

**Title:** *Reducing Dependence: Final Reports to the Governments of Botswana, Lesotho and Swaziland*

**Citation:** Green, Reginald H., Michael Lipton and Percy Selwyn. (1980). *Reducing Dependence: Final Reports to the Governments of Botswana, Lesotho and Swaziland*. Commissioned from IDS by the Commonwealth Secretariat.

**Version:** Final version.

**Rights holder:** Commonwealth Secretariat

**Terms of use:** This work has been licensed by the copyright holder for distribution in electronic format via any medium for the lifetime of the OpenDocs repository for the purpose of free access without charge.

**This is a download from OpenDocs at the Institute of Development Studies**

SECRET

# **REDUCING DEPENDENCE**

(Final Reports to the Governments of  
Botswana, Lesotho and Swaziland)

## **Report on Lesotho**

Commissioned from the Institute of Development Studies  
at the University of Sussex

Prepared by Reginald H. Green  
Michael Lipton  
Percy Selwyn

Commonwealth Secretariat

June 1980

## PREFACE

The study on reducing the economic dependence of Botswana, Lesotho and Swaziland was commissioned from the Institute of Development Studies by the Commonwealth Secretariat in response to a joint request from the Governments of these countries.

This Final Report on Lesotho must be read in conjunction with the Interim Report since it provides supplementary material and, in some cases, further elaborations of conclusions and recommendations included in the Interim Report. The Interim Reports of the three countries also contain a general section which deals with issues of regional concern or of joint concern to the three countries. The general section is not being repeated in this Final Report. The content of this Final Report reflects the interests expressed by the Government of Lesotho in its reactions to the Interim Report.

The Secretariat is indebted to the authors for agreeing to undertake this study and for their dedicated service and co-operative attitude in completing this very worthwhile task. It also acknowledges the assistance provided by Professor H.M.A. Onitiri, who acted as a consultant to the Secretariat on the project. The views expressed in this Report are those of the authors and do not necessarily reflect those of the Commonwealth Secretariat.

SECRET

CONTENTS

	Page
I. Introduction	1
II. Inputs into Industry	4
(A) Material Inputs	4
(B) Management	7
(C) Finance	7
(D) Skills	10
III. Markets	10
(A) The Domestic Market	11
(B) The South African Market	15
(C) Other External Markets	16
IV. Administrative Questions	17
Conclusions	19
Annex A: Terms of Reference	21

## I. Introduction

The Interim Report to the Governments of Botswana, Lesotho and Swaziland, Reducing Dependence, prepared by Professors R.H. Green and M. Lipton and Mr. P. Selwyn of the Institute of Development Studies, Brighton, England, was submitted to these Governments by the Commonwealth Secretariat in January 1979. Each Government received ten copies of the Interim Report, dealing with issues affecting all three countries, and of a detailed Annex specific to its own country. The terms of reference for the work, both on the Interim Report and subsequently, are set out as Annex A to this Final Report.

In view of comments and suggestions from the three Governments, it was decided that the most useful procedure was to prepare the three Final Reports (dealing separately with the topics raised by each country) instead of a further general report on all three countries.

In discussion with the Director of the Lesotho Central Planning and Development Office, it was agreed that it would be desirable during the present phase of the study to concentrate on issues of industrial development, in view both of its importance for future job creation and the severe difficulties which have been encountered in this sector.

Both the earlier Development Plans laid stress on industrial development, primarily as a means of providing jobs. But experience so far has been disappointing. According to the Census of Industrial Production, 1969/70 - 1975/76, only 1,712 persons were employed in manufacturing in 1975/76. This figure, however, excluded home industries and may not have completely covered other industrial establishments.

In Table I we show output and employment in manufacturing in 1975/76. Even if we make all allowances for omissions, the total size of the sector was clearly very small. The table shows that gross output per establishment averaged R288,000, and net output R106,000; value added averaged 37% of gross output. These averages, however, concealed substantial disparities; unfortunately the Census of Industrial Production does not provide distribution figures for manufacturing in distinction from those for construction.

TABLE I: Manufacturing and Employment Output 1975/76

Number of units	28
Gross output (R'000)	8,056
Purchases and changes in stocks (R'000)	5,077
Net output (R'000)	2,979
Wages and salaries paid (R'000)	1,162
Numbers employed	1,712*

Source: Census of Industrial Production 1969/70 - 1975/76  
Table 2(g).

\*Table 5(g) of the Census shows a slightly different number of persons employed in manufacturing.

