39	359	581	38%	703	468	113
V	Investment Matching Finance	100	600	-	0%	-	-	-	600	0%	648	432	168
VI	Contracted Staff	100	1450	552	38%	50	33	586	864	40%	669	446	418
VIII	Recurrent Allowances	100	40	32	79%	19	13	44	4	111%	-	-	4
IXA	Incremental Operatingcosts of ADEMU	100	1800	1 323		544	362	1 686	114	94%	153	102	12
	Unallocated		90	-	0%			-	90	0%	-	-	90
	<b>Subtotal</b>		<b>11 900</b>	<b>8 191</b>	<b>69%</b>	<b>700</b>	<b>466</b>	<b>8 657</b>	<b>3 243</b>	<b>73%</b>	<b>2 723</b>	<b>1 814</b>	<b>1 429</b>
	Initial deposit			679				679	-				
	<b>Total</b>		<b>11 900</b>	<b>8 870</b>	<b>75%</b>	<b>700</b>	<b>466</b>	<b>9 336</b>	<b>2 564</b>	<b>78%</b>	<b>2 723</b>	<b>1 814</b>	<b>1 429</b>
								<b>usd</b>	<b>4 865</b>				<b>2 143</b>
								<b>szl'000</b>	<b>38 917</b>				<b>17 144</b>

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**Table 3: Expenditure by components and Financiers at 30 September 2012**

Component	IFAD			GoS			Total		
	At MTR	Actual	%age	At MTR	Actual	%age	At MTR Appraisal	Actual	%age
	USD'000	USD'000		USD'000	USD'000		USD'000	USD'000	
CDPs and Land	3 494.83	2 263.82	65%	-	-	0%	3 495	2 264	65%
Economic Emp.	5 568.25	4 268.74	77%			0%	5 568	4 269	77%
- Land & Crop Dev				-	7 275	0%	0	7 275	0%
Water Institutions	489.00	259.98	53%	-	-	0%	489	260	53%
Life Sus & Envion	3 310.17	2 963.44	90%	5 086	9 291	183%	8 397	12 255	146%
Project Management	4 382.50	3 545.54	81%	13	-	0%	4 396	3 546	81%
Water Management Unit	-	-	0%	-	255	0%	0	255	0%
Civil Works	-	-	0%	-	104	0%	0	104	0%
<b>Total</b>	<b>17 245</b>	<b>13 302</b>	<b>77%</b>	<b>5 100</b>	<b>16 925</b>	<b>332%</b>	<b>22 344</b>	<b>30 226</b>	<b>135%</b>

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**Appendix 4: Compliance with loan covenants**

Section	Covenant	Compliance Status	Remarks.
<b>Section 2.03 (c)</b>	The Borrower shall operate the Special Account in accordance with Section 4.08 of the General Conditions.	Complied	
<b>Section 3.02</b>	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	
<b>Section 3.03</b>	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	
<b>Section 4.01</b>	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	Need to establish a more consistent reporting base and to use standard base figures
<b>Section 4.02</b>	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	Need to include financial management reports
<b>Section 4.03</b>	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 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.	Complied	



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<b>Section 4.04</b>	Completion Report The Lead Project Agency shall submit to IFAD the completion report on the Project no later than the Loan Closing Date.	Not yet due	
<b>Section 4.05</b>	Evaluations. The Borrower and each Project Party shall facilitate all evaluations and reviews of the Project that the IFAD may carry out during the Project Implementing Period and for ten years thereafter	Not yet due	
<b>Section 5.01</b>	Financial Statements. The Lead Project Agency shall prepare the financial statements of the operations, resources and expenditures related to the Project in respect of each six-month period during each Fiscal Year. The financial statements shall be forwarded to the Borrower for submission to IFAD within three months after the end of each such reporting period.	Complied	
<b>Section 5.02</b>	<p>Audit Reports. (a) Within 90 days after effectiveness, the Borrower shall appoint, with the prior approval of IFAD, independent auditors selected by the Borrower to audit the accounts relating to the Project for the first two Fiscal Years. Thereafter, as soon as practicable but in no event later than 90 days after the beginning of each succeeding Fiscal Year, the Borrower, with the prior approval of IFAD, shall confirm such auditors' appointment or so appoint new independent auditors for such Fiscal Year.</p> <p>(b) The Borrower shall have the accounts relating to the Project audited each Fiscal Year by such auditors in accordance with International Standards on Auditing and deliver a certified copy of a long form audit report required by Section 9.03 (Audit of Accounts) of the General Conditions and in accordance with paragraph 17 of Schedule 3A to IFAD within six months after the end of such Fiscal Year.</p>	<p>Complied</p> <p>Complied</p>	
<b>Schedule 3A</b> <b>1</b>	Interim Water Agreement. During the first Project year, the Borrower shall pursue negotiations with the Republic of South Africa and the Republic of Mozambique with respect to an Interim Water Agreement concerning the use of water from the Usuthu River.	Complied	
<b>2</b>	Environmental Compliance During the course of the Project Implementation Period, the borrower shall ensure that the Project complies with the conditions set forth in any Environmental Compliance Certificate issued by SEA iii respect of the Project, in terms of environmental compliance.	Complied	
<b>3</b>	Environmental Review Panel The Borrower shall have established an independent and operational environmental Review Panel by the end of the first Project year, with the composition and responsibilities described in paragraph 8 (d) of Schedule 3 to the Loan Agreement.	Complied	
<b>4</b>	Land Tenure and Resettlement. The Borrower shall pursue and sustain the community consultative process on land tenure and	Complied	Land Act is still in draft form, enhanced Chief's Letter a major innovation

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	resettlement throughout the Project Implementation Period, with a view to reaching an equitable conclusion satisfactory to the Project beneficiaries and the Financing Partners and, if appropriate, enacting relevant legislation.		
<b>5</b>	Annual Resettlement Reports. The Borrower shall submit to the IFAD annual reports on the implementation of the Resettlement Plan, which shall provide the status of scheduled activities undertaken and details of the households resettled and the compensation paid.	Complied	
<b>6</b>	Structure of Lead project Agency. The Borrower shall ensure that within the first six months of the first Project Year, it shall have restructured the Board of the Lead Project Agency to extend the representation from the private sector and to include representatives from the Project beneficiaries, satisfactory to IFAD.	Complied	Some issues to be dealt with for representation from PDA
<b>7</b>	Lubovane Block Planning Structure. The Borrower shall ensure that by the end of the second Project year, an appropriate legal framework shall be in place to empower the Lubovane block planning structure, as shall be described in the Project Implementation Manual.	Complied	CDP process well established although not all Chiefdoms are complete
<b>8</b>	Water Management. The Borrower shall ensure that by the end of the second Project Year, an appropriate legal framework shall be in place for the establishment of the Lower Usuthu River Basin Catchment Authority, the Lubovane Irrigation District and water user associations.	Partly Complied	River Basin Authority Gazetted
<b>9</b>	Water Charges. The Borrower shall ensure that by the end of the second Project Year, it shall have adopted regulations on the scope and calculation of water charges applicable to the Project water users.	Complied	Water Charges in place in PDA Draft National Policy in draft form – need to be gazetted
<b>10</b>	Water Service Provider. The Borrower shall ensure that by the end of the fourth Project Year, the Lubovane Irrigation District shall have contracted a suitable private Water Service Provider to operate and maintain the entire water delivery system established under the Project on a commercial and self-financing basis at the sole expense of the water users.	Part-compliance	SWADE is acting as an interim water service provider, feasibility study for permanent arrangement to start May 2012. Still not yet undertaken
<b>11</b>	Development Credit. The Borrower shall, by the end of the third Project Year, have concluded (i) a Subsidiary Loan Agreement with the Enterprise Trust WAD, or any other institution satisfactory to WAD, for on-lending of credit funds under the Participatory Planning and Irrigated Farm Development sub-component of the Project, and (ii) a Memorandum of Understanding with the Enterprise Trust IFAD and the Ubombo Sugar Company, or any other institutions, entities satisfactory to IFAD, stipulating the duties and obligations of each of the institutions	Complied	Funds are been provided from EU and GoS for 70% with balance coming from CBs – this remains a key challenge
<b>13</b>	Pest Management Practices. As part of maintaining sound	Complied	

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	environmental practices as required by Section 7.15 (Environmental Factors) of the General Conditions, the Project Parties shall maintain appropriate pest management practices under the Project.		
<b>14</b>	Monitoring. (a) The ADEMU and the IEMU shall each establish an objectives- related and indicator-focused information system for the upstream and the downstream level of the Project, respectively. The Project Director of the PMU shall have direct responsibility for overall monitoring of the Project and shall, in agreement with IFAD and the Financing Partners, define the process and progress indicators, implementation milestones, data collection systems and report design.  (b) The ADEMU shall be responsible for establishing an information management system for the Downstream Development and Agricultural Commercialisation Component and the Environmental Mitigation Component of the project, based on key performance indicators which shall be agreed by the Borrower and IFAD during the first Project Year.	Complied  Complied	The quality and consistency of the M & E system needs constant attention
<b>15</b>	Tax Exemption. The Borrower shall exempt from Taxes the importation, procurement and supply of all goods, civil works and services financed by the Loan. To this end, the Minister for Finance shall make budgetary allocations for each Fiscal Year. The value of such exemptions shall be credited against the obligation of the Borrower to provide counterpart funds for the Project under Section 3.05 of the Loan Agreement.	Complied	
<b>16</b>	Counterpart Funds. The Borrower shall take necessary action to ensure that its counterpart hinds for the Project are accurately reflected in its annual Public Investment Budget.	Complied	In the current financial crisis the government is struggling to meet its commitments across a wide range of projects – traditionally GoS has more than met its obligations – there have been some delays but LUSIP continues to receive priority attention
<b>17</b>	Gender. Focus. The Borrower shall ensure, through the recruitment of Project staff that women are represented in the organisation and management of the Project. The Borrower shall also ensure that women beneficiaries shall be represented in all Project activities and that they receive appropriate benefit from the Project outputs.	Complied	Gender Policy recently developed – this was launched jointly with the RFEDP in February 2012.

