European Centre for Development Policy Management
ecdpm

Discussion Paper

No. 133
July 2012

Trade, aid and rural development:

EU sugar policy and the experience of Swaziland

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www.ecdpm.org/133

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Acknowledgements

This study was funded as part of a Leverhulme Trust Early Career Fellowship on “Social Justice in the Sugarcane Industry”. It has drawn upon research conducted in Swaziland and relied upon the generous time and assistance provided by interviewees there, along with the Swazi Sugar Association which helped coordinate the fieldwork.

Helpful comments have been provided by Steve Atkins, San Bilal, Paul Goodison, Chris Stevens and Alan Terry, along with two anonymous reviewers at ECDPM, for which the author is tremendously grateful. Any mistakes remain my own.

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Acronyms

ACP	African, Caribbean and Pacific
AMSP	Accompanying Measures for Sugar Protocol countries
CAP	Common Agricultural Policy
EC	European Commission
EPA	Economic Partnership Agreement
EU	European Union
KDDP	Komati Downstream Development Project (
LDC	Least Developed Country
LUSIP	Lower Usuthu Smallholder Irrigation Project
NAS	National Adaptation Strategy
RDMU	Restructuring and Diversification Management Unit
RSSC	Royal Swazi Sugar Corporation
SACU	Southern African Customs Union
SAPAWU	Swaziland Agriculture and Plantation Allied Workers Union
SCGA	Sugar Cane Growers Association
SHIP	Smallholder Irrigation Project
SSA	Swaziland Sugar Association
STFU	Swaziland Trade Union Federation
SWADE	Swazi Water and Agricultural Development Enterprise
TDCA	Trade, Development and Cooperation Agreement
WTO	World Trade Organisation

Executive Summary

In 2006 the European Union (EU) reformed its sugar regime, reducing the reference price for sugar by 36%. This affected not just European sugar beet producers, but also sugarcane producers in the eighteen African, Caribbean and Pacific countries which had preferential access to the EU. As a significant sugar exporter and highly dependent on the industry economically, Swaziland was hit particularly hard by reform.

To cushion this impact and secure their acquiescence to reform, the EU agreed to an 'Aid for Trade' programme called the Accompanying Measures for Sugar Protocol countries (AMSP). This earmarked almost €1.3bn to assist the affected ACP countries by: (a) enhancing the competitiveness of their sugar industries; (b) diversifying economic activity in the cane growing areas; and (c) addressing the social and environmental impacts of adaptation. Swaziland was initially allocated €134m of this total.

The purpose of this paper is to discuss the impacts of this price reduction and adjustment programme on the Swazi population. It finds that the impact of reform has been felt most acutely by three groups: (a) existing small-scale cane growers who have seen the price of sugar lag behind rapidly inflating costs and been unable to pay off their debts; (b) workers who have seen jobs retrenched, outsourced and 'casualised' as the sugar mills reduce labour costs; and (c) local communities which relied on social amenities like health care and education facilities provided by the mills and which have also been cut as part of the companies' restructuring strategies. These are vital in a country where over 25% of adults aged 15-49 are living with HIV and where life expectancy has almost *halved* over the last decade as a result (UNGASS 2010: 2-10).

To date, the major beneficiaries of the AMSP programme have been the subsistence farmers who have been given grants to enter into the cane growing business. Without taking on the high debts characteristic of new entrants, and when able to use some of the irrigated water for their home gardens, sugar has provided relatively better livelihoods to these new producers. Another target area has been road building and rehabilitation in order to reduce the cost of hauling cane to the mill. Almost half of the AMSP money by the end of 2010 had been committed to roads, adding to the €6.5bn of aid that the EU has spent on transport infrastructure worldwide between 1998 and 2006 (EC 2011). By contrast, existing and/or independent cane growers, unskilled workers and those reliant on sugar company welfare support have been relatively marginalised within the AMSP.

Notwithstanding ongoing challenges, the Swazi industry has made significant efforts to ensure its long-run profitability, including corporate investment in factory facilities worth some €170m. It is ranked as one of the ten lowest cost producers of sugar in the world, making it a highly efficient industry by this standard. Moreover, through the integration of small-scale farmers into the supply chain, it has also created stronger links with the rural poor. This stands in contrast to the world's biggest sugar exporter, Brazil, where a more capital-intensive and concentrated land-holding model has been adopted.

To make sure that opportunities to enter the industry are preserved, and that the outstanding issues facing the rural poor can be addressed, the paper concludes that it is imperative that the EU supports traditional cane exporters like Swaziland.

This means they must first and foremost **prevent unnecessary liberalisation of the EU sugar market.** As part of its CAP 2013 reform, the European Commission has proposed further change to EU sugar policy, namely the abandonment of internal production quotas. This is likely to further reduce the price of sugar, chiefly serving the desire of the multinational food manufacturing industry for cheaper ingredients.

For this reason, the ACP and Least Developed Countries (LDC) as well as European beet farmers, have all called for this reform to be postponed. In the case of Swaziland, bitter experience shows how rural development can be set back by sudden cost-cutting measures. This could well happen again, undermining the millions of Euros already invested through the AMSP. Further research must be undertaken on the impacts and rationale of this proposal.

Secondly, when addressing preference erosion resultant from liberalisation in this and other sectors, the EU should **consider new priorities for its Aid for Trade programmes.** The experience of Swaziland to date has revealed deficiencies in the traditional practices of EU aid delivery. These could be redressed in the case of Swaziland by reallocating unspent AMSP money to the country. Looking forward, the EU could encourage adoption of the grant mechanism ultimately utilised in the country and explore new modalities such as the deployment of aid by private sector actors. By using the sugar milling companies as conduits for aid, it may have been possible to reach those in need more quickly and more effectively.

Finally, it is crucial not to forget the key role played by corporations in translating export growth into rural development. Pro-poor growth is too readily understood in terms of 'competitiveness' in the primary sector, defined in terms of increased export volumes. We must instead begin by looking at the numbers of poor people employed in, or supplying, a particular industry, and the effective wages, working conditions and job security present there. In this sense, pressure should be brought to bear on the owners of the sugar mills – i.e. the Swazi state and the Associated British Foods group – to **recognise their responsibility to stakeholders as well as shareholders.**

A first step in this direction would be to institutionalise existing benefits received by workers and local communities by preventing further rollbacks. A second step would be to increase accountability to those most affected by decisions in the sugar industry. A third step would be to commit to the 'socialisation' of industry wealth by allowing outsourced labour full access to HIV/AIDs programmes in prevention, treatment and palliative care. Measures directly supporting smallholders could include devoting more resources to the extension offices, co-sponsoring a revolving fund with donors/government, negotiating with input suppliers and credit providers on behalf of the Farmers' Associations, and giving them explicit permission to use the irrigated water for their 'backyard gardens'.

1. Introduction

Over the past decades EU agricultural trade policy has shifted away from interventionism and toward neoliberalism (Orbie 2007). Policies like export stabilisation schemes, non-reciprocal trade preferences and commodity protocols have all been abandoned, to be replaced by more market-oriented counterparts that conform to the World Trade Organization (WTO) rulebook. Sugar is an important example of this transition and the focus of this paper.

After avoiding reform in the McSharry package of the 1990s, the grip of sugar producers over policy was loosened in the early 2000s, first with the passage of the Everything But Arms agreement that opened the EU sugar market to exports from Least Developed Countries (LDCs) and, second, with the ruling by the WTO against the EU's export subsidy regime. The European Commission and other advocates of reform were now able to bring sugar into line with the rest of the agricultural sector, and, in 2006, the decision was taken to lower the domestic reference price by 36%.[1]

Crucially, this affected not just sugar beet producers in Europe but those sugarcane producers in the eighteen African, Caribbean and Pacific (ACP) countries that had preferential access to the EU under the Sugar Protocol. By exporting to the EU, they had been able to benefit from guaranteed prices which were typically above world market levels. However, unable to qualify for the direct payments under the Common Agricultural Policy that would effectively replace this lost price support, they faced export earnings losses of €2.5bn over the next decade (Richardson 2009: 685). The impact of this was felt most by Mauritius, Fiji, Guyana, Jamaica and Swaziland.

To complicate things further, a year after the price reduction the EU renounced the Sugar Protocol itself. This meant that the import quotas previously allocated to Protocol signatories would be abandoned. In order to maintain access to the EU sugar market, all those non-LDC ACP countries like Swaziland had to sign an interim Economic Partnership Agreement (EPA). As opposed to the guaranteed volumes and prices offered under the Sugar Protocol, the EPA offered duty-free, quota-free access at market-related prices. This provided sugar producers with the opportunity to offset the reduction in the *value* of sugar by exporting more in *volume*.[2] Thus, agricultural liberalisation, which was commonly thought to benefit poor countries uniformly, in this situation created a more complicated picture. It was expected that only those LDCs and ACP countries able to respond to reform and export sugar at near world market prices would continue to supply the EU; the rest would see their historic market share wither away.