The Third Plan Preview estimates industrial employment in 1978 at 7,500 - presumably including artisan and home industries - or 19% of total employment inside the country. It points out that, whereas the Second Development Plan had estimated job creation in industry during the plan period at 4,500, it seemed probable that only 1,300 such jobs would be created (both figures excluding rural industries and handicrafts). Thus, in spite of the very considerable efforts which have been put into industrial growth, the results have been disappointing. There would appear to be several reasons for this failure:

- (a) Lesotho industry has to compete with industry in South Africa's industrial centres. Industry in the existing industrial centres benefits from access to large markets and the resulting ability to exploit scale economies, good infrastructure services (including transport and communications), ancillary services and adequate supplies of skilled labour and management.
- (b) Although SACU in principle provides free access for Lesotho exports to the South African market, there are many actual barriers in the way - not least market sharing arrangements among the more monopolistic industries in South Africa.

(c) There are also weaknesses internal to Lesotho. These include a lack of adequate management, weaknesses in financial arrangements and inadequacies in planning procedures and infrastructure.

As we emphasised in our first report, economic policy in Lesotho is centrally concerned with providing additional jobs, with reducing import dependence and with increasing Lesotho's ability to pay for those imports which cannot be eliminated without a decline in consumption. Industrial policy is concerned with all three aims. An examination of industrial policy involves several questions. First, what are the appropriate industries for Lesotho - that is, what industries can most easily be established and survive, and will contribute most effectively to the aims of industrial policy? This range of questions is being examined by Dr. El-Hawary, the Industrial Planning Advisor, and will not be considered in this report. Secondly, what can government do to improve the provision of necessary inputs into industry (materials, skills, management, finance)? Thirdly, what can be done to improve access to internal or external markets? And, lastly, what should be done to improve the administration of industrial policy?

## II. Inputs into Industry

### (A) Material Inputs

The experience of other areas geographically near to large industrial countries suggests that industries based on local materials are frequently among the first to develop. But such industries are of minor importance in Lesotho. Apart from some use in a CARE mohair spinning project, virtually all local wool and mohair are exported in raw form. There is very little local use of available hides and skins. Little local stone is used in construction. But equally important is the lack of locally available materials. The limited success of agricultural development programmes means that there is little basis at present for agro-industries. Thus the supply of local



cattle will be insufficient to enable the proposed abattoir to operate commercially and it will be necessary to import cattle from RSA. No other agricultural materials are at present produced on a sufficient scale to act as the base for any substantial industrial growth. Asparagus, peaches and various vegetables are grown - but not on a large scale.

The principal local materials which could in principle be the base for processing or manufacturing are wool and mohair. We have heard different views on the appropriate size of any processing activity. But there is agreement that such processing could more easily be made viable if there were some assurance that the whole, or at least the greater part, of local production could be made available to the local industry. There are several possibilities:

- (i) An export duty could be levied on raw, unprocessed wool and mohair. This, however, could be widely evaded, especially if the processing industry paid lower prices to the producers than they could obtain by selling directly to dealers.
- (ii) The processing industry could pay a premium over normal traders' prices. This need not involve subsidising the industry. The returns to initial processing might well be sufficient to pay the additional cost. We do not have sufficient information on the present structure of the trade to say how likely this would be.
- (iii) A cooperative wool and mohair producers' society providing both credit and marketing services could purchase the materials from the producers. A cooperative would, however, succeed only if:
  - (a) the producers saw benefits to themselves in joining and in remaining loyal to it;
  - (b) the cooperative was well managed; purchasing organisations in the public sector have frequently been badly managed, and have imposed heavy costs on the producers.

We suggest that a cooperative wool and mohair credit and marketing society be established as part of a programme for establishing a local processing plant. Such a society could obtain a share in or even own the processing facilities, and would thus be able to pay attractive prices to the producers. But it would be operating in competition with private traders, and would have to be ready to meet that competition in such matters as willingness to pay cash, an appropriate distribution of buying points, and the provision of credit.

We suggest that technical assistance should be obtained for

(i) setting up a cooperative marketing system for wool and mohair, and drawing up detailed proposals for a cooperative marketing system;

(iii) setting up a cooperative marketing system for wool and mohair and running it for an initial period of, say two years. This would include the provision of training for Basotho so that the cooperative should be self-sufficient in manpower at the end of the period.