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**Appendix 5: Physical progress**

**Table 1: Key project performance indicators**

Project Component Outputs	Unit	Targets & Milestones		Achievement		% Achievement	
		Total Project up-dated	AWPB Reporting Period: 2012/13	Total Project	AWPB Reporting Period: 2012/13	Cum	AWPB 12/13
Chieftdom Dev Plans (1)	No.	6	3	3	1	50	33
Water Users Assoc. (2)	No.	12	3	9	2	75	67
Farmer Coy formed	No.	65	10	57	4	88	40
Area - sugar	Ha	4355	1075	2196	0	50	0
Area - alt crops	Ha	1050	182	161	82	15	45
Area - commercial gardens	Ha	450	44	82	20	18	45
Not Suitable for dev	Ha	645					
Total Irrigated Area	Ha	6500	1301	2439	102	38	8
Livestock Enterprises	Ha	10	21	12	6	120	29
Livestock Troughs	No.		17	17	17	na	100
Graves relocated	No.	800	0	807	0	101	na
Homestead constructed	No.	157	0	157	0	100	
Irrigation district estab	No.	1	1	1	1	100	100
Domestic Water supply	No.	2600	0	860	0	33	
Sanitation units	No.	2600	1342	2088	330	80	25
Source: ADEMU Quarterly Report		(1) this was originally 7 but as one chieftdom					
		had only minor involvement no CDP was carried out for it					
		(2) three WUAs were formed but 2 were merged into 1					
		(3) revised targets included in this summary table					
		see Report Appendix 5 for original and revised					

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**Table 2: Status of irrigated development**

Lot No.	Sugar	Other Crops	Com. Garden	Total Area	F/As	No S/h	Area S/h	Status
1	355	0		355	7	168	2.1	2nd Harvest
2	476	0		476	6	381	1.2	2nd Harvest
3	518	0		518	8	280	1.9	1st Harvest
3A	167	0		167	3	77	2.2	1st Harvest
4	652			652	10	549	1.2	1st harvest
Estab	2168	182	44	2394	34	1455	1.6	numbers to be up-dated
5	475	0		475	5	225	2.1	Plant autumn 2013
6	491			491	13	585	0.8	Plant early 2013
7	1223			1000	8	700	1.4	Planning
8	1000			800		400	2.0	Planning
Planned	3189	868	406	4463	26	1285	3.5	
Planning not yet started								
Not Likely to be developed				643				
<b>Total</b>	<b>4357</b>	<b>1050</b>	<b>450</b>	<b>5857</b>	<b>60</b>	<b>2740</b>	<b>2.4</b>	
<b>Total</b>				<b>6500</b>				

Source: ADEMU October 2012

Nb - currently there are a total of 3189 ha under planning consideration

this table uses the "expected" final figure of some 4300ha for sugar companys

pending final crop established area

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**Appendix 6: Summary audit table**

Financial Year	Audit Observations as per Audit Report		Audit Observations Settled		Audit Observations Outstanding	
	Numbers	Value	Numbers	Value	Numbers	Value
2010	3	SZL 2 384 242	0	-	3	SZL 2 384 242
2011						
2012	3	220,050,460	0		3	220,050,460
Total :	6	SZL 223,434,702	0	-	6	SZL 223,434,702

**1. Detailed Audit Table**

Sl. No.	Financial year	Class: Serious/ General	Audit Ref.	Audit observation	Total Amount per Observation (BDT)	Action taken by the project /PMU(Reply of para wise)	Present status (Auditors Validation Result)	Total amount not settled/ outstanding (BDT)	Remarks
1	2010	Serious		<u>Current Income Taxes</u> Non-compliance with Income Tax laws of Swaziland. The entity should submit tax returns annually or obtain an exemption from the GoS over the payment of Income Taxes.	SZL 2 384 242	Issue relates to interest on all SWADE accounts – for the Project account for IFAD funds the SRA is expected to conform shortly that there should be not tax on interest – other accounts will continue to be treated as per the rules for GoS parastatals – the value applied represents all the interest earned by SWADE since 1999 – most of which will be taxable		SZL 2 384 242	
2	2010	Minor		<u>Property, Plant &amp; Equipment</u> Non-compliance with IAS 16. Useful lives and residual values of assets should be reviewed at each financial year-end.	-	The issue here is that when furniture and small equipment has been fully depreciated and continues to be used then it needs to be re-valued to something above zero value – cost of the re-valuation exceeds to benefit		-	
3	2010	Minor		<u>Control Activities</u> Completeness and accuracy of Fixed Assets balances in the General Ledger. The Fixed Assets register should be reconciled to the General Ledger on a monthly basis.		Recognised		-	

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3	2012			<p><u>Arithmetic errors.</u></p> <ul style="list-style-type: none"> <li>Page 8-The cumulative cash balance cannot be right. The Cumulative total expenditure is SZL 1,923,569,990. The cumulative total sources amount to SZL 1,895,600,695. Therefore the Cash balance cannot be SZL 100,800,819. And yet the cash balance for the year is SZL 7,488,480. The cash balance should be the same. Therefore something is wrong with the figure arithmetic analysis.</li> <li>The cash Balance for 2011, taking into account Expenditures and total financing is SZL 326,973. The balance carried forward at 1.4.11 is SZL 558,706. In any event the presented balance is SZL 120, 249,641. Again there is a problem in the arithmetic analysis.</li> <li>The cash disclosure analysis under note 4 page 20 does not agree with surplus disclosed in the Income and expenditure statements under pages 9 and 12. The figures should agree.</li> </ul>	<p>SZL 100,800,819</p> <p>SZL 120,249,641</p>	<p>The Mission could not meet the auditors. They requested the Implementing Agency to refer these errors to the Auditors. The next mission in March 2013 will follow-up the expected collective action</p>		<p>SZL 100,800,819</p> <p>SZL 120,249,641</p>	
		<b>Sub Total:</b>			SZL223,434,702			SZL223,434,702	

## Annex 1: Chiefdom development

1. The first component of the Lower Usuthu Smallholder Irrigation Project – Phase I (LUSIP I) comprises (i) community mobilisation through the development of Chiefdom Development Plans and associated capacity building, (ii) progression of key elements of the draft Land Policy within chiefdom boundaries and (iii) ensuring equitable awareness of and access to Project initiatives by all people of the project development area especially the most vulnerable members of the community and those who have been negatively affected by the Project. Clearly the implementation of the community development strategy and associated critical considerations for land tenure issues provides the basis for all other initiatives that are necessary for the full benefits of the infrastructure component and associated water supply to be realized.

### A. Community mobilisation

2. **Chiefdom Development Plans.** Development plans are prepared from sigodzi (cluster of homesteads based on proximity and affinity) level and merged to chiefdom plans. The plans are ratified at chiefdom level by the Chief. This process leads to full ownership of the community (including the agricultural aspect) development plan. Out of the seven foreseen in the 2007 Mid-Term Review, so far only three chiefdom development plans (CDP) have been successfully launched: Gamedze (2009), Ngcamphalala (2010) and Mamba (2011). The CDP for Shongwe has been developed, but the chief refuses to sign as long as the issue of compensation has not been settled (see below). Two others (Mphumakudze and Lesibovu) are in the process of being developed in collaboration with LUSIP-GEF. As there are too few homesteads present in the seventh chiefdom (Mdlaka), the Project did not undertake any activities here and therefore no CDP is foreseen.

Chiefdom	Status CDP
Gamedze	Launched in 2009
Ngcamphalala	Launched in 2010
Mamba	Launched in 2011
Lesibovu	Still being developed
Mphumakudze	Still being developed
Shongwe	Finalised, but not launched

3. The development of the Lesibovu CDP was reported to be delayed due to a food-for-work programme of Worldvision. As the community is fully involved in this programme, it appears that they have no time to participate in the development of their CDP. The Project should arrange for a meeting with Worldvision to reach an agreement on the programming of work. The monthly meetings with the Regional and Sub-regional Development teams, of which both LUSIP I and Worldvision are part, should be used to ensure coordination.

4. Furthermore, support to LUSIP-GEF is foreseen in the development of other CDPs, for chiefdoms outside of the LUSIP I project development area (PDA). These chiefdoms are Gamedze, Ezulwini and Mahashulane. While the launching of the first two is foreseen in 2013, the finalisation of the latter one is only expected in 2015. With LUSIP I closing in 2013, support for the development of the CDP for Mahashulane is highly unlikely.

5. As the PDA of LUSIP I does not cover the whole territory of a chiefdom (except for Shongwe), the CDPs only refer to a part of the chiefdom. LUSIP II and LUSIP GEF are supporting the development of CDPs for other parts of some of the chiefdoms that were not covered by LUSIP I. This is the case in Mamba and Ngcamphalala. It needs to be ensured that these CDPs are compiled with the ones developed under LUSIP I, so that only one CDP exists per chiefdom.



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6. It was agreed that efforts are stepped up to ensure that the CDPs for Mphumakudze and Lesibovu are finalized and launched by March 2013 and the CDP for Shongwe is signed by the end of 2012. Prior to finalization it is necessary for the Minister of Tinkhundla Administration and Development and the Minister of Agriculture to be consulted. Given that activities usually slow down during the last quarter due to harvesting and the holiday season, emphasis should be put on this during the third quarter. It was reported to the Mission that there are no copies of the CDP available in Siswati in Gamedze. The provision of copies of the final CDP both in Siswati and in English to the stakeholders at chiefdom level needs to be ensured. The English versions are useful when development partners are approached.

7. In each chiefdom (except for Mdlaka) a Chiefdom Development Committee (CDC) has been set up. CDCs are responsible for planning implementation and development in respective chiefdoms. The CDCs comprise elected representatives from each sigodzi and their traditional authorities. Almost half of the CDC members are women. Within the Project Development Area (PDA) there are 38 sigodzi with each a Sigodzi Development Committee (SDC) comprising seven members. The SDCs act as an intermediary between the community and the CDCs. No data is available on the number of women that are member of the SDCs. Currently, the project's involvement with the SDCs appears to be rather limited. The Project also facilitated the setting up of the Lubovane Development Committee (LDC), bringing together representatives from the various CDCs in the PDA. The LDC is responsible for dealing with issues that cross chiefdom boundaries. It was reported that due to a lack of allowances this committee is no longer functional.

Chiefdom	SDC		CDC			
	Number	Members	Number	Members		
				Male	Female	Total
Ngcamphalala	11	77	1	10	9	19
Gamedze	6	42	1	14	5	19
Mamba	9	63	1	7	11	18
Lesibovu	1	7	1	4	13	17
Mphumakudze	5	35	1	14	6	20
Shongwe	6	42	1	9	9	18
<b>Total</b>	<b>38</b>	<b>266</b>	<b>6</b>	<b>58</b>	<b>53</b>	<b>111</b>

8. The Mission attended a meeting in Komati which brought together chiefs from LUSIP I and the Komati Downstream development Project (KDDP). LUSIP I and KDDP are both projects that involve significant land use change and social reorganisation in the communities affected. While LUSIP has put emphasis on the CDPs to make sure the change process is guided and informed by the affected communities, this has not been the case in KDDP. Chiefs from the KDDP area appeared to have a significantly more negative attitude towards SWADE's interventions and some even requested CDP to be developed in their chiefdoms. This clearly shows the importance of community mobilisation and the involvement of the traditional authorities to ensure that the process of social change is done in a sustainable manner.

9. There have been some challenges reported regarding the support and understanding of the CDP process from the traditional authorities. In order to ensure adherence to the CDP by the Chiefs, stronger involvement and support of the Tinkhundla for facilitating and monitoring CDPs must be sought. This should be part of the Memorandum of Understanding (MoU) to be signed with the Ministry of Tinkhundla Administration and Development (MTAD) (see below). Often other stakeholders do not use the CDP as entry for their interventions in the chiefdoms. Since January 2012 monthly meetings have been held with the Regional and Sub-regional Development teams. This has allowed for improved coordination of the different interventions around

the CDPs. The Project should continue with these monthly meetings and with the promotion of the use of the CDP as entry point for other stakeholders.

10. During the period under review, the Project has organised opportunities for the Chiefs to exchange experiences among themselves during an annual meeting in September 2012 and with the Chiefs from KDDP at the beginning of October 2012. Furthermore, a training was organised for the CDC from Mamba on project proposal writing and communication and the Inner Council of the same chiefdom have been sensitised on their roles and responsibilities. Similar trainings should be organised for the other chiefdoms so they will be capable of presenting project proposals from their CDPs to interested parties. The Project should assist the CDCs in presenting their proposals and brief them on opportunities arising during their monthly meetings with the Regional and Sub-regional Development teams.