As part of its reform, the EU provided restructuring aid to domestic and foreign producers to help them adjust to the new look regime. For the eighteen ACP countries affected, the EU pledged €1,284m to assist them: enhance the competitiveness of their sugarcane industries; diversify the economies of cane growing areas; and address the broader impacts generated by reform (EU 2006: 7). Politically, this also functioned to secure the acquiescence of the ACP to reform and assuage domestic groups concerned at the developmental impact of EU policy. Known as the Accompanying Measures for Sugar Protocol countries (AMSP) programme, Swaziland was initially allocated €134m of the total amount. This should be seen in the context of their export earnings losses, which were estimated at €23m per year once the new EU reference price was established (NAS 2006: 21).

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[1] The price reduction was phased in between 2006-2009. Appendix A shows how prices were due to fall further but have been arrested by the high world prices prevailing since 2009.

[2] Indeed, Swaziland has since shifted its exports towards the EU and away from the world market to do just that. In 2010/11 Swaziland exported 48% of its sugar to SACU, 44% to the EU, 4% to the world market and 4% to the US (SSA 2011: 12).

An official Accompanying Measures programme was established by the EU in February 2006 and required each country to compile a National Adaptation Strategy (NAS). Swaziland hastily submitted its NAS in April 2006 so as not to miss the deadline for the first round of funding. This document included contributions from the EC Delegation in the country and prioritised four areas:

1. the establishment of institutional structures to implement the strategy, including a Restructuring and Diversification Management Unit (RDMU)
2. the stabilisation of the financial situation of smallholder cane growers, particularly in light of their high levels of debt
3. the welfare of retrenched workers and the ability of sugar companies to continue to provide quality social services for workers and the local community
4. the protection of existing regional markets and duty-free expansion into the EU

However, these goals – particularly numbers two and three – were not met, jeopardising the wellbeing of people living in the rural sugar-belt areas. Yet, on the other hand, new goals were introduced which sought to widen the number of beneficiaries in the industry: namely, the attempt to bring more smallholders into the sugar supply chain. The purpose of this paper, then, is to discuss the impacts of the EU price reduction *and* the subsequent adjustment programme on people in the Swazi sugar-belt.

In so doing, it makes an analytical claim that the implementation and on-going utility of 'Aid for Trade' initiatives must be understood within the context of the wider trade system, specifically in this case, the trade reform engendered through the CAP. To suggest that the 'aid' policy sphere had displaced the 'trade' sphere in shaping development outcomes in Swaziland, for example, would be entirely misleading. This is the focus of Section 2. The tension between the different parties in the administration of the Accompany Measures programmes in Swaziland is discussed in Section 3. The fate of three vulnerable groups – small-scale cane growers, on the one hand, and workers and the wider community, on the other – in the wake of the 2006 EU reform are the subject of Sections 4 and 5, respectively. The supplementary efforts undertaken by the Swazi industry to restructure their production system and trade relations are discussed in Section 6, before Section 7 concludes with some recommendations for policy-makers and the industry itself to promote – rather than retard – rural development in the sugar sector.

2. Policy debates: Aid for Trade and CAP reform

An evaluation of the Swazi sugar experience is relevant to two development policy debates. The first concerns 'Aid for Trade' initiatives. These have been characterised as part of a 'second-generation' or 'post-Washington Consensus' approach to trade liberalisation. Rather than advancing the rapid removal of tariff barriers, this approach suggested that demand shocks such as price reductions or import competition be phased in more slowly, that social safety nets be put in place, and that physical and institutional infrastructure be improved to address supply-side constraints (Stiglitz and Charlton 2005: 213). It was labelled 'Aid for Trade' as the finance required for these measures would be funded through new commitments from richer countries and complementarities between these two modes of international economic governance explicitly sought. Yet not all were convinced. Critics argued that these initiatives in fact functioned as financial incentive and rhetorical gloss merely to encourage developing countries to sign up to further, harmful liberalisation measures (see Orbie 2007; Oxfam 2005).

In policy terms, the 2005 WTO Ministerial meeting in Hong Kong was significant for staking a central role for the WTO in co-ordinating these new donor activities and for linking this specifically to the fate of small economies suffering from preference erosion (Heron 2008). Since the mid-2000s, the remit of Aid for Trade has drifted. It now encompasses a wider range of objectives – from mainstreaming trade priorities in national policy to streamlining border procedures for quicker transit – and has been deployed by donors in relation to most developing countries, not just those incurring trade-related adjustment costs (see OECD and WTO 2011). The effectiveness of these various initiatives remains questionable. In a study carried out by UNCTAD (2012), state officials in recipient countries suggested that Aid for Trade initiatives had increased their awareness about trade but made little substantial contribution to either economic diversification or poverty reduction.

In this light, an assessment of the AMSP offers lessons for what remains a key problem among poorer developing countries: namely, how can economies with concentrated export profiles use aid to adapt to changed trading conditions *and* translate this into socially beneficial outcomes? As one of the biggest single Aid for Trade packages ever released, the AMSP also offers valuable insights into the politics of donor management of new, commercially-oriented projects. Both these issues are especially important in the context of the Economic Partnership Agreements, in which many countries hope to benefit from bilateral EU support linked to these new trade agreements (since it appears they will be pushed into signing a full EPA regardless of any reservations).[3] Indeed, according to Bilal and Ramdoo (2010: viii) it is the adoption of appropriate trade-related aid measures that will be "the key to unleash the development potential of an EPA".

The second debate concerns the Common Agricultural Policy (CAP). The sugar reform of 2006 was highly contentious, with various spokespeople for the African, Caribbean and Pacific countries decrying the change as "intrinsically unfair" with "utterly inadequate" compensation – all in all "a black day for the ACP sugar industry" (Richardson-Ngwenya 2009: 128-132). During the run-up to this reform, there was a spate of academic interest in the reasons for, and likely outcomes of, this process. However, since the new regime came into force, there has been little work on how developing country exporters have actually fared within it.

This is important since the EU sugar regime is likely to be reformed again in 2013 and recommendations are now being made with only a limited analytical base to draw on. Most scholarship on this issue comes

[3] The Commission announced in September 2011 that all countries must have ratified and begun implementing a full EPA by January 2014 or lose the market access secured under the interim EPA.

from the economics discipline and provides only *ex ante* and macro-level assessments of market liberalisation (see Fontagné *et al.* 2010; Matthews 2011; Moyo and Spreen 2011). While useful in suggesting how reform will affect the export profiles of particular countries, it has less to say on issues like poverty reduction, labour standards and welfare provision within these export-oriented industries. To this end, it is notable that policy-makers and commentators continue to assume that if firms and farmers in the world's poorest countries can become more productive and competitive, trade liberalisation will deliver a "development dividend" (De Gucht 2010; Francois *et al.* 2006: 214). As we go on to show, the Swazi experience suggests that, in fact, exposure to volatile markets internationally and enforced 'efficiency savings' domestically may actually be hugely detrimental to rural development efforts.

Box 1: A sweet deal for European food and drinks manufacturers

The main focus of this paper is on the impact of the EU reference price reduction and AMSP 'Aid for Trade' programme on the Swazi sugar industry. However, it is important not to forget that food and drinks manufacturers also have a key role to play in this debate as major sugar buyers. A concern in this respect has been the impact of the EU-South Africa Trade, Development and Cooperation Agreement in 2000. This committed South Africa (and also Botswana, Lesotho, Namibia and Swaziland as members of the Southern African Customs Union) to liberalising tariffs on a range of sugar-containing food products including canned fruits, jam, chocolates and biscuits. Tariffs on these were to be halved by 2008 and completely eliminated by 2012.

As Goodison (2007a) reported, this agreement transformed the basis of investment decisions in the sugar-using sector as manufacturers began to close down or shift into trading and import finished goods. For the southern Africa region, including Swaziland, this has arguably hindered efforts to move up the value chain and foster a process of structural transformation based on linking food processing and packaging plants to existing agro-industrial producers. Further, it has also eroded the advantage of African-based sugar producers, since it is easier to sell to domestically-based manufacturers rather than those in Europe because of the cheaper transport costs and more responsive logistics.