We understand that Sweden has substantial experience in the cooperative marketing and processing of wool. We suggest that SIDA be asked to provide technical assistance in this field, and initial financial help until the activity is well established.

Administratively, there is a division of functions within government between the Ministry of Agriculture, which promotes crop production, and the Ministry of Commerce and Industry, LNDC and BEDCO, which promote industrial production. But agro-industries, which involve both increased output of agricultural products and the processing or manufacture of such products, are not the specific responsibility of any part of government. It has been suggested that the promotion of agro-industries should be the specific responsibility of the Ministry of Commerce and Industry. But the Ministry has no means of promoting the output of the relevant agricultural products.

We would not wish to propose the establishment of a special

institution for promoting agro-industries; this would be wasteful, and probably ineffective. This is, however, an area where cooperation among existing institutions should be strengthened. We suggest that the Central Planning and Development Office take the initiative in establishing a system of regular mutual consultation and information between the Ministries of Agriculture and Commerce and Industry, LNDC and BEDCO concerning possibilities and problems in this sector.

(B) Management

Nearly everybody with whom we discussed industrial issues identified management as the scarcest resource in Lesotho. Thus the artisans whom BEDCO is trying to make into small industrialists find the transition from hand-worker to organiser difficult. Again, financial institutions claim that their principal criterion for financing, and indeed the main barrier in the way of providing finance for industry, is the availability of good management. The LNDC finds that, not only does Basotho enterprise suffer from management problems, but South African enterprises operating in Lesotho call on LNDC for managerial assistance.

Both the LNDC and BEDCO provide management training, but we understand that there are some doubts about its effectiveness. It is difficult to train managers outside industry; where there is little industry, there are few opportunities for effective training. If the South African system were different, and permitted the free employment of Basotho at all levels, it would be possible to arrange for the training of Basotho within South African industry. But with the present policy of the South African government and white trade unions, such arrangements are not possible. We suggest that the possibilities be explored of providing management training in other African countries with growing industrial sectors (e.g. Zimbabwe). The Commonwealth Secretariat might also be able to assist in exploring possibilities in Commonwealth countries in Africa.

(C) Finance

Lesotho lacks a development bank. The First Five Year Development Plan provided for the creation of such a bank, and when the

Lesotho Bank was established, it was intended to operate both as a commercial and as a development bank. In practice it has become primarily a commercial bank. There is thus no institution which specialises in the provision of development capital for Basotho industry. On the other hand, LNDC and BEDCO have provided funds for industry, the latter with funds from CIDA and the World Bank. The Lesotho Bank and the private commercial banks have provided some long-term finance, but they see their main job as that of supplying short and medium term funds. We are informed that there is no shortage of short-term money (although particular borrowers may well find it difficult to obtain credit).

We do not know if there is a genuine gap in the provision of development finance for industry. It has been suggested that the main problem is the lack of 'bankable' industrial projects - but this may reflect the restrictive criteria employed by the financing institutions. The Third Plan Preview provides for the establishment of an industrial finance corporation. We do not consider that the case for such a finance corporation has been made out; there is no shortage of financial institutions, and an additional one appears superfluous. But the Lesotho Bank should be asked to establish a separate section - an additional 'window' - specialising in finance for small industry. But if this is done, additional resources must be made available. First, the Bank will require staff experienced in this type of business. Secondly, loans of this type are risky. Many of the borrowers will lack security; the section's business will be essentially in character loans. Such loans imply an act of judgement concerning the borrower's management abilities, and credit will not be extended where management is thought to be inadequate. But even so, defaults are likely to be more frequent than with the Bank's ordinary operations. If government requires the Lesotho Bank to go into such business, it will have to ensure that funds are available on terms which will enable the risks to be borne. Thus the Bank will need to be provided with an addition to its equity capital or very soft loans.

We propose that aid be sought towards enabling the Lesotho Bank to open a 'small industries window'. Such aid should cover finance on very soft terms, and any requirements in personnel with appropriate experience. The Bank already works closely with LNDC on particular projects; the establishment of a new section would enable such cooperation to be strengthened. It should also be possible for BEDCO to approach the Bank for finance for customers whose requirements are beyond BEDCO's means.

There is at present virtually no local share market. We understand that LNDC is proposing to transfer some or all of its holdings in various operations to a separate investment holding company; shares in such a company might be sold to the public in the long run. At present, however, few of the enterprises are sufficiently profitable to attract private funds. One old established trading and industrial enterprise in the private sector has issued shares locally, but few other companies are in a position to do so.