11. Currently, the monitoring of the implementation of the CDPs is done on an ad-hoc basis.. It was agreed that progress regarding the implementation of the CDPs will be documented according to the indicators, target dates and proposed budgets included in the CDPs. This should be done by the CDCs and the Tinkhundla centres, with the assistance of the Project and shared with the wider community at regular intervals, as well as being on record with MTAD.

12. **Chiefdom Development Foundations.** As mentioned during the last supervision mission, it has not been possible to register Chiefdom Development Trusts (CDT) due to legal constraints. The Project has now gone ahead with the registration of Chiefdom Development Foundations (CDF). The idea is that each Farmer Company (FC) gives a contribution to the Foundation for the land they are using and this revenue is then used for the implementation of community development projects identified in the CDPs and, a smaller part, for showing allegiance to the Chief (khonta). The foundation would be managed by a Chiefdom Development Foundation Committee.

13. So far, only Ngcamphalala has registered their CDF, but they are still waiting for the release of the certificate of incorporation by the Registrar of Companies. In the case of Ngcamphalala, a plot of 100 hectares would be set aside and the revenues generated from cultivating this land would also go to the CDF. The Project has introduced the concept of the CDF in Shongwe, Gamedze and Mamba, but there is still some reservations that need to be addressed from the respective Chiefs. In the case of Shongwe, the compensation for the land that they lost due to the construction of the dams and canals, would be transferred to the CDF. During the Mission, a meeting was held with the traditional authorities of Shongwe where the Project explained the concept of the CDF another time. They accepted to finalize the formation of the Chiefdom Development Foundation Committee by the 17th of October 2012. The Mission noted that the operational modalities of the CDF have still not been worked out, especially with regards to the nature and amount of the contribution of the FCs and the way in which the revenues will be used. Mechanisms for conflict resolution need to be clearly spelt out. It was agreed that the Project would do this by the 30th of November 2012. It was furthermore agreed that more awareness raising will be done in the chiefdoms to explain the functioning of the CDFs using simple visual aids, such as a flowchart (see annex 1). Discussions should be held with LUSIP-GEF to see if CDFs could also be established in the chiefdoms they are working with.

14. **Ministry of Tinkhundla Administration and Development.** Parliament is currently reviewing the draft Tinkhundla Administration and Development Bill (TADB). The Bill proposes to decentralize decision-making and administration to the Regional and Tinkhundla level, but does not mention how planning at chiefdom level will feed into higher level planning processes. It foresees a role for the Tinkhundla regarding the usage of cross-chiefdom resources and the facilitation of Chiefdom conflict resolution. The finalisation of the bill and the transfer of responsibilities will likely be a long-term

process. The TADB could provide the required legal framework for the CDPs. Whereas there are already provisions made for the recognition of Integrated Tinkhundla Development Plans, the CDPs are not mentioned in the TADB.

15. The Project has held an internal workshop to compile draft written submissions to the parliamentary Portfolio on the TADB. These submission were to be presented to the MTAD during a workshop. As the MTAD is still awaiting the approval of Cabinet to hold this meeting, the workshop has still not taken place. It was agreed that the workshop would take place before the 31st of October 2012, given that the Bill is supposed to be passed by the end of the year. If a workshop is not possible a meeting with MTAD should be held. An MoU between SWADE and the MTAD in facilitating and monitoring the CDPs still has to be finalised. This would be done by 31 December 2012.

## **B. Land tenure**

16. The allocation of land and water is central to the Project. As this implies some significant social changes, the involvement of the community at large and the traditional authorities, as the custodians of Swazi National Land (SNL) on behalf of the King, through the CDP process, has been crucial.

17. **Chief's Letters of Consent.** The Chief's Letter of Consent (CLC) has been an effective mechanism for facilitating the transfer of use rights from customary owners to farmer groups. The CLC has been improved by the Attorney General to ensure compliance with the national laws. So far 56 CLCs have been issued to FCs. A brief report has been produced by the Project on lessons learned on CLCs. The Mission noted that the report is still very general and should be elaborated more.

18. Disputes have been reported between the Chief and the FCs, which emerge mainly from a lack of understanding of the general conditions of the CLC. Although a clear conflict resolution mechanism has been stipulated, people do not seem to be aware of this. It was agreed that refresher courses will be held with the Chief and the FCs on the specified conditions of the CLCs. Incidents of former owners who try to reclaim ownership of the land they previously owned despite having relinquished their rights still persist and should be monitored by the Project. One specific case has been reported, namely the Ntsatjana/Manzana FC. It was agreed that the Project will assist the FC in resolving their conflicts using the appropriate mechanisms.

19. Record keeping is another issue that needs to be tackled. At present copies of the CLC are kept by SWADE, the Chief and the FC. As MTAD has the mandate for this function records should be deposited with MTAD and copies shared with the Tinkhundla Centre and the Regional Administration.

20. The idea of introducing leasing or sub-leasing arrangements, as identified in the draft Land Policy, has been put on hold for now. The main reason being that the Chiefs do not want to take up the issue with the King, as he will most surely not approve of the proposal after some bad experiences in the past.

21. **Land policy.** The study to review relevant sustainable land management policies, laws and by-laws (particularly related to land tenure) across government sectors has been commissioned to the Community Forestry Network. The team of consultants started in July and have produced an inception report, including a time schedule which runs up to March 2013. The multi-stakeholder Land Policy Task Force (LPTF) is supervising and providing support to this process. The lessons learned on the CLCs need to be shared with the team of consultants. The LPTF should make sure these lessons are taken into consideration during the drafting of the land Management and Administration Act. Attention should also be given to the issuing of leases on SNL. The stocktaking report of the team of consultants needs to be finalised and shared as soon as possible.

During the period under revision, a very constructive meeting was held between the LPTF and the Land Management Board (LMB). The LMB was reported to be very pleased with the on-going review which will help them to define their role.

22. **Rangeland management.** The issue of improving grazing land management, linked to improved tenure security has been identified in previous missions. However, so far the Project has not really engaged on this issues. During the field visits, it was reported to the Mission by the farmers that LUSIP I has been focussing too much on agricultural production (mainly sugar cane) and therefore livestock issues have been neglected. It was emphasized that livestock is central in Swazi culture. Huge pieces of rangeland have made place for sugar cane production. People are taking their cattle for grazing to the rain-fed areas in the LUSIP-GEF PDA, which has increased the problem of overgrazing. Grazing areas have been identified in the land use plans included in the CDPs, but often this is not being respected.

23. In collaboration with LUSIP-GEF, the Project should work on securing the grazing lands that have been identified during the land use planning exercise. This could be done through granting management responsibility for grazing land to the dip tank associations already supported by the Project. Grazing lands should be identified and demarcated. At the same time, stock routes should be mapped and regulated. This should be accompanied by plans for livestock take-off, rotation of grazing lands and the development of by-laws for regulating use. The option of issuing CLCs for the grazing/browsing area to the livestock association would be explored.

### **C. Equitable access to Project initiatives**

24. **Resettlement.** Resettlement due to the development of the canals and reservoirs has been completed. A total of 157 homesteads have been resettled. It was reported that five houses suffer from various defects. The tender for their rehabilitation has just been published.

25. **Compensation for Shongwe.** Alternative land for the land lost due to the inundation of the reservoir has not been found for the chiefdom of Shongwe. It was reported that expropriation of the adjacent Title Deed Land (TDL) is not feasible. It was therefore agreed that the chiefdom will be compensated financially. The compensation would be transferred to the CDF, but due to problems with the CDF committee mentioned above this has not been done. The fact that up until now no solution has been found for the compensation has been an impediment for the launching of the CDP. It was agreed that the Project will follow up with the community by mid-October to finalise the setting up of the CDP committee and thereafter immediately start the registration of the CDP.

26. 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. The Project mentioned that an irrigation scheme could be developed in Shongwe, but that a big part of the land is disputed with the Gamedze chiefdom. KDDP faced a similar situation of building an irrigation scheme on disputed land and dealt with it successfully by involving the Regional Administration. It was agreed that the Project will take this issue up with the Regional Administration and see if a solution can be found by 30 November 2012.

27. **Farmer companies.** Up until this moment, the Project has assisted in setting up and registering 57 FCs. More than 50% of the shareholders are poor. Currently LUSIP and SHIP are working to strengthen the functioning of the FCs through issuing share certificates and developing guidelines for constitutions (that will be appended to the articles of association). This is a positive move and by 31 March 2013 all FCs should have a constitution.

28. An assessment should be introduced of the maturity and governance of the FCs. This would allow for identifying capacity gaps and providing adequate support. The Project has recently introduced a similar system for assessing the performance of the Water Users Association (WUA). These assessments should be carried out at a regular interval and the results should be shared with the FCs.

29. It has been reported to the Mission that dividends are not always shared equally within the homestead. In these cases the Project should work closely with the Department of Welfare to search for a solution.

30. Although it was envisaged at design that each homestead would have equal shares in the FC, the Mission noted that there are numerous cases in which several members from the same homestead each have a share in the FC. It was mentioned that this was mainly the case for homesteads that had contributed a larger piece of land to the FC when the schemes were established.

Chiefdom	Number of Farmer Companies	Number of members	Number of homesteads	Number of poor members
Gamedze	10	311	221	203
Ngcamphalala	40	1,974	941	662
Mamba	6	274	252	207
Lesibovu	1	71	57	20
<b>Total</b>	<b>57</b>	<b>2,630</b>	<b>1,471</b>	<b>1,092</b>

31. **Gender.** After the launching of the gender policy at the beginning of this year, the Project was supposed to develop a gender manual to implement to policy together with the Rural Finance and Enterprise Development Programme (RFEDP). The development of the manual has not been commissioned yet. It was agreed that the Project will select the consultant as soon as possible so the manual would be ready by December 2012. The manual could take into consideration the work done on gender and targeting during the recent design of the Smallholder Market-led Production Programme (SMLPP).