For the EU food and drinks industry, meanwhile, these export markets constitute an important part of their expansion into the developing world as dietary considerations and market saturation limit the possibilities for increased profits in Europe. They are given an important regulatory support in this expansion by the system of duty-drawbacks on sugar, which allow manufacturers to claim back the difference between EU and world market prices on sugar as long as the product is exported. As Paul Goodison suggests, this is part of a new form of CAP support which aims to "enhance EU export-price competitiveness through the indirect provision of export subsidies" (2007: 293). The reduction of the EU reference price provided them with further succour since it has allowed them to capture part of the cost saving forced upon sugar producers (European Court of Auditors 2010: 34). Beneficiaries of these policies include members of CAOBISCO – the organisation which represents the chocolate, biscuit and confectionery industries in the EU – which now export €4.1bn products per annum. Despite this commercial success, they believe further reform is needed to lower the average price of sugar and that "agricultural policy needs to be developed in accordance with the whole food supply chain interests" (CAOBISCO 2011). In other words, an agricultural policy that does not put farmers' interests first.

3. Management of the Accompanying Measures for Sugar Protocol countries (ASMP) funding

The major points of contention around the AMSP in Swaziland have been control over funding decisions and the speed at which it has been spent. In large part this can be put down to the different objectives of the actors involved, specifically the EC Delegation and the two sugar milling companies Royal Swazi Sugar Company (RSSC) and Ubombo. In crude terms, public sector oversight of the AMSP by the EC Delegation has rested on accountability, integration with existing aid programmes and prioritisation of a few key projects. Conversely, private sector restructuring by the industry has required rapid adjustment, targeted geographical interventions, and support for a variety of existing stakeholders. There has been a somewhat inevitable clash between these two logics. This section details the institutional and procedural changes made to try and assimilate these logics in Swaziland and the problems that arose.

The Restructuring and Diversification Management Unit (RDMU) initially identified in the National Adaptation Strategy (NAS) was set up with a fund of €4.7m to provide co-ordination of, and technical assistance on, the projects chosen for investment. The Swaziland Sugar Association had envisaged that this unit would be located within existing industry structures, by implication insulating the aid budget from the EU and the national government (Matsebula 2009: 5). Instead, the RDMU was established as a stand-alone unit to work alongside the Swazi Ministry for Economic Planning and Development, though it remained within the sphere of influence of the EU.[4] A second institution was created in the form of the Smallholder Irrigation Project (SHIP). This was designed to oversee the land preparation and irrigation implementation on new farms, as well as provide management advice to these businesses. A budget of €3.5m was earmarked for SHIP, with another €11.3m available for the work and equipment itself.

There was some criticism of these new institutional structures, with industry representatives arguing that the amount of money being spent on consultants and the seeming duplication of responsibilities was unnecessary (Matsebula 2009: 10). Meanwhile, personnel within the government parastatal Swazi Water and Agricultural Development Enterprise (SWADE) were confused by the creation of SHIP, which appeared to usurp their role in developing smallholder sugarcane businesses (Vilakati, SWADE, interview).

The argument put forward in response was that the existing structures had not been effective enough. Some interviewees pointed to the faulty irrigation systems installed by 'rogue' contractors prior to the AMSP period and the prevalence of bad management practices within the smallholder sector as evidence that there was too little oversight of day-to-day operations by both industry and the parastatal organisations. Likewise, the EC Delegation maintained that they had played an important co-ordinating role in bringing stakeholders together to discuss their collective future and translating these opinions into concrete plans of action (Leto, EC Delegation, interview). A comparison was often made by interviewees with Mauritius in this respect, which had better anticipated the changes to the EU sugar regime and prepared an adaptation strategy ahead of reform which already had broad-based support (see also Goodison 2007b: 41).

4 Since January 2011, the RDMU has been integrated into the Ministry of Economic Planning and Development – a necessary step since its extension beyond this point would have contravened Paris Declaration rules. However, the new focus on capacity-building of government staff, along with a reduced budget, has weakened their relationship with the sugar industry. This arguably reflects the general stakeholder fatigue with the National Adaptation Strategy process (RDMU 2011: 33).

Above the issue of control, however, the Swazi sugar industry has been most critical of the speed of aid disbursement. After the first five years of engagement with the AMSP programme, just 10% of the total funding had been spent (see Appendix C). This has resulted in what they see as a lack of “delivery on the ground” (Matsebula 2009: 3). For example, the works tenders for upgrading the two main roads identified in the NAS were only launched in June 2011 (RDMU 2011) meaning the delay of crucial cost-lowering investment on which the industry had staked its future. Furthermore, since funding within the 2006-07 ‘Annual Allocation Programme’ of AMSP was not committed to specific projects in time, €11.1m of the initial €134m had to be forfeited (RDMU 2009: 3).[5]

For its part, the Delegation suggested that the problem lay not with its slow rate of disbursement but with the limited absorption capacity of the sector. It was noted that the same system was used for all other projects in Swaziland without incurring forfeitures. Allied to this were the excessive expectations of industry stakeholders about the planning and implementation times for funded projects (Leto, EC Delegation, interview). For instance, in building a road it takes 6-9 months to draw up a tender for a company to do the design, another couple of months to approve a bid, and then, once the design has been done, the length of time again for the actual works contract. To expect immediate results was to defy the realities of aid programming.

The long lead times were also said to be affected by factors particular to this case. Most obviously, Swaziland could not be allocated budget support due to a lack of transparency and accountability in government. This meant that the funds would necessarily have to be channelled through the slower form of project support. In addition, since the Swazi Delegation is a satellite of the Lesotho Delegation, human resource capacity in the country was limited, with just one additional appointment made to help manage funds which had trebled as a result of the AMSP (Leto, EC Delegation, interview). Finally, it has been argued more generally that the EC Headquarters in Brussels has given little support to its Delegations thrust into overseeing investment in the sugar sector, making it difficult to share experiences across countries and gain technical expertise on this particular industry (ADE 2010: 15).

Efforts have been made to address the slow disbursement rates through a change in funding mechanisms over which the Swaziland Delegation does have some discretion. A ‘Sugar Facility’ has been devised that would distribute the funds allocated for the 2011-13 period through a grant mechanism whereby projects would be designed and managed by industry applicants. Yet despite this adaptation, a lingering frustration on the part of industry is why these alternatives could not have been introduced earlier, given that many of these problems had in fact been anticipated. As the European Research Office reported back in 2006:

There has been no shortage of innovative solutions put forward for addressing these needs [for timely disbursement]...many of which recognise the resource absorption constraints of the Swazi Government administration and which seek to work around this constraint. [However] the European Commission has shown a marked reluctance to move beyond its “business as usual” approach, despite the escalating crisis resulting from CAP related adjustments in Swaziland (ERO 2006: 20).

This mirrors wider experience in the sugar and banana sectors of ACP countries, where similar conditions of limited government administration capacity and sluggish industry reactions led to calls for the EU to do its bit by (a) deploying assistance more quickly, (b) providing flexible instruments through which this could be accessed, and (c) simplifying the procedures required to access this (Goodison 2011).

5 This was offset slightly by a €2.4m reallocation that later came from uncommitted funds in Fiji.

4. Small-scale cane growing: for debt or development?

Turning now to the assessment of CAP reform and subsequent Aid for Trade initiative on the rural poor in the Swazi sugar-belt, we begin by considering the fate of small-scale cane growers. This is a relatively recent economic group in Swaziland. While the first outgrower scheme was established in 1962, the number of small cane farmers only took off from the mid-1990s.[6] Two factors were involved. The sugar mills were looking to increase their cane throughput, and, unable to find large tracts of land to purchase themselves, had to do so through subsistence farmers working on customary Swazi National Land. This dovetailed with government plans to improve food security through the commercialisation of smallholder agriculture. Two major irrigation schemes were thus developed: the Komati Downstream Development Project (KDDP) and the Lower Usuthu Smallholder Irrigation Project (LUSIP). From the outset, sugarcane was the government's preferred crop, having the distinct advantage of allowing poor farmers to access the credit necessary to cover the business start-up costs and a ready buyer in the sugar mills (Terry and Ryder 2007: 265).

To enable smallholders to run a sugarcane farm and cope with the business of budget management, input procurement and irrigation maintenance, the government created the Swaziland Water and Agricultural Development Enterprise (SWADE). Their role was first to 'mobilise' community-members to pool their subsistence plots into a communally-operated and irrigated block-farm and to form Farmers' Associations that had a legal, corporate identity (Vilakati, SWADE, interview). This was dubbed a 'fields to farm' transformation. In pooling their land, the members of the Farm Association – usually the (male) family head – received a share in the business which allowed them to claim a dividend on profits.[7] Hence they also transformed 'from small-holders to share-holders'.

A Committee was then elected out of the member shareholders to act as the 'Board', and, following recommendations from SHIP, a Farm Supervisor and Clerk hired to manage its day-to-day operations.[8] The intention to modernise peasants into entrepreneurial subjects through the commercialisation of their production was thus apparent in the very language of the irrigation projects. In most cases, this also required a certain amount of 'persuasion' on the part of SWADE, with local chiefs enrolled and the authority of the king invoked to encourage *all* community members to turn over their land to the project (Taruvinga 2011: 64-66).