We see no prospect of any rapid expansion in the local share market, but in the longer run the local issue of shares could both provide useful additional finance to the industrial sector and help to reduce the flow of funds to South Africa. There is, however, no legislation effectively controlling share issues. At present, this is of little importance. But it presents a danger. It would be possible for fraudulent share issues to be made; if sufficiently attractive, such shares could attract wide support. This could cause long-term damage to the prospects of building up a local share market. A successful share swindle would destroy confidence for some time to come.

We propose that, as a matter of urgency, the Lesotho Government examine its existing laws, and if necessary enact new legislation governing share issues. At a minimum such legislation should require full disclosure of the company's affairs, including past accounts and present financial structure, and should clarify where in government the responsibility will lie for enforcing such legislation. It should be possible to obtain technical assistance

both for drafting legislation and for proposing machinery for its enforcement. This need not be elaborate; but responsibility must be clearly identified.

(D) Skills

We support in general the proposals in the Third Plan Preview for the expansion of vocational and technical education. A central difficulty in this field is the matching of the training which is offered to the jobs which are likely to be available. The Preview notes that many of those who receive training go to South Africa for work. It is not clear whether they do so because rates of pay in South Africa are higher or because there is an inadequate demand for their specific skills in Lesotho. A clear need is close and continuing contact between the private sector and the Polytechnic in the selection and planning of courses. But experience would suggest that the private sector itself should be encouraged to play a more active part in training. The advantage of this approach is that skills are provided for which there is a known demand.

We understand that some thought has been given to the possibility of granting training subsidies to industry. We support this approach. If an industrial enterprise provides training for its personnel, those who have received such training may leave for other jobs. Thus the expenditure has been wasteful from the firm's point of view. But the country as a whole has gained, as long as the trained worker does not go abroad. We suggest that the present package of aids to industry should be examined with a view to including a system of training subsidies, if necessary at the expense of other forms of assistance. Such subsidies should be in respect of courses or other forms of training agreed with the relevant department, and there should be regular inspections to ensure that the training is in fact being provided.

III. Markets

We consider separately the domestic market, the RSA market and other markets.

(A) The Domestic Market

The domestic market for industrial products is virtually entirely occupied by South African goods. We do not have any recent statistics on the origins of consumption and capital goods, but the most casual look in the local shops will confirm this. South African products predominate for various reasons. They have a transport advantage over goods from abroad. They are protected on the Lesotho market. The trading organisations have strong South African links (even where they are not actually South African) and presumably have most information about South African products and relations with South African industries. As compared with Lesotho products, many South African industries enjoy economies of scale or economies of agglomeration. Consumers in Lesotho are familiar with South African products.

Little has been done to exploit the possibilities of the local market for Basotho products. There are several possible policy areas.

(a) Protection. Protection of the Lesotho market is possible under the Customs Union agreement, although it is limited in time and restricted to new industries. The purpose of protection is to permit the local value added in industry to be greater than is possible if imports are duty free (as is the case with South African imports under SACUA). Thus industries may be competitive with protection when they are uncompetitive without it. Tariff protection may be of two types, a duty may be levied on the finished product, or duties may be remitted on the materials going into products. Both these methods of protection are possible under the Customs Agreement. Indeed, remission of import duties on materials is common in South African industry, and is readily obtainable for Lesotho industries.

There is little doubt that the extensive use of protection would enable many industries to operate which are now not viable. We are informed that it would be possible to administer protective duties or duty rebates with little difficulty. But protection involves

costs. If duties are imposed on finished products, the costs fall in the first instance on the consumers. If the granting of tax concessions on inputs were to reduce Lesotho's revenue under the Customs Agreement, the cost would fall on the budget. The central concern of policy, then, is to determine whether the benefits arising from protection in terms of employment and incomes (both direct and indirect) outweigh the cost.

A main criterion must be whether the industry to be protected would survive without protection. Under SACUA, protection may be accorded for eight years. There is a danger that, if Government decides to protect an industry, a firm will be attracted which intends only to make quick profits and which ceases operation at the end of the period of protection. Thus Lesotho will have experienced the costs of protection for no long-term benefit.

We propose that the Lesotho Government take a more positive policy towards industrial protection. Industrial promotion literature should draw attention to the possibility of according protection to new industries. But at the same time a critical analysis should be made of any requests for protection. A useful guideline would be the level of effective protection requested. This is the proportion by which the permitted value added in the industry\* is increased as a result of protection. If industries are to be protected only if it is reasonable to suppose that they will eventually be viable without protection, a level of effective protection of, say, 50% implies that local value added can reasonably be expected to fall by a third at the end of the period of protection. It is then a matter of judgement whether such an increase in efficiency is likely.