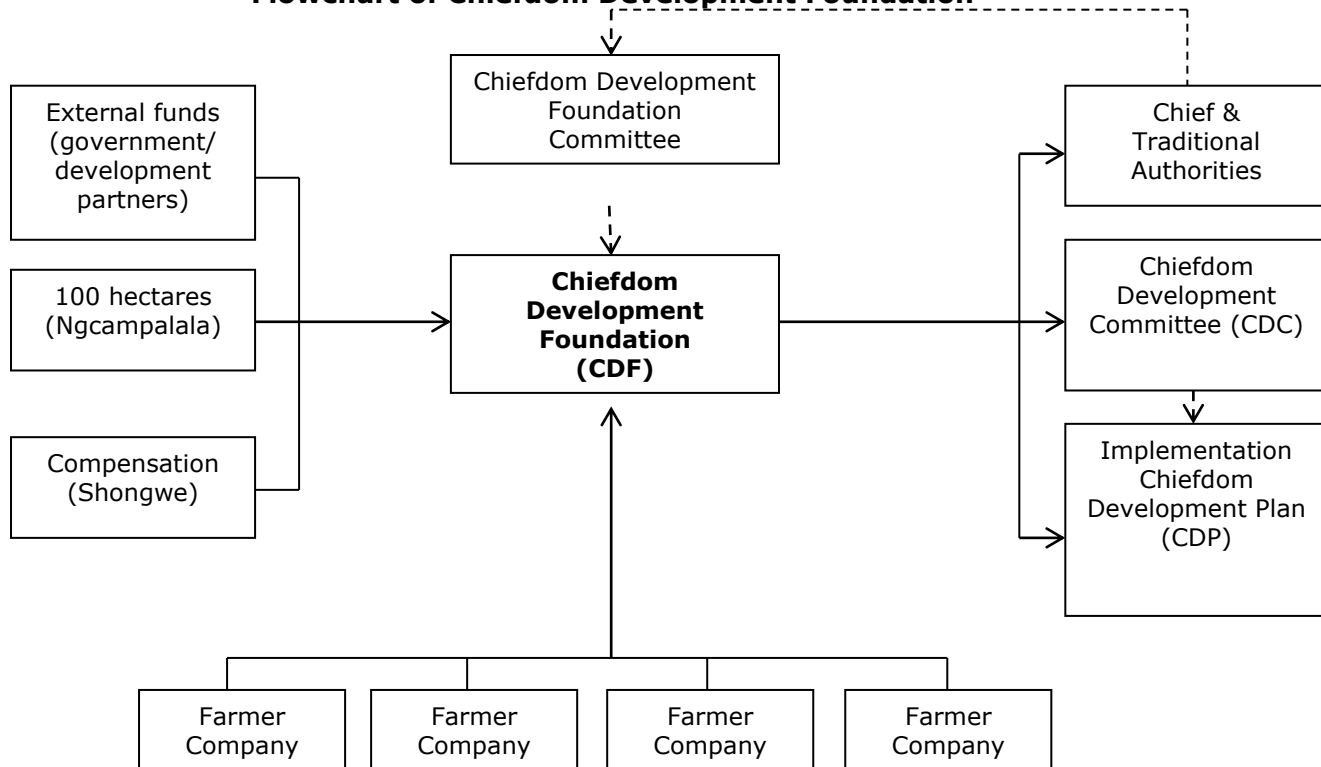
32. So far little has been done with regards to assessing the impact the Project has had on women. The minority status of women, both under the customary and modern laws, limits the potential of more than half the population to participate fully in development and poverty alleviation. The fact that almost half of the CDC members are women shows that the Project has undertaken remarkable efforts to modify this distorted situation. Nevertheless, their actual participation in decision-making at chiefdom level should be looked into more closely. Another important area that deserves special attention is the impact the Project has had on improving women's access to land. Access to SNL by women continues to be a challenge. Although land can be accessed free of charge through the traditional kukhonta system from the chief of the area, women cannot independently do so without a male relative. However, anecdotal evidence shows an emerging practice where some chiefs relax the traditional rules and allocate land to women if a male figure is not available (e.g., in cases where all males have died and a female remains to be head of household). Although women's access to land is identified as an important issue during the process of developing the CDPs, the extent to which the Project has facilitated this has yet to be assessed.

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**Agreed actions**

<b>Agreed Action</b>	<b>Responsibility</b>	<b>Agreed Date</b>
<b>Community mobilisation</b>		
1. Launch CDPs for Shongwe, Mphumakudze and Lesibovu	ADEMU, SLMP	31/03/2013
2. Liaise with His Majesty the King to explain the importance of the CDPs and support chiefs to do the same	SWADE	31/12/2012
3. Monthly meetings with the Regional and Sub-regional Development team	ADEMU, SLMP, LUSIP II	Ongoing
4. Finalise operational modalities of the CDF	ADEMU	30/11/2012
5. Facilitate awareness raising of TA and CDCs on the CDFs	ADEMU	Immediate and ongoing
6. Facilitate workshop regarding submissions to the parliamentary Portfolio on the TADB	ADEMU, MTAD	31/10/2012
7. Finalise MoU between SWADE and MTAD for strengthening collaboration in facilitating and monitoring CDPs	SWADE, MTAD	31/12/2012
<b>Land tenure</b>		
8. Facilitate conflict resolution for Ntsatjana/Manzana FC	ADEMU	31/12/2012
9. Share copies of CLC with Tinkhundla Centre and the Regional Administration	ADEMU	30/11/2012
<b>Equitable access to Project initiatives</b>		
10. Facilitate setting up of the CDF committee in Shongwe and registration of CDF	ADEMU	31/12/2012
11. Liaise with the Regional Administration on the disputed land between Shongwe and Gamedze	ADEMU	30/11/2012
12. Assist FCs in getting the necessary documentation	ADEMU	31/03/2013

**Flowchart of Chiefdom Development Foundation**



## **Annex 2: Economic empowerment – agribusiness for non-sugar**

1. -non sugar subcomponent focuses on the development and training on all non-sugar aspects of the farming businesses, including livestock, fisheries and bee keeping development. The responsibilities extend from farm planning to crop husbandry, business management as well as marketing of produce. There is not a very clear difference in the definition of alternative cash crop and commercial garden. Alternative cash crop is any crop other than sugar that is grown solely for sale. These include examples such as cassava, bananas and sweet potatoes. Commercial gardens are the areas allocated to the farmers, mainly for food security and income generation. Normally this area is measured at 0.2 ha per member and is planted alongside with a cash crop which maybe sugarcane or any alternate cash crop depending on the final agreed anchor crop.

### **Alternative Cash Crops and Commercial Gardens Development**

2. Effective progress over the past six months has been due to the finalization of the development 220 ha for alternative cash crops and 221 ha of commercial gardens which is 11 and 64 percent of the project planned area for 2012 and the formation of 10 Farmer companies for other crops. Total area planted with commercial gardens is 161 ha and that of alternative cash crops is 202.

3. On the already developed land, there is a good progress in development of other crops for both food security and as commercial crops. The dominant crop planted is maize for food security but some maize stands have been planted for sale as dry grain and green mealies. Other crops include seed maize, seed sugar beans and water melons have also been planted in rotation. This constitute to about 84 hectares planted for 2012 season. The level of planting on the commercial gardens was low due to difficulty in getting funding for the alternative crops. Planted areas were mainly funded by proceeds from sugarcane sales. Most of the planting were done in Nxutsamlo, Sibhotela, Sukumani, Setamimphilo, Ngcwaleni and Maweni. Progress on development of cassava planting as a joint operation with starch factory of CASQUIP at Mphaphati has been slowed to delay in availability of Government funds. To date land preparation has resumed and planted is expected before end of 2012.

4. The plan for the year was to plant 205.3 ha under commercial gardens and only 161,3 ha have been developed until June 2012. Thirty one hectors has been planted with maize, 10 ha with sweet potatoes, 9.2 ha with seed beans, 4 ha with seed maize, 0.5 ha water melon and 0.2 ha dry beans bring a total area planted under commercial gardens to 55.2. Some of these farms have their food security crops in the field and others are harvesting. Ziyahle Farmer Company has decided to plant sugarcane on the area for commercial gardens as they their membership will increase in the coming year from 97 to 109 and have only 82 ha under sugarcane which will results in small dividends. The Matimavu FC is reluctant to plant their 14ha as the farmers feel the pumps are too big and would be costly to run and would prefer to convert their 14ha of commercial gardens to sugarcane. Farmers are taking too long to decide on the cropping programmes which delays the preparation of business plans to procure debt financing from the CFIs to fund the production in the farms.

5. Business plans for Babili and Luphiko LwaMgwagwa were submitted with four (4) CFIs namely Swazi Bank, NEDBANK, Standard Bank and FINCORP to procure debt financing for the FCs. The CFIs are being engaged actively to fast track the approval of the loans. Farmer companies growing cash crops in their commercial gardens were assisted in managing their purchases ledgers. To avoid overhead in parallel financing, it is recommended for LUSIP to engage with SHIP to consolidate the business plans for sugarcane enterprises with commercial gardens enterprises.

6. There is a good progress in discussion on market linkages through private public partnership. The project has assisted in identification of companies such as maize and more; Ngwane mills and SDEMANE Investments PTY who are ready to enter in partnership



with farmers to provide market for their produce. Some MOUs have already been developed for this effect. The project could see the feasibility of using these companies to provide extension services to farmers. Market linkage also needs to expand to local whole sellers and supermarkets where there is a need for appropriate packaging. Rehabilitation of KK pack house to medium risk pack house has yet to be done together with its associated business plan.. Initiatives are being taken to encourage large enterprises such as Ubombo Mill to priorities procurement of grains and vegetables for staff rations from the LuSIP PDA. The study done by Technoserve has confirmed on the economic viability on development of medium to high risk pack house.

7. Horticultural marketing strategy is yet to be finalized due to delay in finalization of the three important study studies that are to precede the strategy:

- i. FAO study on competitiveness of vegetable production in Swaziland is still pending.
- ii. Institutional assessment of NAMBOARD is pending review and adoption by NAMBOARD and the Ministry of Agriculture
- iii. Vegetable Pricing study funded by RFEDP has just been commissioned..

8. There is an urgent need to speed up on the development of horticulture strategy/plan as it can provide farmers with better guidance on the crops to choose.

9. One of the challenges in production of commercial crops especially vegetable is the lack of technical support similar to that provided to sugarcane. Farmers have been requesting more extension support. Demonstration plot is yet to provide comprehensive package for vegetable production. Currently the demonstration farm is trialing and marketing various crops through NAMBOARD and monitoring costs and revenues. This information is feeding into the business plans submitted to financial institutions. The demonstration could be used as Farmer Field School (FFS) where by farmers are allowed to participate in all aspects of production process to gain hands on practical experience.( Appendix 1) The project should involve Ministry of Agriculture staff to be facilitators for this FFS and at the same time impact to them refresher knowledge on vegetable and field crops production. Idea of using lead farmer in training for bee keeping can also be expanded to vegetable garden in an effort to reduce shortage of extension staff. There is also an excellent opportunity of partnering with the RFEDP in developing commodity training and mentoring programme for selected production systems.



Part of the alternative cash crop farm of Spotella Farmer Company. They have started harvesting maize as green mealies and some will be left as dried maize crop for food security.

### **Homestead Gardens Development**

10. Two hundred (200) homesteads with access to potable water will be assisted to establish backyard gardens with an estimated twenty (20) homesteads establishing 200m<sup>2</sup> gardens and one hundred and eighty (180) homesteads establishing 20m<sup>2</sup> gardens. However, to date farmers in the resettlement homesteads are yet to use the opportunity of availability of domestic water for their home gardens. There is a feeling that it will be an expensive exercise. Farmers are still depending on rain in their homestead gardens growing pawpaws, mango, maize and other hardy vegetables. There is a need for project to assist farmers in the installation of family drip irrigation which is more economic on water use. Family drippers can even be linked into their water harvesting tanks within homesteads.

11. Close link of LUSIP with GEF/LUSIP project in sharing expertise in vegetable production for home gardens with limited water supply using organic and permaculture principles can speed up development of home gardens within resettlement homesteads. Rearing of zero grazing dairy cows, goats, chicken and other small animals such as rabbits can provide manure needed for the homestead gardens and reduce the cost of buying inorganic fertilizers. These will also build towards becoming organic production units and targeting the specialized market.

12. There is a progress in the project support to resettlement homestead with very limited land for crop production to develop other enterprises. Local chicken enterprise and bee keeping has gained momentum. Farmers are rearing chickens in their homesteads and use their association to market them collectively. Collective marketing can also be expanded to include collective purchase of expensive inputs such as vaccines and sharing the dose. Currently there are three (3) free range chicken groups that are operational. The management of improved family local chicken production involve using local available building materials to create a semi intensive rearing system where partitions are provided for different stages of chicken growth. There is also the provision of improved cockerels to improve the breed. LUSIP is in the process of refining a model facility for commercial rearing of free range chickens. There is a room for more engagement of this group in the form of rotating farmer field school where by farmers will be using each other poultry unit as a school in rotation. This allows for better exchange of learning among members and also direct improvement of their units.