At October 2011, there were a total of 116 Farmers' Associations operating in the country: 28 of which were assisted under the AMSP and 16 assisted by government (Maziya 2011). Not without controversy, EU funding went largely to the expansion of new Farmers' Associations rather than assistance for existing ones. As noted previously, the EU prioritised a few key projects in its management of the AMSP, one of which was the inclusion of more outgrowers so as to give the programme a pronounced poverty-reducing effect. This was not necessarily compatible with the industry's express requirement for stable supplies of cheap cane. Nevertheless, these new entrants benefitted from the €11.3m AMSP grant allocated to land preparation and irrigation infrastructure, effectively worth 70% of the start-up costs.[9] Those other Farmers' Associations, 72 in total, have been 100% privately debt financed.

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6 The first scheme was called Vuvulane Irrigated Farms and was established by the Commonwealth Development Corporation.

7 Membership numbers in the Farmers' Associations have ranged from 50 to 240 people. 70% of these are male (SWADE 2011: 12).

8 Committee Members are paid a 'sitting fee' of around E125 per weekly meeting to remunerate them for their participation.

9 The Farmers' Associations were asked by the EU to contribute the remaining 30% themselves, in order to make sure they were committed to the project (Leto, EC Delegation, interview).

Working for the financier

As the EU price support fell away, average prices for sugar imported from the ACP during 2009-2011 also reduced (see Appendix A). This was an important contributing factor, along with rising input costs, for the falling profit margins experienced by Farmers' Associations during this time.[10] As a result of this, many Farmers Associations, especially those privately debt financed and/or less well managed, have been left struggling to break even. This in turn meant that many of capital loans taken out have not been repaid. Given the reluctance of the banks to lower their interest rates down from the typical rate of 16-22% some Associations are still making low, or even no, operating profit. This is even after the standard seven-year loan repayment period has passed (SCGA 2006: 3).

This has left many growers effectively "working for the financier", resulting in a reluctance to invest in farm improvements and causing hardship and tensions within the Farmers' Associations (Ndlovu, Ubombo, interview). Some groups resorted to borrowing more money just so they can pay out dividends, while others have been completely reliant on farming maize for subsistence on the little land that they still have available (Maziya 2011; Bambanani Farmers' Association, interview). In these cases, people appeared to regret abandoning their previous livelihoods of maize and cotton growing for the promises of sugarcane; a business in which they were now locked in (Jele 2009).

The Swazi government alleviated some of this pressure by providing rebates on capital loans to the tune of E97m (around €9m).[11] However, this merely made good on an initial promise to fund some of the infrastructural development, and only came after concerted lobbying by industry stakeholders. Prompt payment by government in the first place would have significantly lowered the interest payments accrued by the Farmers' Association and reduced the time before they could issue dividends to their shareholders. In a similar fashion, the government was also guilty of withholding its commitment to support a revolving fund for growers in the longstanding Vuvulane farmers' scheme. This fund was initially set up to allow these farmers to borrow at low cost for replanting, but after a few years in operation, the government pulled out. At this point the miller RSSC had to step in with E1.6m to keep the fund going, before eventually persuading government to return.

The slow disbursement of EU funds has also hindered the ability of the Farmers' Associations to remove themselves from 'debt bondage'. The Sugar Cane Growers Association (SCGA) were allocated a grant of €3.8m to oversee irrigation rehabilitation for those remaining in business and help those located at a distance from the sugar mill diversify out of cane (see Appendix C). Yet to receive this money and provide accountability, the SCGA were required to first appoint a project manager and finance manager, and then to put up €1m collateral. As a voluntary association with few assets, the SCGA found this difficult to achieve. This has caused much consternation. As their Executive Director put it: "Why is it a grant if it requires a finance guarantee?" (Ginindza, SCGA, interview). By releasing these funds, the SCGA argue that the old or faulty irrigation systems could have been rehabilitated, thereby improving the profitability of the Farmers' Associations. This would have enabled the industry to put existing growers on a more stable footing, or, as the SCGA Executive Director again put it: "fix the crack in the wall before expanding the building" (Ginindza, SCGA, interview).

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[10] Determining the exact impact of the EU reform on revenue is complicated by the fact that the Swazi industry sells into other markets besides the EU (though this is the most important in financial terms) and that sales are also affected by currency movements. With respect to rising costs, due to the structure of the industry, cane suppliers cannot pass these onto the miller directly but have to absorb them and hope that they are sufficiently exceeded by the industry-wide sucrose price.

[11] The Swazi currency is the Emalageni (E) and is tied to the South African Rand at parity (1:1). At May 2012, the exchange rate was 1 Rand = 0.095 Euros.

Box 2: How much is enough? The Farmers' Association dividend

While the general business climate in which Farmers' Associations operate can be depicted, it is much harder to predict the profitability of any one group. Thus, while many Farmers' Associations (especially those that have been 100% debt financed) struggle to break even, many have already paid off their capital costs.

Consequently, the dividends paid to Farm Association 'shareholders' have varied in size. According to the RDMU, during the seven-year repayment period, *when they have been paid out* dividends averaged around E5,000 (€500) per hectare, per year. Once the loans have been paid off, this figure can rise to E7,000 – E9,000. This is then multiplied by the number of hectares each member owns, usually between one and three, giving a per capita income range for debt-free farms of E7,000 – E27,000 (€700 – €2,700) (Batzlen, RDMU, interview).

To put this in context, the average income in Swaziland is estimated at E20,500 (€2,050) per capita (UN Data 2011). However, this national average does disguise the inequality in the country, where per capita income in urban areas is roughly four times higher than in rural areas (Rural Poverty Portal 2011).

In addition to the dividend, by pooling their land into a collective sugar farm smallholders are freed up to take up other jobs *where these are available*. However, for those (often older) shareholders who are unable get another job, the role of 'briefcase farmer' awaits. As well as creating dependence on the success of the business, some interviewees felt that this also encouraged shareholders to take a step back from active involvement in the farm. As a result, options such as working for free (in order to pay down the debt quicker) or growing labour-intensive vegetables (which are more profitable) may be sidelined.

Rural development and food security

While the debt burden undoubtedly presents difficult challenges, the success of the smallholder projects should not be judged on profit alone. Most importantly, since the sugarcane 'complex' brings with it irrigation and electricity infrastructure to pump water to the farms, opportunities are created to lessen the dependence on rain-fed crops. Thus, where smallholders were able to leave some of their land for home gardens rather than convert it all to cash cropping and use the water for this purpose (albeit at a price), an important contribution was made to improving food security.[12] Not only could maize and beans be grown more reliably, but by growing vegetables and fruits as well the quality of the diet was also enhanced. These 'backyard gardens' were thus akin to "having a dividend every day" (Vilakati, SWADE, interview). Moreover, having potable water closer to the home has also reduced the time taken to collect it, as well as providing the opportunity to install improved sanitation facilities if government funding or personal savings allow.

The second 'hidden' benefit of sugarcane farming is the creation of paid jobs. With unemployment in the country around 40% and no state benefits available for those out of work, waged labour is highly prized. In the case of the Farmers' Associations, this may include working on the farm in planting, weeding, irrigation and harvesting, earning around E35 (€3.50) per day. There may also be off-farm employment in sugar-related industries such as haulage and input suppliers, or local businesses such as grocery shops. The dividend, if it comes, is then granted *on top* of any additional income earned. Moreover, with the help of SWADE, some Farmers' Associations have also expanded into basic processing such as maize milling, and into more commercially-oriented horticulture, such as supplying gooseberries to the Komati Fresh Produce Farmers cold-store.

There are some qualifications to add here. Sugarcane growing is not especially labour intensive, and so, although some jobs are created, not everyone in the project will benefit. For example, Taruvinga (2011: 31)

[12] Concerns have been raised that, in some instances, pressure has been applied to the Farmers' Associations to reserve land and water for cane growing so as to satisfy the mills and banks (Taruvinga 2011).

found that in one project just 55 on-farm jobs were available in a community of near 3,000. Moreover, employment opportunities have tended to be captured by the members of the Farmers' Association, with neighbouring communities excluded and inter-village inequality rising sharply (Terry 2012).

That said, more recent data collected by SWADE (2011: 12) reported that in the Komati area alone, over 1,000 seasonal and permanent jobs were created through the KDDP. Along with income earned through the farm dividend, they concluded that poverty levels have fallen.[13] The proportion of people earning less than the area average of E100 (around €10) per month decreased from 32% in 2000 to just 3%.[14] Likewise, those earning above E2,000 (around €200) per month had jumped from 1% to 20% (SWADE 2011: 12).