If a more positive protective policy is adopted, the Ministry of Commerce and Industry will need strengthening, if necessary

---

\*Where manufacturing or processing activity is inseparable from the production of the raw material - i.e. the material cannot be used without the processing - local value added should include the cost of the material itself. But such cases will be rare in Lesotho.



through Technical Cooperation, to enable it to undertake the necessary analytical work.

(b) Government Purchase. Government is a major market for industrial products. It is important that its purchasing power be used in such a way as to provide all reasonable assistance to local industry. We heard various criticisms of present procedures. Planning is said to be inadequate; orders may be placed so late that local suppliers are unable to meet them; small enterprises are said to be reluctant to take orders because government is slow in paying.

We suggest that the following procedures be adopted:

- (i) New programmes or projects should be broken down into their components in as much detail as possible as soon as they are approved. Thus we understand that the new Development Plan is expected to include a substantial irrigation programme. This should be analysed into its component parts (e.g. pipes, tanks, pumps and so on) and the information passed to LNDC and BEDCO. If local suppliers have sufficient notice they will be able to produce many of these items. If not, the commodities in question will inevitably be imported from South Africa. It should be a general rule that such an analysis of all projects be made and communicated at the earliest possible date.
- (ii) Purchasing departments should examine the specifications for their requirements so as to ensure that the standards required are not such as to exclude local suppliers. Frequently standards for government purchases are specified in particular ways, not because such standards are necessary to meet the requirements of the users, but because those making the specifications are accustomed to particular products. The criterion should be need rather than tradition.
- (iii) The Government stores officer should adapt his purchasing policy to the problems of small Basotho suppliers. Thus

Government should be ready to hold stocks of standard items so as to allow for a steady flow of orders to local producers. If necessary, tenders should be broken up into small parcels so as to permit small producers to bid for them.

- (iv) Just as there is a case for a measure of protection in the private market for industrial products, so government should be ready to accord a reasonable preference to local suppliers in its own purchasing policy. We understand that some preference may be accorded, although we were not able to obtain accurate information on how this operated. Many small producers are unable to compete with imports without some preference. The main justification for such preferences is that, by producing for the public sector market, small industrialists gain experience and eventually become more competitive. The main disadvantage of a fixed margin of preference for local producers is that it provides a lower level of effective protection for producers whose value added is high than for those whose value added is low. An industry whose local value added is 50% of the value of the product will receive half the level of effective protection accorded by a particular preferential margin as compared with that received by an industry whose local value added is only 25% of the value of the product. Thus the greater the relative contribution of an industry to the economy, the lower its potential benefit from a fixed preferential margin. Even if a minimum proportion of local value added is specified, such discrepancies will remain.

We have no simple answer to this difficulty. One possibility is that the preference should be related to the cost of local labour and materials incorporated in the product. But this may be administratively difficult, and impose a heavy burden on government and producers. Alternatively, the Ministry of Commerce and Industry could draw up a list of local products in collaboration with LNDC and BEDCO and make

approximate estimates of the proportion of value added. Preferences would then be specified for particular groups of commodities (e.g. clothing, furniture) aiming at a level of effective protection of, say, 25%. Once such a list had been drawn up, its administration should be simple. We suggest that, if the technical staff of the Ministry of Commerce and Industry is strengthened in the way we suggest above, the personnel concerned should coordinate an exercise along these lines.

(c) Purchase by Other Sectors. Until recently virtually all the industrial products used in other sectors (e.g. agriculture, tourism, construction) were imported. This is now beginning to change. Some of the requirements for the new Hilton Hotel (light fittings, furniture) have been produced locally. Concrete blocks and some joinery items are now made in Lesotho. But inter-industry linkages generally are still very weak.

It would not be practicable to compel local enterprises to buy local products; indeed, since many local products are more expensive than imports, to do so would make it more difficult for Lesotho enterprise to survive. But as much as possible should be done to encourage local purchase. One difficulty is that of information. There is no comprehensive, recent list of manufacturing and processing industries. We suggest that the Ministry of Commerce and Industry publish a commercial and industrial yearbook. This would include general production and trade statistics, information of use to industry, and a list of manufacturing enterprises, including information on their products. Such a publication would at least provide the basis for inter-industry linkages. Although Lesotho is a small country, it is probable that many local products are not known by potential local consumers. If the list were comprehensive, it could be of particular assistance to small suppliers, who have most difficulty in publicising their products.