13. The project will need to solicit technical assistance of a specialist in family local chicken production who will also assist in training of trainers (ToT) and in developing training package of the how to rear improved local chickens. There is still a need for the project to commission a specific study on market for indigenous chicken to provide insight into the real market prospects for this enterprise that has much potential for poor rural households. The existing study of Technoserve provides an overall picture of the poultry industry mainly based on production aspects.

14. The established bee-keeping farmer company is progressing well. Project has signed an MOU with an expert bee keeper to be a lead farmer in providing training. Plan is in progress to establish a model fish pond at Mtfweni, Ngugwane, Tikani and at demonstration centre.

15. Preliminary plans for the innovative Beef Value Chain development scheme is progressing well, with identification of five cattle traders and training them using demonstration feed lot. The approval of grant fund for this project will increase the pace on utilization of the existing potential on cattle. The project could also look into the opportunity of developing zero grazing dairy cattle especially for the resettlement homesteads taking advantage of production of sugar tops and other pasture grasses and crop residues from their commercial and alternative cash crop gardens.



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Improved way of keeping free range chicken where the chicks are taken from their mother after two week to allow mother chicks to go back into egg production. Madame Make Mamba unit



Mr. Petros Matse homestead with the VIP toilet and a plot of pawpaw behind. He is also preparing land for growing rainfed maize and beans

### **Conclusion**

16. In the beginning of project implementation, LUSIP concentrated more on the development of sugar sector to the extent of delay in implementation for non- sugar subcomponent. The concern is that LUSIP will be completed by September 2013 and the remaining one year is not enough for handholding the newly emerging companies in market linkage and the learning of new technologies especially for vegetable production. There is a need to support for a very close linkage of these activities to the new project on smallholder market led production programme which is expected to start implementation in 2013. There is also a need to advice on the appropriate cost effective management of farmer companies with both sugar and other crops enterprises. The private companies with MOU with farmers companies are to be encouraged to provide extension support as a package with market opportunity within PPP arrangement.

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17. Most of the commercial and alternate crops gardens are now engaging in production of field crops which caters for their food security and excess for sale. This is a good move for food security issue but for the sale of small amount of access, there is a need to do a calculation on economic rate of return on the investment especially considering a small area under production.

18. There is a need to improve linkage with other project in the area of development of market information system and building of saving and credit society among farmer associations and companies in preparation for future savings of the expected proceeds from their enterprises.

### **Guidance for Changing Demonstration Plot into Farmer Field School**

Progress made so far on the demonstration unit (6 ha) is to demonstrate on the vegetable varieties and fruit trees that can grow well in the marginal soils where most of the relocated homesteads are. These crop variety demonstrations went together with prospecting for market opportunities and development of excel programme for gross margin analysis of most of potential crop alternative to sugarcane. There are several studies done to demonstrate the potential of Swaziland in vegetable production taking the advantage of growing demand for its urban dwellers and also for the neighbouring South Africa. E.g. The study by Technoserve on “Johannesburg fresh produce market” and the Agricultural Diversification Strategy document (prepared under a Commonwealth Secretariat funded contract for SWADE). However, demonstration plot has not been successful in imparting its generated knowledge and technologies to the farmers who for some vegetable production is a new venture.

During previous supervision missions, the project has been advised on the development of training manual. This work is ongoing with collaboration with GEF and RFEDP projects. The next step is on defining the methodology to undertake such training. Farmer Field Schools (FFS) have proven to be a very effective tool for enhancing farmer learning and empowerment. As an extension approach, the FFS concept does not require that all farmers attend FFS training. Rather, only a selected number of farmers within a village or local farmers’ group are trained in these informal schools, which entails weekly meetings in a season long training course (Appendix 2 and 3 examples of FFS curriculum and manual from Zanzibar, Tanzania ). However, in order to disseminate new knowledge more rapidly within the community, selected farmers receive additional training to become farmer-facilitators.

The FFS approach represents a paradigm shift in agricultural extension. The training program utilizes participatory methods to help farmers develop their analytical skills, critical thinking, creativity and help them to learn to make better decisions which leads to greater self-sufficiency and self-confidence. FFS can also be integrated with other approaches participatory technology development and they facilitate the scaling-up of successful experiences. FFS is practical oriented and requires ample time with farmers in the field, sharing knowledge and experiences. It involves a direct hands-on participation of farmers in learning of new technology through a season long mode of operation e.g. from planting to harvest or from egg to egg. It espouses an experiential learning philosophy that underscores critical reflection and action through learning by doing.

FFS graduates are encouraged to share their knowledge and experiences with other farmers within the village and community organizations. These farmer-to-farmer diffusion effects are expected to bring about cost effective knowledge diffusion and financial sustainability

Extension agents, who are viewed as facilitators rather than instructors, conduct learning activities in the field on relevant agricultural practices. Through interactive learning and field-experimentation, FFS programs teach farmers how to experiment and problem-solve independently, with the expectation that they will thus require fewer extension services and will be able to adopt the technologies to their own specific environmental and cultural needs. Participants are encouraged to share their knowledge with other farmers, and are sometimes trained to teach the courses themselves, thus reducing the need for external support.

The training ground for FFS is normally within the farmer’s fields. Farmers are given the role to prepare training places that they feel more comfortable, be it under the tree or in the shade which they built. However, the project can take advantage of the existing demonstration plot and set aside area for farmers to use as their learning grounds. The approach also involve setting aside a portion where farmers are encourage to use their traditional skills in production and parallel to that they also practice with the new technology they discuss with their facilitators. Farmers will be coming to the demonstration site based on agreed schedule depending on the activity to be taken be it assessment of plant growth or discussion of their other community issues such as HIV and AIDS.

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**Attachment 2: Example of Curriculum for FFS of for Local Chicken (Courtesy of ASSP&ASDP-L IFAD supported project of Zanzibar Tanzania)**

**CURRICULUM FOR LOCAL CHICKEN IN FARMER FIELD SCHOOL**

DATE	ACTIVITIES	SPECIAL TOPIC	OBJECTIVE AT THE END OF TRAINING THE FARMERS SHOULD BE ABLE TO	MATERIALS	METHOD	RESPONSIBLE
1 <sup>st</sup> week January 2008	FFS Groups formation	FFS briefing and history.	To understand FFS and group formation.	Flip chart, marker pen, solar tape.	Meeting	Facilitator – Farmers – Sheha – BEO –
2 <sup>nd</sup> week January 2008	Group Identification and strengthening	FFS concept – FFS Objectives – Principles of FFS – Leadership – Setting norms –	To have a general concept and objectives of FFS	Flip chart, marker pen, solar tape, note book, pen	Discussion	BEO – Facilitator – Farmer –
3 <sup>rd</sup> week January 2008	Local chicken problems Identification and ranking.	Problems / constraints and how to rank the problems select host farmer.	To identify problems facing local chicken and to rank them.	Flip chart, marker pen, solar tape.	Discussion	Facilitator and Farmers
4 <sup>th</sup> week January 2008	Evaluation  Site selection	Pre evaluation –  Criteria for site selection.	To understand level of understanding.  To know good area to build poultry house.	Flip chart, land, marker pen, solar tape.	Discussion	Facilitator and Farmers
1 <sup>st</sup> – 3 <sup>rd</sup> weeks February 2008	House construction with yard for local chicken. Follow up to – development of construction 2 times	Good local chicken house	To understand how to build local poultry house.	Flip chart, marker pen, land, poles, sticks, rope, nails cement; hand saw panga, Jembe, msaha, thatching materials.	Discussion Practical work	Facilitator and Farmers
4 <sup>th</sup> week February 2008	Study visit	General observation	To exchange ideas with the experienced farmers.	Transport	Discussion	Farmers and facilitator
1 <sup>st</sup> week March 2008	Selection of parent stock layers and cocks	Characteristics of good layers and cocks for breeding Ration	To select good layers and cocks for breeding purposes	Layers, cocks, Flip chart, marker pen and solar tape.	Discussion Demonstration	Farmer Facilitator

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		10:1	To know the ratio of layers and cock.		Practices.	
2 <sup>nd</sup> week March 2008	Record keeping	Health records – Production records – Feeding records – Input and out – records.	To know on how to keep different kinds of poultry records To know the profitability of their enterprise.	Flip chart, marker pen, solar tape, note book, pen	Discussion Practices.	Facilitator Farmer
3 <sup>rd</sup> week up 4 <sup>th</sup> week March 2008	Local feed compound, feeding and Equipment required for feeding	Home made ration – formulation. Amount required – for chicken. Equipment used for – feeding.	To know how to mix – local available feed stuff for feeding chicken.  Amount required per – bird per day.  To know to make feeder – and drinker.	Maize bran, rice polishing, dry coconut cake, fish meal, kitchen waste vegetable, kikobo  Bamboo, oil tin – and gallon.	Discussion Demonstration and Practices.	
1 <sup>st</sup> week & 3 <sup>rd</sup> week April 2008	Management of diseases and parasites	Vaccination methods.  Disease control and measure.	To identify different Kinds of vaccines and method of application. To know viral diseases, bacterial and protozoa diseases	Newcastle vaccine, Gumboro, Fowl pox vaccine and spray syringe. Affected chicken from different diseases as a specimen. OCT powder, amprolium piperazine, akheri powder.	Discussion Demonstration and Practice PAR	Facilitator and Farmer
4 <sup>th</sup> week April 2008	AESA	Importance of AESA (PESA) to know AESA field.	To observe, collect data, process, draw, and presentation.	Flip chart, marker pen, pencil, colored pencil rubber.	Discussion Demonstration Practice	Facilitator and Farmer
1 <sup>st</sup> – 4 <sup>th</sup> week May 2008	Pprogramme Hatchery	Preparation of – laying nests. Egg recording and – dated. Eggs selection for – hatching. Preparation of – brooding nests/places	To know how to prepare laying nestst brooding nests.  To know how to record and date the eggs. To know how to select eggs for hatching.	Small boxes, litter material, machakacha, stick for patches.	Discussion Demonstration Practice	Facilitator and Farmer
1 <sup>st</sup> week June 2008	Complementary Issue	Gender Issue HIV/AIDS	To understand the gender development in agriculture	Flip chart, marker pen, solar tape pen,	Discussion	Facilitator and Farmers