Again, this has an important bearing on food security. A household survey by the United Nations found that most farming families in Swaziland actually depended on local shops for basic foodstuffs as opposed to their own produce. This was because the country was closely integrated into South African food markets and so, at the national level, food availability was generally not a problem. Rather, it was poverty which resulted in food shortages, and that "job losses not crop losses" were the biggest risk to food security (IRIN 2009). In addition, interviews with Farmers' Associations revealed that there were also significant non-consumption benefits to rural employment. Since people could stay at their homesteads instead of looking for work in the towns, they were able to both save money on rent and maintain closer contact with their families (Ingcayizivele Farmers' Association, interview; Takhamiti Farmers' Association, interview).

As Terry and Ryder have cautioned, large-scale irrigation and cash crop farming is not the sole answer to rural food security in Swaziland, since most people live too far away from a perennial water supply to participate in such a project. However, in this case, the researchers found that the KDDP scheme and the extension of the sugar supply base *had* enhanced food security in the Komati region, albeit mainly through the adoption of 'backyard gardens'. Moreover, because of amount of land re-allocated to each of the shareholders was roughly equal, the scheme also had an important equity effect, assisting the poorest farmers in the group the most (Terry and Ryder 2007: 271). Thus, in instances where heavy debt could be avoided, sugar has offered relatively stable and remunerative livelihoods for part of Swaziland's rural population.

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[13] When using SWADE data, it is worth bearing in mind that the organisation has a vested interest in demonstrating the success of the irrigation schemes.

[14] The drop in numbers should not be taken as an unqualified success. It is possible that high death rates among the poor, attributable to HIV/AIDS, have skewed these figures (see IRIN 2011).

5. Workers and the wider community: labour losses and welfare rollback

In contrast to the cane growing sector, in which debate has centred on the prioritisation and pace of AMSP disbursement, the issue with the workers and wider community impacted by sugar reform is much starker. In short, there has been no EU funding yet directed to these groups, despite the intention of the AMSP and the NAS to directly address the impacts on employment and social services generated by the adaptation process (EU 2006: 7; Appendix B).[15] The result, according to one interviewee working with communities in the sugar-belt, is that "the people are suffering" (Motsa, RSSC, interview). This section discusses, first, the impact on workers through the retrenchment, outsourcing and casualisation of jobs, and, second, the impact on the wider community through the rollback of education and health provision.

Retrenchment, outsourcing and the casualization of labour

In 2002, the sugar industry accounted for 10,000 jobs. Two thirds of these were in the agricultural side of sugar production and one third on the manufacturing side. The biggest employers in the industry were the two milling companies: Royal Swazi Sugar Corporation (RSSC) and Ubombo Sugar. As well as providing factory jobs, they also ran farms growing 60% of the national cane supply, as well funding a host of municipal services. However, in the early-2000s the heavy depreciation of the Euro against the Rand and the prospect of a reduction in the EU price led RSSC and Ubombo Sugar into a process of major restructuring. This meant that *before the EU reforms had even begun* the milling companies had retrenched 1,400 jobs and outsourced another 3,000 (NAS 2005: 25).

It was in part due to this time lag that the EC Delegation felt there was little it could do on the issue of retrenchment via the Accompanying Measures funding (Leto, EC Delegation, interview). At the very least, it was recognised that since some people would have been re-employed by the time the AMSP came around, it would be very difficult to identify a precise group to target (Batzlen, RDMU, interview). This was made even more unlikely when the €11.1m of initial AMSP funding was forfeited. Potential interventions such as training grants coupled with subsistence allowances or micro-loans for new businesses were thus forgone.

The changes in employment status have had significant impacts on people's quality of life. Being a permanent employee of a milling company has long being considered a prime job in the country and "a haven of employment" (Motsa, RSSC, interview). This is down to the wages, and, perhaps more importantly, the extensive benefits offered. Depending on the job status, these may include free housing and electricity, free medical care, subsidised schools fees, pension contributions and food rations.

In this respect, it is not just retrenchment that has negatively impacted on the workforce but outsourcing too. The two milling companies between them have outsourced jobs in waste disposal, cleaning, security, accommodation services, cane haulage and cane cutting. According to the sugar sector union spokesman, the small business which provide workers for outsourced jobs are "ruthless" (Sayed, SAPAWU, interview). Labour legislation is not a priority, and while they are obliged to meet the national minimum wage, this in itself is very low – currently E23 (around €2.30) per day for an agricultural labourer – and below the minimum rates set by the sugar companies (Dlamini, SFTU, interview).[16]

[15] It is anticipated that some of the applications for the Swazi Sugar Facility (launched in 2012) will be for the rehabilitation of selected schools.

[16] Even the legal requirement to contribute to the Provident Fund – which provides a basic state pension and incapacity benefit – is not adhered to in all cases (Sayed, SAPUWU, interview).

Moreover, compared to the task of organising labour in a large milling company, which has a transparent management structure and regulations to which the union can appeal, it has been much more difficult to organise labour among industry contractors. Union representatives spoke of having to approach workers in secrecy, since the contractors would probably fire, or at the least intimidate, a person if they were found to be engaged in union activity (Dlamini, STFU, interview). On top of this, there is little recourse to the rule of law since the monitoring of working conditions and contracts by government is weak. It was also suggested that the government is less than favourable with the trade unions in matters of industrial relations, i.e. if a contract has been broken, unions are told to take the slow and expensive route of going to court, rather than having the matter resolved through political channels (Sayed, SAPUWU, interview).[17]

For their part, the mills state that they have had to make these sacrifices in order to stay in business under the new trading regime. Cutting labour costs is recognised as a key indicator of the ability of sugar producers to adapt to reform and it was noted in interviews that those Caribbean and Pacific producers that have struggled to adapt to the EU sugar reform have not ‘bit the bullet’ in this respect. For instance, while RSSC has lowered its salary bill to 15% of total costs, the figure in Guyana remains around 60% (Jackson, RSSC, interview).

Though less severe than when EU reform became a reality, this agenda of cost-reduction is ongoing. One manifestation is the ‘casualisation’ of work. At Ubombo, for instance, while cane cutting has not been outsourced, the company is considering whether some jobs currently held by employees are seasonal rather than permanent in nature. If they are changed to seasonal positions, this would result in the loss of guaranteed wages during the months outside the harvest (Mashwama, Ubombo, interview). Other forms of cost reduction include cuts in the subsidisation of private school fees and a decline in real wages as they fail to keep pace with inflation. As a result, even some of those lucky enough to still be employed by a milling company have felt it necessary to take second jobs to maintain their standard of living and their children’s academic prospects (Dlamini, SFTU, interview).

A second manifestation has been the slimming down of the workforce. On the manufacturing side this has happened through retrenchment, outsourcing and also a reluctance to replace personnel lost through natural attrition. On the agricultural side, the steady introduction of pivot irrigation and mechanised cane cutting has meant progressively fewer people are needed to farm the cane.[18] A union representative likened this to “lying in your death bed, waiting for something to happen” (Sayed, SAPAWU, interview). This was confirmed by the milling companies, which foresee a slow phase-out of cane cutting over the next two decades (Jackson, RSSC, interview).

[17] Many of these issues also extend to workers within the smallholder farms. According to the unions, attempts to organise labour in the Farmers’ Associations have also been stonewalled, in this instance by the Committee Members (Sayed, SAPUWU, interview).

[18] An important environmental and economic benefit of pivot irrigation, on the other hand, is that it reduces the amount of water used.

Rollback of education and health provision

As in the case of the newly unemployed, there has been no AMSP money allocated toward social welfare in the sugar-belt. This has led to serious frustration on the part of those hoping to cushion the fallout of the EU reform on some of the most vulnerable members of society. As the Community Services Manager at RSSC put it: "We've done all the papers, provided all the information, and we have gotten zero" (Motsa, RSSC, interview).

The position of the EC Delegation has been that it did not want to duplicate investments in public services which are: (a) the responsibility of government; and (b) fall under the funding remit of the European Development Fund (Leto, EC Delegation, interview).[19] The overwhelming response to this point among interviewees was that there is no duplication as these 'alternatives' are simply not present. In other words, the provision of public services in rural areas is largely absent. As one interviewee put it: "It is the responsibility of governments in the *developed* countries to provide this [social welfare]" (Mashwama, Ubombo, interview).

The rationale for sugar companies to provide municipal services to begin with is two-fold. First, it helps attract and retain staff. The location of the sugar industry means many skilled employees would be reluctant to move without 'privately' provided schools and medical care (Jackson, RSSC, interview). Second, it also serves a corporate social responsibility function and a kind of political compromise with the Swazi nation given the large swathes of land turned over to the crop. The milling companies remain active on this front. RSSC, for instance, allocates E34m to education and health per annum. This helps provides schooling to 3,700 students as well as HIV testing and Anti-Retroviral Treatment to around 1,000 people.[20] In both cases, the majority of beneficiaries come from outside company ranks.