(B) The South African Market

Lesotho industry has had little success in the South African market, in spite of the free entry provided under SACUA. There are

various reasons for this. As we have suggested above, many Lesotho products are not competitive with South African products. In spite of years of negotiation, there are still restrictions on the use of the most appropriate transport modes inside South Africa. Many of the Lesotho manufacturers have little knowledge of marketing. There are widely believed to be important non-tariff barriers in the South African market; in many industries, markets are shared by a few oligopolistic producers and it is virtually impossible for other products to obtain an entry.

Both LNDC and BEDCO provide assistance in marketing, and the relaxation of transport restrictions is likely to be a slow process. But more could be done to combat non-tariff barriers in the South African market. The Ministry of Commerce and Industry should ask any manufacturer who faces such barriers to provide relevant information. Such cases should then be raised at the periodical meetings of the Customs Union Commission. The South African government may well claim that these barriers are not in formal breach of SACUA; but they are clearly against the spirit of the Agreement. Such a policy would suggest that the Ministry maintained far closer contact with existing manufacturers than now appears to be the case. We return to this point later.

#### (C) Other External Markets

Lesotho, like many other African developing countries, has favourable access to the EEC market under the Second ACP-EEC Convention of 1979. It is among the countries to be accorded 'special treatment and special measures' (see Article 155 of the Agreement). We lack recent data on the direction of Lesotho exports, but it appears that very little use has been made so far of the special access to the European market provided by the Lomé agreements. This reflects the general weakness of the industrial sector in Lesotho. But there are specific problems arising from Lesotho's landlocked position and dependence on South African transport.

We understand that proposals are now under consideration for the containerisation of Lesotho's trade through South Africa. If this

reduces the cost of transport and lowers the time taken for products to reach overseas markets, it should be of some assistance to industrial exports. In the longer run, the completion of the new airport should facilitate the export of comparatively high value/low weight manufactures both to Africa and Europe. Some planning may be necessary, however, to take the fullest advantage of either containerisation or air transport. We have not examined existing export arrangements, but we suggest that, if containerisation goes ahead, the institutions concerned, (The Ministry of Commerce and Industry, the Central Planning and Development Office, LNDC and BEDCO) should jointly examine the requirements of the industrial sector for the most effective use of the system. If existing arrangements are inadequate, the Lesotho Government or LNDC should consider establishing a joint venture with a company with experience in the organisation of exports and imports. The Commonwealth Secretariat might be able to provide information on the experience of other African countries in this area.

#### IV. Administrative Questions

Several of those with whom we discussed industrial issues drew attention to administrative weaknesses in the formulation and implementation of industrial policy. The main points at issue are as follows:

(a) It is not clear where the main responsibility for industrial policy lies. Four institutions are involved - the Ministry of Commerce and Industry, LNDC, BEDCO and the Central Planning and Development Office. Industrial policy should in principle be coordinated by the Ministry of Commerce and Industry. But the Ministry lacks the necessary technical staff to do this effectively. As a result, many issues (e.g. protection, industrial finance, government purchase policy) obtain insufficient consideration, since they are not clearly within the field of responsibility of any of the other institutions.

(b) This gap is compounded by the fact that one of the main functions of the Ministry appears to us either useless or damaging. This is the licensing of industry. We

appreciate that Government will wish to be informed about the establishment of new industries, and that there is therefore a need for some system of registration. But existing arrangements add an extra weight to the difficulties of starting industries at all in Lesotho. Moreover, the criteria on which licences are granted or refused are far from clear; indeed it was suggested to us that the outcome of an application would depend partly on how the Industrial Licensing Board felt at the time. Lastly, licensing systems benefit plausible rogues, who know how to put a project together in a convincing way, but whose activities turn out to be of little benefit to anybody but themselves.

(c) Once an industrial enterprise has been established, Government appears to lose all interest in its welfare (unless it is under the wing of LNDC or BEDCO). This lack of close contact between Government and industry means that the Ministry may be unaware both of the problems facing the manufacturing sector and of the opportunities which existing enterprises may have for expansion or diversification. Thus, while much effort is expended in attracting or encouraging new industrial enterprises, virtually nothing is done to encourage and assist existing enterprise. Yet, in terms of cost-effectiveness, it may not unreasonably be supposed that resources are more economically used in encouraging an existing enterprise to grow than in assisting the establishment of a new enterprise.