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			and importance of gender issue. To understand the meaning of HIV and AID. To know the sign of HIV/AID, transmission and control measure.	note book.		Invited speaker
2 <sup>nd</sup> week June 2008	AESA	Data collection – Data processing – Data presentation –	To know how to collect data. To understanding the process of data. To know the – presentation of data.	Flip chart, marker pen, viar, solar tape, pencil colored pencil rubber	Discussion Practice	Facilitator and Farmers
4 <sup>th</sup> week June 2008	Management of chicks	Temperature – required Preparation of – brooder Feeding – Disease control –	To know adjust – temperature for chicks. To understand to prepare – brooder. Feed and to manage – disease during manage disease during rearing .	Kandili, hard board, small feeder and drinkers, vaccines, antibiotics mixed with mineral + vitamin, amprolium and Trypophium.	Discussion Demonstration Practice PAR	Facilitator and Farmers
1 <sup>st</sup> week July 2008	AESA (PESA)	Data collection – Data processing – Data presentation –	How to collect data for AESA. How to process it. – How to present the data. –	Flip chart marker pen, pencil, pencil colored, Vial	Discussion Practice	Facilitator and Farmers
2 <sup>nd</sup> week July 2008	Study visit	To observe a developed group of FFS.	To share idea and to learn technical practices from other group.	Transport	Discussion	Facilitator and Farmers
3 <sup>rd</sup> week July 2008	Special topic	Use poultry manure – for feeding animals for establishment of vegetables garden.	To understanding how to use poultry manure for establish vegetable and its importance.	Seed, Jembe, manure, seedling ruler	Discussion Demonstration Practice	Facilitator and Farmers
4 <sup>th</sup> week July 2008	PESA	Data collection – Data processing – Data presentation –	To know how to collect data. How to process How to present the AESA (PESA)	Flip chart, marker pen, pencil, pencil colored, vial	Discussion Practice	Facilitator and Farmers
1 <sup>st</sup> and 4 <sup>th</sup> August 2008	Management of pullets up to growers	Deworning – Debeaking – Culling – Treatment – Feeding –	To understanding how to managed the pullets Debeaking – Culling – Feeding –	Piperizine, sizer knife.	Discussion Demonstration on practice	Facilitator and Farmers



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			Deworning –			
1 <sup>st</sup> September 2008	Complimentary Issue	Malaria – Cholera + – dysentery Schistosomiasis –	To know signs and – symptom, prevention, control and treatment.	Flip chart, marker pen, solar tape	Discussion	Facilitator and Farmers
2 <sup>nd</sup> and 4 <sup>th</sup> weeks September 2008	Management of growers up to layering	Feeding – Deworning – Debeaking – Culling – Vaccination – Treatment – Dustring. –	To understand the proper management and hand ling the skills	Feeds, piperazine, knife, fire, NCD, Akheri powder, OTC plus, vitamin and minerals	Discussion Demonstrati on practice	Facilitator and Farmers
1 <sup>st</sup> October week 2008	AESA (PESA)	Data collection – Data processing – Data presentation. –	To know how to collect – data. How to process – How to present AESA in – poultry.	Flip chart, vial marker pen, book, pen solar tape, pencil colored + pencil rubber.	Discussion Practice	Facilitator and Farmers
2 <sup>nd</sup> October week 2008	Complimentary Issue	Meaning SACOS – Meaning SACAS – Fund organization –	To motivate farmer to – start cooperative organization for their development	Flip chart, marker pen, solar tape.	Discussion	Invited speaker Facilitator and Farmers
3 <sup>rd</sup> week October 2008	Marketing	Handling and – selection eggs for selling. Culled chicken – Processing of – chicken	To select the eggs and chicken for selling. How to process chicken for selling.	Egg strays, eggs hens, knives, hot H <sub>2</sub> O, crates or hasusu.	Discussion Demonstrati on Practice	Facilitator and Farmers
4 <sup>th</sup> week October 2008	Evaluation	Questions on BBT – (post evaluation)	To understand the farmers level of course under standing.	Ballot box, flip chart, marker pen and solar tape.	Question Clarification	Facilitator and Farmers
1 <sup>st</sup> week November 2008	Field day	Preparation –	To publicize the out come of the farmers group of FFS to.	Chicken for sale Eggs for sale.	Presentation Discussion	Facilitator Farmers Local leader
2 <sup>nd</sup> week November 2008	Graduation	Preparation –	To know graduation is and its importance.	Certificate.	Discussion	Facilitator and Farmers
3 <sup>rd</sup> November up to December 2008	Follow up	To supervise the – host farmers and started FFS. Monitoring – Farmer councils –	To know the development of started FFS.	Motor cycle and fuel (Petrol)	Discussion Exchanging Ideas	Facilitator and Farmers

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		SACCOS and – SACAS				
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### **Annex 3: Financial management**

#### **I. Introduction**

1. The Lower Usuthu Smallholder Irrigation Project (LUSIP) is a 7 year project, financed by the Government of the Kingdom of Swaziland (GoS), the International Fund for Agricultural Development (IFAD) and other Co-financiers. The IFAD Loan was approved on 6 December 2001, with the Loan Financing Agreement being signed on 24 February, 2003. The Loan became effective on 27 January 2004. The Project completion is planned for 30 September 2013, while the Loan closure is scheduled for 31 March 2014.

2. **The cost of the Project financed by IFAD and as appraised at Mid-term review** is approximately **USD 22.95** million. The amount as provided for in the Loan Financing Agreement is SDR 11.9 million or USD 18.85 million equivalents. The other cost contributions include USD 5.10 million by the GoS.

#### **II. The objectives and conduct of the mission.**

3. The Financial Management Specialist will closely work with the SWADE and LUSIP management units, review and analyze their financial accounting records and ensure that the issues raised during the last supervision missions have been addressed. Overall, the consultant will review the performance of the financial management arrangements, accounting, internal control mechanisms, budgeting, flow of funds and auditing arrangements. Specifically the consultant will carry out the following tasks:

- a) Review the disbursement trends and processes (including counterpart funding), and programme expenditure in relation to the approved AWP&B and IFAD requirements;
- b) Review the management, utilization and reconciliation of the Special Account and programme accounts, with special focus on flow of funds and replenishments in line with the Financing Agreement;
- c) Critically review the use of the SOE facility for eligibility of reimbursed expenditures, by inspecting a reasonable sample of such records;
- d) Review the compliance of procurement processes within the programme including the performance of an ex-post review of a reasonable sample of documentation retained by the Borrower on IFAD-financed procurement not subject to prior review;
- e) Review the adherence to the provisions of the project implementation manual and consider possible modifications thereof;
- f) Review the use of vehicles and equipment and the control of the Register of Programme Assets for compliance with IFAD and Government requirements
- g) Identify any training requirements concerning financial matters or loan administration;
- h) Review the follow-up of items identified in the previous IFAD audit review;
- i) Review the appropriateness of the provisional risk rating used for risk-based disbursements and in conjunction with the review of the SOE thresholds, make recommendations accordingly;
- j) Review compliance with the Loan Agreement covenants, in the case of LUSIP ensure that no funds have been spent on the development of LUSIP II;
- k) You will also provide a 1-2 page contribution to the Aide Memoire(s) and a technical annex of no more than 6 – 8 pages;
- l) Perform any other priority tasks as identified by the Country Programme Manager or the Team Leader in her absence.

4. In the course of carrying out the assignments, the mission engaged with the officers of the ADEMU and SWADE managements, and other staff. The mission takes this

opportunity to gratefully thank all these officials and staff for their time, support, cooperation and collaboration.

### **III. Detailed Work Done, findings Recommendations and Way forward.**

#### **• Financial management.**

5. **Systems and Internal Controls:** These are implemented through the SWADE Financial Management Manual. The mission reviewed these which include financial planning (through Annual Work Planning and Budgeting process (AWPBs)), financial data capturing and accounting system, financial cash flow management, monitoring and reporting, procurement and auditing. The mission notes gaps in the performance of key systems. The ACCPC accounting system has not been put to result oriented full use in terms of articulating the chart of accounts that ensures, timely and accurate financial transactions data capture, accurate financial reporting of IFAD loan and GEF grant. The flow of funds management is not efficiently managed, consistently within WA claims thresholds as prescribed in the IFAD letter to the borrower. **It was agreed that for the remaining life of the project LUSIP will prioritize on the improvement of timely and accurate financial accounting, regular quarterly reporting and submission of WA's as soon as the prescribed thresholds are achieved.**

6. **The financial management Capacity, performance and financial reporting:** The two person team planned and agreed upon at design and MTR, and made up of the Finance Manager and Accountant, was to be fully dedicated to the LUSIP financial management. The team is adequate for the level and volume of the financial transactions of the project. The mission notes that the financial management team is no longer based at the Project level, but has been transferred to SWADE Head Office from where the financial management activities and processes appear to be carried out from. The mission notes with concern that the timeliness and accuracy of the financial accounting and reporting as well as effective cash flow management has not been taking place. The withdrawal Applications for replenishment is sometimes 3 times the prescribed threshold of 20 % of the SPA allocation or USD 200,000 and is affecting the project cash flow.

7. The salaries chargeable to GEF Grant and LUSIP IFAD Loan during the period beginning April 2010 to 30 September has been inaccurately accounted for in the books of Account and in the audited financial statements. The Project is entering into the final implementation phase of activities completion and Loan closure and the recovery of the SPA initial deposit will be expected to be carried out without negatively affecting the finalization of the last batch of approved activities. The mission recommends transfer of the financial management team from SWADE to the project, to ensure a focused and dedicated management of the financial resources, accounting, and reporting during the last phase of the project. The financial management and reporting should include the following processes:-

- a) Preparation and submission of WA's for replenishment should be carried out immediately upon reaching the minimum threshold of 20% of the USD 1 million SPA allocation or USD 200,000.
- b) The reconciliation of the Special Account should be prepared at the end of each month (as opposed to only for support of WA submission), for use as a management tool for checking the accuracy of the cash flow and expenditure accounting records, as well as tracking the levels of the expenditure that are pending WA preparation and submission. This reconciliation should be subject to SWADE's executive oversight review and corrective directions on the issues arising.
- c) Quarterly resources and expenditure statements should be prepared. The expenditures should be presented by components as well as by expenditure

categories. The resulting surplus or deficit must be reconciled with the cash and Bank Balances.

- d) Loan status and reconciliation schedule.
- e) The job descriptions of the Finance manager and the Accountant should be revised to make them result oriented with clearly defined performance indicators in terms of deliverables and their timelines, relative to the Project completion and loan closure demands.
- f) The financial management team should be exposed to the IFAD Loan administration and financial management training relative to project completion and Loan closure requirements.

8. **Physical and Financial Progress Reporting:** - The mission reviewed the recent quarterly progress reports and notes the coverage of wide ranging subjects including those of the farmer beneficiaries. However, the up-to-date financial reports are not included therein. **It was agreed that, in future physical and progress reports will include up to date financial statements as proposed in paragraph 7 (a) (b) and (c) above.**

9. **Review of the Statements of Expenditure (SoEs):** The mission has carried out a review in depth of SoEs and other supporting documentation supporting Withdrawal Applications 120, 121, and 122 with a combined value of USD 3.65 million or SDR 2.43 million. WA 120 for USD 700,000 was submitted for replenishment of the SPA, while the other two were submitted for reimbursement to SWADE, for having pre-financed the various expenses, largely salaries as claimed. **The mission found the 3 WA's defective, particularly WA's 121 and 122 which were largely made up of salaries expenditures which the mission considered as substantially ineligible. Apart from WA 120, the mission's advice for the recall of WA's 121 and 122, on the basis of the reasons enumerated in paragraphs 11 and 12 here below, were accepted by SWADE and LUSIP managements. The SWADE and LUSIP management will negotiate with GoS for the absorption of the said expenditures, as GoS Contribution.**

10. **WA 121 and WA 122:** The amounts claimed for re-imbursement includes salaries of SZL 5,773,885 and SZL 3,885,000 respectively, reported to have been paid during the financial years 2010/11 and 2011/2012. The mission reviewed the claims against the supporting documents for justification. The mission also assessed the amounts against the staff who received the salaries in addition to the project staff establishment as agreed in the MTR report. The mission also attempted to agree the salary claims against the underlying AWPBs for 2010/2011 and 2011/2012. The findings of the mission were that these expenditures were substantially understated, and the salaries paid by SWADE on account of LUSIP Project Staff for the period from April 2010 to September 2012 are approximately SZL 22.03 million or USD 2.84 million. Other findings are that the budget documentary analysis that would agree the costs to the underlying AWPB provisions is not readily available. The other drawback going against the eligibility is the age of the bulk of the expenditure. The IFAD procedures require that pre-financed expenditure for re-imbursement should not be more than 3 months old and the nature and levels should have been a subject of negotiation between the project/borrower and IFAD before the expenditure is incurred. **Apart from the salaries for the 3 months period, amounting to SZL 2.8 million or approximately USD 347,000 the, rest of the expenditure is considered ineligible for reimbursement claim by the mission, and recommends dropping of these amounts from the re-submitted WA's.**

Table 1: Analysis of Salaries paid by SWADE on account of LUSIP staff.