However, as a response to the reform of the EU sugar regime and the demands of shareholders, non-core services have been cut.[21] These include housing for teachers at government schools (both companies), closure of clinics and business loans for women's groups (at RSSC) and training centres, village health workers and school buses (at Ubombo). It was thanks only to the 'noise' made by the Chief Medical Officer at Ubombo, Dr Tim Nunn, and other people in the company that they kept their medical centres open. In a press statement at the time, Dr Nunn noted that: "The alternative for those people [HIV/AIDS patients] is a government unit 70 kilometres up the road that is understaffed and over-utilised. The care they would get is not anywhere near what they would get here" (AfrolNews 2005).

At the same time as treatment services are being cut, the restructuring of employment has also created problems, both in terms of accessing treatment and reducing transmission. On the one hand, the International Organization for Migration report that people who are not directly contracted by the sugar industry only have partial access to the company HIV and AIDS programmes in the sugar-belt areas, meaning that outsourcing has reduced the level of subsidised care that sugar workers can receive (IOM 2010: 4). On the other hand, as the level of well-remunerated jobs in the area has declined, it has been reported that a number of women have turned to prostitution in order to make ends meet for their families (Motsa, RSSC, interview).

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19 The 10th European Development Fund, which runs from 2008-13, has committed €63.9m to Swaziland targeted at the health and education sectors, but, again, because of the lengthy timeframes for implementation, it may be many years before adequate *public* services are provided in the sugar-belt, if at all.

20 ARVs are distributed for free through the Global Fund but overhead costs related to clinic infrastructure and staffing are paid for by the sugar company.

21 This is to say nothing of the ad hoc, emergency interventions made by the companies – such as the E0.3m food aid that RSSC donated in the 2003 drought – which may also now be jeopardised.

6. Restructuring strategies in Swaziland: no magic bullet solutions to further EU reform

As discussed above, in the face of devaluation of the EU sugar market, the Swazi industry employed a number of strategies to try and enhance its profitability. The most immediate was to reduce labour and welfare costs, but, with an eye on the future, they have also increased milling capacity to reduce per unit processing costs and sought to diversify the markets for both sugar (i.e. moving into 'fair trade') and non-sugar products (i.e. moving into ethanol and electricity production). The finance required for the factory modifications especially has been substantial. The Swaziland Sugar Association has put total industry investment between 2005 and 2010 at €200m, making it clear that it has not been the case that the EU has been 'bankrolling' or 'propping up' the sector, but that the Swazi industry, from the milling company to the Farmers' Association, have also invested in the future of sugarcane production (SSA, personal communication).

It may be suggested that, given this restructuring, there is no need for EU policy-makers to continue to support some semblance of managed sugar prices for the sake of developing country exporters when considering the 2013 CAP reform. On the contrary, this section suggests that these diversification strategies – on which most is staked in terms of development outcomes – cannot readily offset another rapid change to the country's biggest export market. Nor do they automatically translate into pro-poor outcomes. In other words, they are no 'magic bullet' solutions that would rid EU policy-makers of their responsibility to the rural poor in this country.

Fairtrade certification

In March 2009, and in response to sustained campaigning about the need to pay farmers decent prices, Cadbury made a commitment to manufacturer its famous Dairy Milk bar using Fairtrade-certified cocoa and sugar. One of the countries targeted for this re-launch was South Africa, where around 1.4 million bars of Dairy Milk are sold each year. This marked the first appearance of the Fairtrade brand on the African continent and has provided a significant and ready opportunity for small-scale sugar producers to sell into this market. The Swaziland Sugar Association has taken the lead on organising its small producers into larger umbrella bodies which can then be certified by the Fairtrade auditors. The target is to have the first of these umbrella bodies certified by April 2012.

Selling a commodity under the Fairtrade scheme normally provides two commercial benefits. First, a minimum price is set which a buyer of Fairtrade products must pay to producers. Second, a premium is paid on top of the agreed price for investment in development projects, decided upon by producers within the farmers' organisation. In the case of sugar, though, there is no minimum price. It is deemed appropriate by the Fairtrade Labelling Organisation to trade this at standard, market prices. The sole commercial incentive to become certified, then, is in gaining the premium, which is currently set $60 per tonne. This would roughly provide a mark-up of 20% on what the farmers currently earn from selling sugar and many interviewees in the Farmers' Associations expressed a desire to join the Fairtrade scheme for this benefit alone.

Despite the enthusiasm for this alternative market, there are a number of caveats which must be borne in mind. First, the Fairtrade market is only available to those producers working in Farmers' Associations. Those larger growers, who also employ many local workers and face similar pressures of rising input and haulage costs, will not be supported by this scheme. Second, the cost of certifying an umbrella body has been put at €2,525 and €7,200 depending on its size (Dlamini, SSA, interview). This is a large cost for small (and likely indebted) businesses to pay. Given its own interest in securing sugar to manufacturer its chocolate bars, Kraft (which took over Cadbury's in 2010) has paid for a pre-assessment trial and some training for small farmers in the country. However, it is worth asking whether this alone represents an equitable allocation of the costs of establishing this supply chain system, given the massive financial resources of Kraft and the relative poverty of the Farmers' Associations.

Third, and related to this last point, the Fairtrade system does appear to increase the *expectation* that poor rural communities should provide services for themselves. There is a possibility that some of the Fairtrade premium could be taken by farmers as a price 'top-up' (as has happened in Malawi) but most will remain ring-fenced for community projects. This seems to further shift responsibility for providing social welfare further away from national government, donors and large companies, and toward what are essentially fledgling businesses of subsistence farmers.

Agro-energy

A prominent new global market to have opened up for sugarcane in the last decade has been for agro-energy. It has been suggested by policy-makers and academics that sugar producers affected by the EU reform should explore switching from sugar production to biofuel production (EC 2006: 4; Klavert *et al.* 2011: 7). Alongside biofuel, many sugar producers worldwide have also invested in power-generation facilities. These work by burning the sugarcane 'bagasse' – the fibrous matter leftover after the cane has been crushed for its juice – and using the heat to generate electricity.

In Swaziland, both these options have been pursued by the country's two milling companies. The RSSC has recently expanded its distillery to produce ethanol for sale in the EU and Africa, and have also trialled a transport fuel blend in government and company vehicles. They have invested in power generators to enable them to become self-sufficient in energy and reduce their dependence on the national electricity provider, the Swazi Electricity Company, whose prices have continued to rise at levels way above inflation. Ubombo Sugar, meanwhile, has installed a generation plant which will actually enable them to *export* electricity and provide power to the national grid. The group's General Manager has in fact gone as far to say that this would "provide a model for future sugarcane development in [the whole of] Africa" (cited in Naidoo 2011).

While these strategies may improve the autonomy and profitability of the mills, and thereby improve the prospects for the long-run survival of the sugar industry as a whole, they do not benefit all stakeholders equally, and may in fact give rise to other development challenges. First, because the industry's negotiating structures are built around 'food' sugar, investments by the mills in non-sugar revenue streams are not automatically shared with the cane growers. There was some internal debate, for example, as to whether growers should be involved in negotiations about the use of bagasse in power generation and whether this should be considered a raw material or waste product, with its value affected accordingly (SCGA 2011: 14). How to give poor farmers a stake in industry innovation and represent their interests in increasingly complex negotiations is of critical importance.

Second, there is a wider issue related to the public impact of private cost-savings. As large electricity users, the sugar mills have effectively 'subsidised' domestic consumers by absorbing a large part of the running costs of the Swazi Electricity Company. According to its Managing Director, as these companies become self-sufficient and this 'subsidy' disappears, "domestic tariffs will increase substantially" (Shaw 2011).

Finally, where Greenfield projects are planned for biofuel production, there may be issues linked to securing the water and land necessary to make them viable (Cotula 2009). While these are not the focus of this research, it is worth noting the recent approval by the Swazi Cabinet of 12,000 hectares of government and private farms for an export-led biofuel project in Lavumisa – a poor region of the country particularly prone to drought (Swazi Observer 2011). Again, the point must be stressed that agricultural production is not 'pro-poor' in and of itself, but must offer benefits such as waged income and stable farmgate revenues *without* jeopardising (the often informal and invisible) economic activity taking place in other areas.