(d) Data on industries are out of date. The latest edition of the Census of Industrial Production has data only up to 1975/76. This delay reflects staffing problems in the Bureau of Statistics.

We suggest that the government takes the following measures to strengthen the administration of industrial policy.

- (1) The expertise available to the Ministry of Commerce and Industry should be strengthened. We suggest elsewhere additional work in a number of areas. In addition to the present Industrial Planning Advisor, an industrial economist

with experience in small, peripheral countries, should be recruited for the Ministry, if necessary through Technical Cooperation.

- (ii) The Industrial Licensing Act should be amended so as to provide for the automatic granting of licences against payment. Licences should be renewable annually, and it should be a condition of renewal that basic information on the operations of the enterprise, (employment, wage-bill, products, output and value added) should be provided.
- (iii) We have already suggested the preparation of a Commerce and Industry Yearbook. A licensing system on these lines should produce the necessary data.
- (iv) The Ministry should maintain close contact with existing industries. One possibility is the creation of an industrial extension service. Such a service would, however, be difficult to staff at all adequately. If its personnel were inadequate, it would be, at best useless, and possibly harmful. But whether an industrial extension service is created or not, officers of the Ministry should consider it as part of their normal duties to keep in regular touch with industries, become aware of their problems, and take needed action when difficulties arise. Thus, if an enterprise wishes to expand but cannot obtain the necessary land, the Ministry should see its role - at least partly - as acting as an intermediary between the industrial sector and those branches of government whose policies affect the actual or potential manufacturer.

### Conclusions

The development of industry in Lesotho is likely to be neither rapid nor easy. But we believe that changes in policy and planning procedures could materially improve the prospects for local industry. There is no shortage of public sector institutions concerned with the promotion of industry. The central issue is to

identify those changes in policy or procedures which would enable them to operate more effectively. In some cases this will involve additional resources in finance and manpower. Such resources should be sought under aid programmes. But there must also be a readiness on the part of Government to recognise both the importance of this sector and the need to take a broad view of the possibilities of industrial policy.

ooOoo



ANNEX A

TERMS OF REFERENCE FOR A STUDY ON THE DEPENDENCE OF THE  
B.L.S. ECONOMIES ON THE REPUBLIC OF SOUTH AFRICA

(For the Interim and Final Report)

The Governments of Potswana, Lesotho and Swaziland (the P.L.S. countries) have reviewed their economic situation within the context of the Southern African region and have resolved jointly to commission an immediate study which will seek to quantify their economic dependence on the Republic of South Africa and recommend positive measures to assist their economic development in the light of changes occurring in the region.

2. Accordingly, the three Governments have determined upon the following terms of reference for the study:-

- (i) To identify, define and quantify the extent of dependence of the P.L.S. economies on the Republic of South Africa, with special reference to internal and external trade, energy, food and other essential supplies, employment, communications and services (such as construction, maintenance, distribution and finance) and where possible, measures that would progressively reduce the dependence of the P.L.S. economies on the Republic of South Africa.
- (ii) To identify measures to counter adverse factors which currently impede industrial development and investment in the P.L.S. countries and contribute positively to accelerated industrial development and investment in the P.L.S. countries.
- (iii) To identify measures of a preparatory and contingency planning nature, to be taken by the B.L.S. Governments, that would strengthen the ability of the economies of the B.L.S. countries to withstand the effects of international sanctions against the Republic of South Africa and of whatever retaliatory measures the Government of the Republic of South Africa might introduce with particular reference to:-

- (a) The Southern Africa Customs Union arrangements;
  - (b) Fiscal and Monetary relationships;
  - (c) The availability of oil and other essential supplies, and
  - (d) The multiplier effect on the P.L.S. economies of a likely resultant recession in the Republic of South Africa.
- (iv) To examine the potential implications on the P.L.S. economies of the recent South African legislation that empowers the Minister of Economic Affairs to have complete control over industrial production, with particular reference to those products that are of importance to the B.L.S. economies.
3. The Governments of the P.L.S. countries consider such a study to be of the utmost importance and urgency and wish, therefore, to be in possession of the report of the study as soon as possible.
4. 10 copies of an interim report and 20 copies of a final report shall be submitted simultaneously to each of the following :