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Period	2010/11	2011/12	2012/13
	SZL	SZL	SZL
APRIL	497,172	896,842	861,492
MAY	478,212	896,334	861,492
JUNE	524,268	917,344	857,832
JULY	682,632	824,501	1,049,265
AUGUST	597,445	823,167	868,209
SEPTEMBER	597,731	827,216	856,665
OCTOBER	598,161	779,848	
NOVEMBER	613,434	706,992	
DECEMBER	603,846	718,999	
JANUARY	607,824	682,801	
FEBRUARY	603,846	742,743	
MARCH	687,518	769,854	
Total	7,092,087	9,586,639	5,354,954
Say USD @ SZL 8 to 1 usd	7	8	8
USD	986,382	1,187,935	669,369
<b>Grand Total in USD</b>			<b>2,843,687</b>

11. The other ineligible claim included in the WA 121, of SZL 606,841 or approximately USD 75,855, relates to invoices emanating from 2 old contracts, GFA medical GmbH, and DHV Agricultural and Natural Resources BV. The Contract Monitoring Form for the GFA contract includes two contracts amounting to SZL 384,971 and EURO 818,880.25. The Contract monitoring form (CMF) indicates that the SZL contract is overpaid by SZL 479, 175.81 dated 2 may 2008. The CMF for the EURO contractual amount indicate a balance of EURO 354,011.78. The last transaction is dated 25 November 2008. The total amounts claimed in WA 121 total **SZL 246,030** and the invoices are for July 2007.

12. Similarly, the CMF for the DHV contract indicate an overpayment of SZL 623,576.63 on the contract of SZL 26.6 million. Therefore, the DHV invoice for **SZL 360,811** of September 2008 cannot be accommodated. However, the EURO currency contract for the same service provider, indicate a balance of Euro 271, 314.31. The mission checked with Loan administration in Nairobi as to the final outcomes of these contracts. It emerged that much of the work was carried under UNOPS and documentations that would be used for authentication may not be readily available. In view of the uncertainty and the 4 year gap between the reported payment and the claim, the mission cannot confirm the eligibility of total **claim of SZL 606,841 or approximately USD 75,855.**

13. The mission engaged constructively with SWADE and LUSIP managements and made representations on the consequences of pressing ahead with the claim of WA 121 and 122. The mission emphasized on age of the bulk of the above items as described above in paragraphs 11 and 12, as well as the likely impact on the imminent recovery of the initial deposit, and the uncertainty of the cash flow for paying the LUSIP staff and completion of the ongoing beneficiary activities. The mission further informed the managements of the likely in-depth consideration of these items by IFAD, which could lead to uncertainty for full or even part settlement of the above items. **In positive response of the mission's representations, the SWADE management has retracted WA's 121 and 122, and decided to negotiate with the GoS for their financing.**

14. **WA 120:** The grand total of USD 700,000 is not accurate and the arithmetic correct amount should be USD 700,017.82. The mission does not recommend a recall and amendment since the cost is likely to be more than the error of USD 17.82. **The error** should be corrected in the next withdrawal application for replenishment. As for

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eligibility the mission carried out the tests on a sample 12 items, selected at random, and making up the SoEs supporting the WA. The total value of the selected items amounts to USD 81,646 or 12% of the WA value. On the basis of the supporting documents, the mission found the expenditure eligible for claim. Table 1 here below detail the items selected and the tests carried out. **(The same table is also presented in the Excel table appended to this report)**

Table 2: Analysis of SoEs tested for eligibility for WA 120.

Item	WA	WA Amount USD	ITEM	Category	Description	Amount of selected item szl	Consistent with Loan agreement	Justifications
1	120	6,290	Sheet 7 item 12	IX(a)	Fuel for LUSIP cars	43,324	✓	Agreed the invoices to the LUSIP Motor vehicles which were in turn agreed to the Asset register
2	120	3,194	Sheet 1 item 1	IX(a)	Printing and Stationery	22,000	✓	Agreed the amount to the procurement process of 3 invoices and other supporting documents.
3	120	30,087	sheet 9 item 17	IX(a)	Insurance of Project Motor Vehicles	207,242	✓	Amount agreed to the supporting documents as well as confirming the assets to the LUSIP asset regi
4	120	8,304	Sheet 10 item 17	IX(a)	Car Maintenance	57,201	✓	Cost agreed with the supporting documents of LPO and the MV number confirmed with the asset regis
5	120	5,941	Sheet 15 item 14	IX(a)	Car rental by LUSIP	40,920	✓	Agreed to the authorised payment documents
6	120	4,933	Sheet 18 item 3	II	Purchase of computers	33,980	✓	Agreed to the procurement process. 3 quotations . Items also agreed to the Asset register
7	120	340	Sheet 21 item 7	IV	Training - Per diems	2,339	✓	Agreed to the GoS rate sheet
8	120	2,523	Sheet 21 item 2	IV	Training -Airtickets-Sep 2011	17,380	✓	Agreed to the training NO for the Loan administration and the payments documents.
9	120	508	Sheet 23 item 3	VI	Sanele Sithole - LUSIP, Siphofaneni, Swaziland	3,500	✓	Consultancy salary paid to a contracted junior staff. Agreed to the payment documents as well as to the signed contract with SWADE.
10	120	726	Sheet 23 item 7	VI	Sindie Nomusa Mathe	5,000	✓	Consultancy salary paid to a contracted junior staff. Agreed to the payment documents as well as to the signed contract with SWADE.
11	120	5,807	Sheet 23 item 11	VI	Ismael Nehumai - LUSIP, Siphofaneni, Swaziland	40,000	✓	Consultancy salary paid to a contracted Engineer. Agreed to the payment documents as well as to the signed contract with SWADE.
12	120	12,993	Shhet 24 item 3	VIII	Retainer All-Lubovane Committees	89,500	✓	Agreed to the supportingcommittee members payment documents as well as official payment rate list .
Total		81,646				562,386		

**15. Review of the IFAD Special Account and other Programme Accounts:-** The mission notes that the initial deposit of USD 1 million for Special Programme Account (SPA) is fairly accounted for as at 30 April 2012. The combined cash balances in the SPA as of this date amounted to USD 1.4 million. This amount includes cash balances for GoS counterpart Funds and the Interest earned on the cash balances of USD 1.1 million and USD 5,586 respectively. The other key reconciling item is the WA 120 proceeds of USD 700,000 which is in the process of submission to IFAD. The mission notes the irregular practice of preparing the reconciliation, only for the purpose of supporting the WA's. In addition the levels are in many cases, more than twice the prescribed threshold of USD 200,000. **The mission recommends the need to regularly submit WAs upon reaching the prescribed threshold. Further, the reconciliation should be carried out at the end of each quarter to facilitate effective cash flow oversight review by the Programme Director and Manager as well as assistance in the tracking of the levels of expenditures with the aim of earliest submission of WA's for replenishment claim.**

Table 3: Summary of Reconciliation of the SPA and other Programme Accounts:

	US \$	US \$
1 Total amount Advanced		1,000,000
2 Cash balance in the Special Account	305,586	
3 Cash balance at the PMU's Local Bank Account	824,456	
4 Cash balance at the Local Sub-Bank Accounts	262,692	
5 Petty Cash in PMU -Petty Cash	1,168	
6 Expenditure in the process of submission under proposed WA 120	700,000	
8 Interest earned	-5,586	
9 GoS Counterpart Funds	-1,088,315	
Total		1,000,000

**16. Recovery of the Initial deposit:** The USD 1 million, forming the SPA allocation is an advance to be recovered through justified expenditures when the balance of funds in the loan account is USD 2 million, or on 30 September, 2013, whichever of these trigger point is achieved earlier. On the basis of expenditure trend and projections, the mission observes that the trigger point of USD 2 million will be achieved first, any time from now and this may fall by 31 March 2013 at the latest. **The mission recommends a**



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**formulation of the Cash flow plan that incorporates the remaining 2012/2013 AWPB activities as well as closure period expenditures. The plan will ensure that the funding of these activities is not affected by the reduced cash flow balances in the SPA as a result of recoveries. In addition once the plan is formulated, IFAD should be consulted for agreement of graduated recovery rates.**

• **Disbursement**

17. **IFAD Loan Disbursement:** As at 25 September, 2012, the actual IFAD Loan disbursement up to WA 119, amounted to SDR 8.87 million, representing 75% of the total IFAD Loan of SDR 11.9 million. This disbursement includes the SPA's allocation of USD 1 million or SDR 679,000 equivalents, and all these inflows have been reconciled to the IFAD statements. However, excluding this SPA allocation, the utilized loan is SDR 8.19 million or 69% of the total loan. If this is factored with the expenditures above WA's 120 for USD 700,000 or SDR 466,000 equivalent, the projected loan utilization rises to SDR 8.66 million or 73% of the total loan. The projected loan balance is SDR 3.24 million or USD 4.87 million or SZL 38.9 million at the current exchange rates. The projections as presented in **table 4 here below indicate** that these funds will be adequate to finance the activities for the remainder of the financial year, and form the basis of the Budget plan for the remaining project period to Loan closure currently planned to 31 3 14.

Table 3: IFAD Loan Disbursement and Loan utilization projections to 31.3.2014.

Category description	Financing	Original Allocation	Disbursement to date up to WA 119	% age Disbursement	Expenditure in submission under WA's 120	Projected Loan Utilisation	Projected Loan Balance at 30.6.12	Projected utilisation	Balance-2012 AWPB	Balance-2012 AWPB	Loan Balance for Period to Loan Closure 31.3.14
	%age	SDR'000	SDR'000	%age	USD'000	SDR'000	SDR'000	%age	USD'000	SDR'000	SDR'000
I Civil works	100	370	0		-		370	0%	535	356	14
II Vehicles	100	860	426	50%	28	19	445	52%	16	10	405
III Technical Assistance	100	5750	5,537	96%	-	-	5,537	96%	-	-	213
IV Training, Studies and Workshops	100	940	320	34%	58	39	359	38%	703	468	113
V Investment Matching Finance	100	600	-	0%	-	-	-	0%	648	432	168
VI Contracted Staff	100	1450	552	38%	50	33	586	40%	669	446	418
VII Recurrent Allowances	100	40	32	79%	19	13	44	111%	-	-	4
VIII Incremental Operating costs of ADEMU	100	1800	1,323		544	362	1,686	94%	153	102	12
Unallocated		90	-	0%			-	0%	-	-	90
Subtotal		11,900	8,191	69%	700	466	8,657	73%	2,723	1,814	1,429
Initial deposit			679				679				
Total		11,900	8,870	75%	700	466	9,336	78%	2,723	1,814	1,429
							usd	4,865			2,143
							SZL'000	38,917			17,144

18. **Forward Strategic Loan Utilization Plan:** As of 1 October 2012, the project has 12 months of implementation period plus the 6 months closure period. The mission proposes that ADEMU formulates an 18 months financial projection plan that takes into account key priority activities including staff salaries for the skeleton staff who will oversee the Project completion and loan closure, as well as other project assessment and completion reports costs. The Plan should be harmonized with the proposed cash flow. ADEMU should ensure that the 2013/14 AWPB is consistent with these projections.