7. Conclusions and considerations

This paper considered the impact of the EU reference price reduction and AMSP 'Aid for Trade' programme on the Swazi sugar industry. It has found that the impact of reform was felt most acutely by three groups: (a) existing small-scale cane growers who have seen the price of sugar lag behind rapidly inflating costs and been unable to pay off their debts; (b) workers who have seen jobs retrenched, outsourced and 'casualised' as the sugar mills reduce labour costs; and (c) local communities which relied on social amenities like health care and education facilities provided by the mills and which have also been cut as part of the companies' restructuring strategies. Notwithstanding concerns around the prioritisation and timeliness of funding, the AMSP programme has benefited those subsistence farmers given grants to enter into the cane growing business. Without taking on the high debts characteristic of new entrants, and when able to use some of the irrigated water for their home gardens, sugar has provided a relatively high and stable income to these new producers.

However, despite their efforts at restructuring, the Swazi industry does still rely on the remunerative export market offered by the EU. If this is eroded, the consequences will be felt among the vulnerable and poor of this country – as happened clearly during the last reform. Facing this possibility, one company interviewee warned that "even a 10% reduction in the price of sugar would put new growers on the precipice" (Ndlovu, Ubombo, interview). This would undermine the significant investment that the EU has already put into poverty alleviation within the sector, and runs counter to commitments on trade and development policy coherence, set out, for example, in the Commission's 2000 Development Policy Statement. As one farmer who had benefitted from this remarked: "All in all we appreciate the help given by the EU but the price needs adjusting; the grant was a one off thing" (Metfula, Ingcayizivele Farmers' Association, interview). In addition, it is worth remembering that despite all the retrenchments, the sugar industry remains the biggest private-sector employer in Swaziland (Mashwama 2011). With this in mind, the paper ends with three considerations for policy-makers and how they might ensure that the international aid and trade relations might be better shaped to deliver pro-poor benefits in this sector.

Prevent unnecessary liberalisation of the EU sugar market

The European Commission has proposed scrapping internal sugar quotas as part of its 2013 CAP reform. This means that low-cost sugar producers in the EU could expand their output and that prices would be further deregulated. The Commission have suggested that this would lead to an increase in planting by sugar beet farmers, a small decline in the EU price, and a decline in imports of less than 7% from the Least Developed Countries and EPA signatories. However, others have argued that this decline in imports could be even greater if the world price remains higher than the Commission assumes (Matthews 2011: 16-17). Policy-makers must recognise that this downward pressure on prices and market share threatens the livelihoods of famers in countries like Swaziland and many other poor countries.

There is widespread antipathy to this reform. Both the African, Caribbean and Pacific countries *and* the Least Developed Countries issued a joint statement to express their "profound concern and dismay at the Commission's proposals" (ACP 2011). Moreover, even European farmers maintain that "it would be detrimental to growers and it would risk compromising the sustainability of European sugar beet production, especially as there is no objective reason to force us towards further reform" (International Confederation of European Beet Growers 2011). Finally, support for an extension to the current quota system can also be found from beet processors and the European Parliament, with the latter calling for "suitable measures to safeguard sugar production in Europe and to allow the EU sugar sector to improve its competitiveness within a stable framework" (European Parliament 2011; see also CEFS 2011).

It appears that the Commission is basing its policy recommendation instead on support for the food and drink manufacturing sector. These firms have already captured most of the benefits from the last round reform and clearly hope to extend this further. The Committee of Industrial Sugar Users, whose members include multinational companies like Coca-Cola, Nestlé, PepsiCo and Unilever, have said that they "welcome the proposal" (CIUS 2011). A report by Rabobank, meanwhile, made clear that "for buyers this is the best scenario as they want sugar at the best possible price" (Sugar Online 2011). The vast majority of sugar in the EU is not bought directly by consumers, but by the sugar-using industry.

Consider new priorities for Aid for Trade programmes

This study suggests that when it assists small-scale farmers to enter into, and capture the gains from, agricultural export-markets, Aid for Trade can help promote rural development. However, it also contains caveats regarding the circumstances in which international trade is in fact the most *appropriate* market for smallholders, and also the inclusion and protection of farm workers as well as farmers. Putting these to one side, this section now offers some suggestions on how the AMSP and other Aid for Trade initiatives could be made more effective.

Given the difficulties experienced by countries like Swaziland in mobilising aid through the project support mechanism, an immediate possibility is to reconsider the AMSP allocation system to maximise the impact of the initial €1,284m pledged by the EU. This could come from recovering forfeited AMSP money in-country (such as the €11.1m Swaziland had to pass up because it was not committed in time) or reallocating money between countries for those which have not requested the full amount available under the AMSP programme. An additional requirement – and one already being observed by the EC Delegation in Swaziland – is to monitor haulage costs to ensure that the benefits of aid invested in infrastructure are not solely captured by trucking companies. Where money is to be poured into transport infrastructure, competition law must be used to prevent collusion and price fixing if this is evident. Collective bargaining by small farmers alone cannot tackle this asymmetry.

Some lessons for the future can also be learnt from the Swazi experience. The adoption of the Swazi Sugar Facility by the EC Delegation – which frontloads aid and allows groups to submit their own bids for funding – has so far been well received by the industry since it provides the opportunity to undertake projects simultaneously rather than sequentially and potentially provides greater ownership. To enable all groups to benefit from this 'Trust Fund' system, though, it is important not to ask non-profit bodies for unduly large amounts of collateral to underwrite grants.

Other options advanced by industry that might be used in Swaziland or elsewhere include the use 'turnkey tenders' to allow the design and works contracts of a specific project to be tendered together and speed up implementation, as well as a revolving fund for working capital (Matsebula 2009: 12). The latter does move the donor relationship into new territory, although if aid is to be used to support the commercial agricultural sector, then donors have to accept that initiatives based on banking rather than the provision of infrastructure and technology may be required.

For its part, the EC Delegation in Swaziland has raised the possibility of a 'Community Fund' which could widen the beneficiary base of funds channelled into the smallholder sector. This would be based on a levy taken from the dividends paid out by the Farmers' Associations (once an agreed minimum had been reached) and would be used to fund social amenities in the manner of the Fairtrade premium.

Alongside funding options which would enable a wider set of stakeholders to *participate* in Aid for Trade programmes, it is imperative to also find ways in which immediate victims of trade reform can be *protected*. The costs imposed on workers and vulnerable people in the Swazi sugar-belt as a result of the 2006 CAP reform were not satisfactorily addressed.

One option that must be considered is to allow companies to spend foreign aid to provide an immediate social safety-net in the wake of reform, and then to claim this expense back at a later date when its provision has been verified. As the millers also interact on a day-to-day basis with the Farmers' Associations via their extension officers, this could also provide a way in which any future aid could reach its target beneficiaries in a faster way and through an established and informed source.

Important provisos to attach here include the provision by milling companies of the necessary transparency and accountability to match public sector agencies and that any aid granted must be *additional* to existing severance payments or corporate social responsibility projects that the company has committed to. While this new modality of private control of public funding may seem unusual, it is worth contrasting this with the rules applied to the *European* sugar industry which also received restructuring aid as part of the 2006 reform. They were able to spend this without transparency or external oversight. Indeed, the European Parliament (2011) deemed this contradictory to the European taxpayer's right to know what Union funds are spent on; a judgement which highlights the different, more stringent demands which the EU has made on developing countries in this instance.

Ensure sugar mills are responsible to stakeholders as well as shareholders

If the private sector is to be supported by the public purse via price management measures or aid support, it seems reasonable that something is given in return. The companies with the biggest financial stake in the sugarcane sector are the mills and it is to these we must look when considering how to make trade work for the poor. The paternalism exercised by previous mill owners in Swaziland (which was not without its problems) has been lost, and the new majority owners of RSSC and Ubombo have governed with a more commercial conviction, mandating their mill-level managers to make the necessary adjustments to become competitive, usually translated into cutting labour and amenity costs. However, it is worth remembering that this is ultimately for the benefit of the parent companies and their shareholders, and it is the demands made by these that can influence exactly how much pressure is brought to bear on things like wages, pension payments and HIV/AIDs programmes. In short, the scale and type of cost reduction measures are not preordained but should be subject to negotiation among affected parties.

There is clearly room to accommodate this demand. In the year ending March 2011, RSSC posted net profits of E78.8m (around €7.8m) while Ubombo Sugar contributed an estimated E82.3m (€8.2m) to its parent company Illovo's operating profit. These companies are not loss-making enterprises. Moreover, the majority shareholder of RSSC – Tibiyo Taka Ngwane – is in fact an investment fund set up by the former king of Swaziland to manage national resources in trust for the nation. Under a Royal Charter to "complement the Swaziland government's national development efforts" the organisation clearly had an obligation to ensure RSSC benefits as many people as possible (Tibiyo website 2011). This logic also applies to the state-owned banks such as SwaziBank, which must ensure that the specific needs of the poor are attended to when making loans to fledgling commercial farmers.

Ubombo Sugar and its parent company Illovo, meanwhile, are part of the Associated British Foods group. This is majority owned by the Garfield Weston Foundation, a charitable trust belonging to the multi-millionaire Weston family. George Weston, the Chief Executive of ABF, has shown a keen interest in the developmental contribution of Illovo, speaking at a Royal African Society meeting about their mills as "islands of relative prosperity". By encouraging Illovo to avoid the further shedding of jobs, benefits and community projects, Mr Weston could ensure that his company's mills look less like islands, or economic enclaves, and more like part of the nation (Weston 2010). In other words, it is necessary to re-conceptualise the economic geography of sugar and instead of focusing just on those directly involved in the supply-chain, consider the fate of those in the sugar-belt more broadly.

A first step in this direction would be to institutionalise existing benefits received by workers and local communities by preventing further rollbacks. A second step would be to increase accountability to those most affected by decisions in the sugar industry. Giving stakeholders a voice at the company's Annual General Meetings and having third-party organisations support union branches in their efforts to represent workers and monitor compliance with labour laws are possibilities here. A third step would be to commit to the 'socialisation' of industry wealth by allowing outsourced labour full access to HIV/AIDs programmes in prevention, treatment and palliative care. Measures directly supporting smallholders could include devoting more resources to the extension offices, co-sponsoring a revolving fund with donors/government, negotiating with input suppliers and credit providers on behalf of the Farmers' Associations, and giving them explicit permission to use the irrigated water for their 'backyard gardens'.

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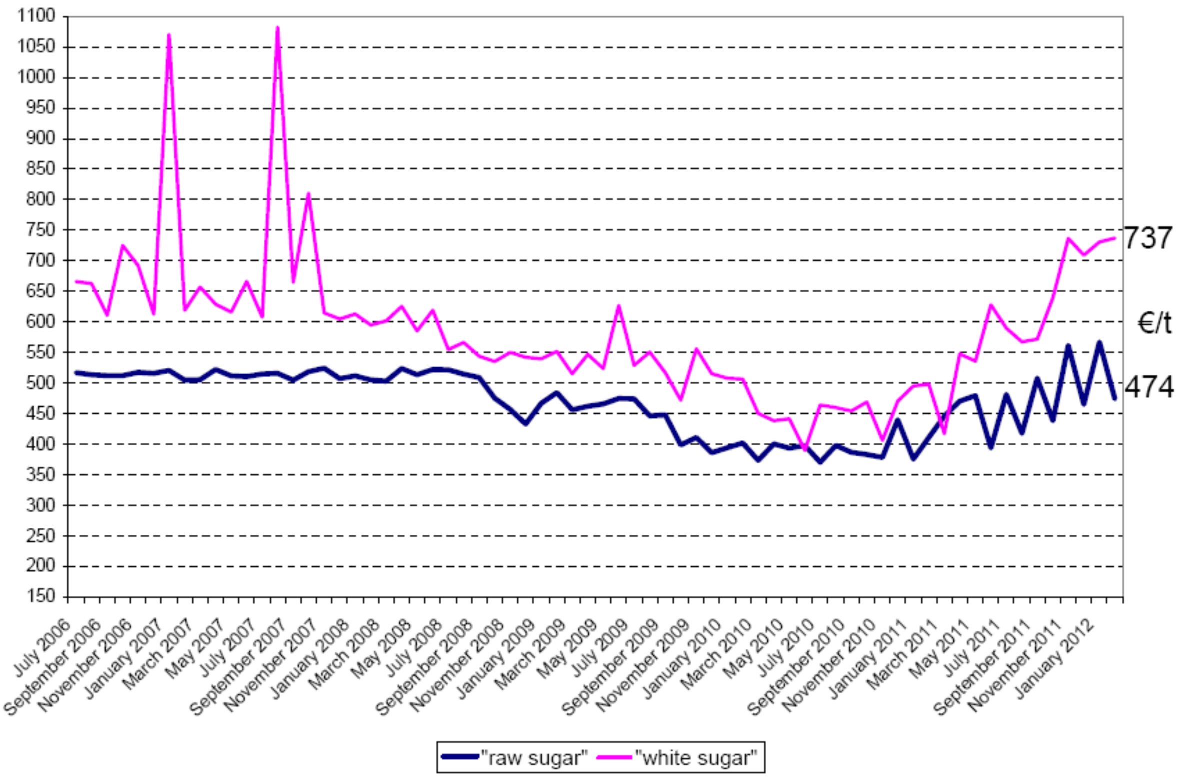
Appendix

A. Price of raw and refined sugar received by ACP exporters to EU



Source: Management Committee for the Common Organisation of Agricultural Markets (2012) Sugar Price Reporting. http://ec.europa.eu/agriculture/sugar/presentations/price-reporting_en.pdf Note: In 2005-06, a minimum fixed price of €523 per tonne was paid on *raw* sugar in the EU. This was reduced by 36% by 2009. From October 2009 to September 2012, minimum price guarantees have been reduced from 100% to 90% of the EU reference price. However, these prices have not had to be enforced due to the high world prices prevailing during this time. From October 2012 this price guarantee is to be abolished, with the price of raw sugar imported from the ACP being determined by market forces.

B. Areas prioritised for donor funding in the Swaziland NAS

Area	Strategy	Amount required
Support for smallholders	Grant financing new entrants in the LUSIP, and stabilising the finances and providing management training of those already in the KDDP	€80m
Diversification for existing growers	Reducing transport costs, funding R&D into other products, and providing a plough-out facility	€80m
Provision of public goods	Improving government capacity, delivering education and HIV/AIDS programmes, and retraining retrenched workers and providing support for local micro-enterprises	€60m

Competitiveness of sector	Improving and extending roads, and expanding packaging and refining capacity	€50m
Institutional structures	Establishing RDMU and other necessary organisations	€10m

Source: Swaziland National Adaptation Strategy.

C. Disbursement of AMSP funding in Swaziland at October 2011

		Accompanying Measures	Provision (Euro)	Paid (Euro)
Multi-annual Indicative Programme 1	2006	Technical assistance to the National Adaptation Strategy	4,703,000	4,044,206
	2007	Support to design and supervision of works (SHIP project) Actual works: Land preparation and establishment of irrigation equipment for 25 Farmer Associations (completed last year on 600 ha; being completed now on 1,150 ha)	14,895,000	7,916,590
	2008	Design and supervision for Sophofaneni and St Philips road Actual works currently tendered	18,000,000	616,795
	2009	Grant to the SCGA (signed, not started) to refurbish irrigation infrastructure and promote diversification Works: Land preparation and establishment of irrigation equipment for 4 to 6 additional Farmer Associations	3,795,000 12,705,000 (Decentralised: MEPD is the Contracting Authority)	0
	2010	Mananga - Sihoye Road (being tendered)	12,057,000 (MEPD)	0
MIP 2	2011	Sugar facility (Grants to be selected through calls for proposals) Infrastructure	54,267,000 (MEPD – now in EU circuit for approval)	0
	2012-2013	No Annual Action Programme – all remaining funds channelled through AAP 2011		
Total Disbursements			120,422,000	12,577,591 (10.4%)

Source: Personal communication, Alice Perlin, EC Delegation

D. Tonnes of Cane Supplied by Farm Type 2005-06

	RSSC		Illovo	Number of enterprises	Total supply by farm type
	Simunye	Mhlume	Ubombo		
Miller-cum-planter	1,248,000	859,000	1,030,000*	3	3,137,000
Large grower (>1,000 ha)	226,000	223,000	596,000	23	1,045,000
Small and medium grower	249,000	434,000	296,000	168	979,000
Total supply by mill	1,724,000	1,516,000	1,923,000	194	5,163,000

* Includes MCP Managed Farm owned by Tibiyo
Source: Swaziland National Adaptation Strategy

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ECDPM was established in 1986 as an independent foundation to improve European cooperation with the group of African, Caribbean and Pacific countries (ACP). Its main goal today is to broker effective partnerships between the European Union and the developing world, especially Africa. ECDPM promotes inclusive forms of development and cooperates with public and private sector organisations to better manage international relations. It also supports the reform of policies and institutions in both Europe and the developing world. One of ECDPM's key strengths is its extensive network of relations in developing countries, including emerging economies. Among its partners are multilateral institutions, international centres of excellence and a broad range of state and non-state organisations.

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- Supporting societal dynamics of change related to democracy and governance in developing countries, particularly Africa
- Addressing food security as a global public good through information and support to regional integration, markets and agriculture

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This publication benefits from the generous support of ECDPM's core and institutional funders: The Netherlands, Belgium, Finland, Ireland, Luxemburg, Portugal, Sweden and Switzerland.

ISSN 1571-7577

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