19. **Re-allocations:** Now that WA's 121 and 122 have been withdrawn, there are adequate funds in the expenditure categories to cover the costs for the remaining 2012/13 AWPB activities and possibly finance priority activities through to project

completion and Loan closure period. **The mission does not propose any re-allocation request.**

- **GRZ Counterpart Funds.**

**20. GoS Counterpart Funds:** The Financing Agreement requires that the Borrower contribute resources for the financing of the activities of the Programme in the aggregate of SZL 139.8 million. As at 30 September, 2012, the GoS had contributed SZL 1.13 billion. This contribution includes funds for development hence the excess over and above the design allocation. **The mission commends GoS for meeting the required obligations.**

- **Procurement.**

**21. Procurement:** Under LUSIP, the bulk of procurement is for development that is financed by the GoS and other development partners. As for IFAD, funds remaining AWPB provisions include procurement of civil works activities estimated to cost USD 535,000. The process formulating the procurements is underway.

**22. Contract Register:** There are problems with the contract register, in that expired contracts have been deleted thus losing valuable historical information – e.g. the TA contracts that were terminated in 2007 and 2008 – and for which detailed reviews now need to be undertaken have been removed from the register. The contract register should be re-built. It is also important that it be used much more as a management tool to reduce the likelihood of delays in payment leading to closure of necessary goods and services.

- **Review of the Compliance of the IFAD Loan Covenants**

**23.** The Mission reviewed the compliance of the Loan covenants and confirms that no contravention was noted.

- **Statutory Audit**

**24. Statutory Audit:** The Statutory audit is up-to-date. The audit for the 2011/2012 financial year has been carried out on a timely basis and the audited financial statements, Accounts and reports were submitted to GoS and IFAD within the specified deadline of 30 September 2012. The auditors awarded clean and unqualified opinion to the financial statements, accounts and reports. The management letter was also submitted by the auditors. The management letter was also submitted and does not contain major issues. The mission recommends that ADEMU addresses all the routine issues raised in the auditors' management letter.

**25. Arithmetic and consistent errors in the Financial Statements:** Despite the above positive report, the financial statements reflect presentational errors in the reporting of the Cash balance. Cash surplus/ balance is presented differently in various statements of sources of funds and expenditure payments. These errors and the understatements of salaries attributable to LUSIP raise questions of the efficiency of the current auditors. The SWADE and LUSIP management have been alerted on these issues by the mission. Before the next audit the auditors should be appraised of these issues.

#### **IV. Summary of Agreed Actions and the Way forward-**

**26.** The mission recommends earliest implementation of the agreed actions and recommendations as analyzed below:

	<b>Action Agreed</b>	<b>Date</b>	<b>By Whom</b>
1.	The ADEMU to address all the issues raised in the Auditors Management letter and appraise the auditors on the arithmetic errors in the Financial	31 10 2012	Finance Manager

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	statements as well as the understatement of the salaries.		
2	Formulate a Financial projection that includes key priority activities to 31. March 2014	31 12 2012	Project Manager/SWADE
3	Prepare SPA reconciliation at the end of each month for use as a management tool.	31 10 2012	Programme Manager/ Finance Manager
4	Submit WA's upon reaching USD 200,000 threshold	31 10 2012	Finance Manager
5	Rebuild the Contract register with all the LUSIP contracts initiated since project inception	31 12 2012	Programme manager/Finance manager

## Project Fiduciary Risk Assessment at Implementation

### PROJECT SUPERVISION

#### Fiduciary Risk Assessment – Data Sheet<sup>3</sup>.

<b>Country: Kingdom of Swaziland</b>		<b>Loan Number: 574-SZ</b>	
<b>Project Name</b>		<b>Lower Usuthu Smallholder Irrigation Project</b>	
<b>Executing Agency</b>		<b>CPM: Louise Macdonald</b>	
<b>Reviewing Finance Officer:</b>		<b>Date of This Review: 14 October 2012</b>	
<b>Date of the last PSR prior to this rating: March 2012</b>	<b>FM rating in the last PSR:</b> 5	<b>Date of the previous FM supervision and rating; March 2012- Rating-5</b>	

Topic		Rating H/M/L	Issues / Comments / Recommendations
<b>A. Inherent Risks</b>			
<b>B. Control Risks</b>			
<b>1. Organization and Staffing</b>			
a.	Adequacy of organizational structure to meet functional needs of the project	M	
b.	Availability of clear job description for key project positions, including fiduciary positions.	M	Job descriptions require clarity and revision to make them result oriented.
c.	Adequacy of project financial management staff (numbers and skill) matching functional needs of project.	H	ADEMU FM team centralised with that of SWADE. Focus is desperately lacking in the overall financial planning and management. There is lack of pro-activity and foresight for problem aspects affecting the Project.
d.	Segregation/ independence of functions for accounting, payments, procurement.	H	FM carried out in SWADE instead of LUSIP.
e.	Availability and adequacy of operating manuals and guidelines for staff	M	PIM exists but not put into full use.
<b>2. Budgeting</b>			

<sup>3</sup>Include relevant findings of project supervision and progress reports, field visits, and audit report findings.

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a.	Timely preparation and approval of project budget, issue of budget execution warrants.	M	
b.	Adequacy of Budget (including loan disbursement categories - schedule 1), including financing plan for all sources, both donors and Govt., both loans and grants.	H	
c.	Availability of detailed activity plans, procurement plans, cost estimates and assumptions to support budget requests.	M	
d.	Availability of physical progress indicators where applicable.	M	
<b>3. Fund flows and Disbursements / Withdrawals</b>			
a.	Timeliness of Funds disbursed by different sources, including counterpart (set benchmarks and test sample)	M	
b.	Efficiency of the funding channels. E.g. confirmation of funds reaching intended beneficiaries.	M	
c.	Management of project bank accounts other than Special Accounts, if any- reconciliations, idle funds	H	Salary expenditure process mixed with that of SWADE. Approximately USD 2.8 million not claimed over a period of two and half years as a result. (See FMR Technical report)
d.	Banking arrangement and controls (reconciliation of bank statements with financial accounts)	M	
e.	Adequacy of controls and authorization process for use of funds (payments, transfers, Cash/Bank balance management).	M	
f.	Special Account(s)/Dedicated Account(s) Management, Disbursements		
	- size of the authorized allocation and adequacy thereof to ensure a smooth flow of funds to project accounts	L	
	- Method and adequacy of disbursement used	L	
	- Timely preparation and accuracy of Withdrawal Applications	H	Not submitted within the prescribed thresholds and reasonable time. . (See FMR Technical report)
	- Status on expenditures withdrawn from Special Account but not yet claimed for replenishment, including age analysis	H	. (See FMR Technical report)
	- Regularity of Special Account(s) Monitoring and monthly reconciliations (assess the reconciliations)	H	Prepared for WA support only. (See FMR Technical report)
	- Disbursements profile - actual vs plans, systemic reasons for differences	M	
	- Recovery of SA balances by loan closure.	M	SPA allocation reasonably accounted for

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	- Adequacy of documentary support for SOE disbursements, reimbursements, direct payments and Special Commitments.	M	
	- Eligibility of expenditure under Legal Agreements	H	. Approximately USD 2.8 million not claimed over a period of two and half years as a result. (See FMR Technical report)
<b>4. Internal Controls - Expenditure, Assets, Liabilities</b>			
a.	Adherence to Project Management manuals- clarity and adequacy of decision processes and sequence of events for control functions in project implementation.	M	
b.	Effectiveness and efficiency of internal controls for revenue/inflows management (review audit reports)	M	
c.	Commitment tracking and control including comparison against allocated amounts by loan disbursement category	M	
d.	Effectiveness and efficiency of IC for expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.) (also read SAI and other reports)	M	
e.	Effectiveness and efficiency of IC for assets/liabilities management and maintenance	M	
f.	Reliability of documentary evidence of outputs realized in project. Linkages between outputs realized and financial reports.	M	
g.	Physical controls over cash, documents and records.	M	
h.	Timely payment to suppliers and consultants (benchmark and test sample)	H	Major complaints by suppliers
i.	Eligibility of expenditures for IFAD funds with respect to PDR, Loan agreements	M	
j.	Legality/eligibility of advances from project funds	M	
k.	Compliance with Financing agreements – both loans and grants	M	
l.	Adequacy of record keeping for fixed assets and inventories		
<b>5. Accounting Systems, Policies and Procedures</b>			
a.	Adequacy of Accounting standards and practices (as designed/Agreed)	M	
b.	Recordkeeping (including documentation and filing/archiving)	M	
c.	Fixed Assets Records maintained and reconciled (sample and physical check)	M	
d.	Adequate documentation and controls for Information Systems, integration of all sub-systems	M	
e.	Adequacy of chart of accounts for project accounting purposes	M	
f.	Timeliness of recording transactions, controls on erroneous recordings	M	
<b>6. Reporting &amp; Monitoring</b>			
a.	Completeness, accuracy, usefulness, and timeliness	M	

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b.	Interim FM reports (FMRs, PMRs as relevant) or progress reports - timely preparation, submission	M	
c.	Follow up of previous aid-memoirs, FMR/PMR or progress reports	M	
<b>7. Internal Audit</b>			
a.	Is project activity or implementing unit subject to internal audit?	H	The IA not yet involved in the internal controls and audit.
b.	Adequacy of internal audit organization - staff capacity	H	
c.	Adequacy of internal audit scope of work and quality of reports	H	
d.	Assessment of matters raised in audit reports	H	
<b>8. External Audit</b>			
a.	Scope of 2012 audit.	M	
b.	Audit report timeliness.	M	
c.	Quality of audit.	M	

**Project Fiduciary Risk Assessment at Supervision**

**Risk**                      **Analysis**                      **Summary**                      **Table: \_Project # \_\_\_\_\_**

**Implementing Agency : \_\_\_\_\_**

	<b>Risk Assessment H/M/L</b>	<b>Proposed Mitigation</b>
<b>Inherent Risk</b>	<b>H</b>	
<b>Control Risks</b>	<b>H</b>	<b>Decentralization of the FM to LUSIP. However the Programme has less than 18 months to loan closure.</b>
1. Budgeting	<b>M</b>	
2. . Accounting Policies and Procedures and Staffing	<b>H</b>	
3 Reporting and Monitoring Information Systems	<b>M</b>	
4. Internal Control/Internal Audit	<b>H</b>	
5. Funds flow/disbursement arrangements.	<b>H</b>	
6. External Audit	<b>M</b>	
<b>Overall Project Fiduciary Risk</b>	<b>H</b>	

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H=High, M=Medium, L= Low

**Comments:** Ideally the ADEMU Financial management team should be transferred to LUSIP. It is clear that SWADE is using the team to perform other duties for SWADE. This is critical given that the Project concentrated focus on FM given the time remaining before completion and loan closure.