The Secretary for External Affairs  
Private Bag 1  
GABORONE  
Botswana

The Permanent Secretary  
Ministry of Finance  
P.O. Box MS630  
MASERU  
Lesotho

The Permanent Secretary  
Ministry of Industry, Mines and Tourism  
P.O. Box 451  
MBABANE  
Swaziland

SECRET

# **REDUCING DEPENDENCE**

(Final Reports to the Governments of  
Botswana, Lesotho and Swaziland)

## **Report on Swaziland**

Commissioned from the Institute of Development Studies  
at the University of Sussex

Prepared by Reginald H. Green  
Michael Lipton  
Percy Selwyn

Commonwealth Secretariat

June 1980

## PREFACE

The study on reducing the economic dependence of Botswana, Lesotho and Swaziland was commissioned from the Institute of Development Studies by the Commonwealth Secretariat in response to a joint request from the Governments of these countries.

This Final Report on Swaziland must be read in conjunction with the Interim Report since it provides supplementary material and, in some cases, further elaborations of conclusions and recommendations included in the Interim Report. The Interim Reports of the three countries also contain a general section which deals with issues of regional concern or of joint concern to the three countries. The general section is not being repeated in this Final Report. The content of this Final Report reflects the interests expressed by the Government of Swaziland in its reactions to the Interim Report.

The Secretariat is indebted to the authors for agreeing to undertake this study and for their dedicated service and co-operative attitude in completing this very worthwhile task. It also acknowledges the assistance provided by Professor H.M.A. Onitiri, who acted as a consultant to the Secretariat on the project. The views expressed in this Report are those of the authors and do not necessarily reflect those of the Commonwealth Secretariat.

SECRET

CONTENTS

	Page
I. Introduction - Critical Areas of Dependence	1
II. What Action Programmes are Needed?	10
Foreign Support	11
Water and Power	14
Data Collection and Analysis	16
Power	18
Transport and Communications	20
Satellite Earth Station	21
Matsapha Airport	21
Railways	22
Highways	26
Lorry Transport	26
Industry	28
III. Alternatives to the Customs Union	32
IV. Sources of Goods: Substitution and Diversification	47
Causes	47
Implications	50
What Can Usefully be Done?	52
Import Substitution and Public Policy	52
Removal of Obstacles	54
Administration and Suasion	55
Fiscal	56
Government Purchasing Policy	57
Petroleum Products	59
General Imports	62
Some Difficulties	63
A Possible Approach	65
Some Preliminary Steps	67
Related Issues	69
Annex A: Terms of Reference	71

## CHAPTER 1

### Introduction - Critical Areas of Dependence

The Interim Report to the Governments of Botswana, Lesotho and Swaziland, Reducing Dependence, prepared by Professors R. H. Green and M. Lipton and Mr. P. Selwyn of the Institute of Development Studies, Brighton, England, was submitted to these Governments by the Commonwealth Secretariat in January 1979. Each Government received ten copies of the Interim Report, dealing with issues affecting all three countries, and of a detailed Annex specific to its own country. The terms of reference for the work, both on the Interim Report and subsequently, are set out as Annex A to this Final Report.

In view of comments and suggestions from the three Governments, it was decided that the most useful procedure was to prepare the three Final Reports (dealing separately with the topics raised by each country) instead of a further general report on all three countries.

### How Can One Tackle Dependence?

We believe the first step toward tackling the challenge of reducing Swaziland's economic dependence in the Republic of South Africa is to consider each of the main areas of dependence with a view to identifying what is needed to alter the existing position. This is a relatively straightforward exercise. It cannot, by itself, provide answers in the form of projects, policies or programmes but it can provide guidelines within which to fit and against which to test policies, programmes and projects.

The critical areas of dependence are employment, government revenue, foreign exchange (including external finance), food, power, water, transport and communication and import sources.

Employment in the RSA is of the order of 20,000 or about a fifth of total wage and salary employment of Swaziland citizens. South Africa is restricting Swaziland employment - both the attempt to make Bantustans less unviable and unattractive and the internal reforms in respect to labour conditions and to urban Africans launched by Prime Minister Botha point in the direction of rapid future cutbacks on mines recruitment in Swaziland. Certainly, at best, no contribution to meeting the additional employment needs of Swaziland can be expected from the Republic labour market. A more prudent assumption is a reduction of Swazi employment in RSA to - say - 5,000 before 1985. Therefore, more opportunity for earning a decent income - whether in employment or self employment which does

afford a cash income of at least E.500 a year are needed to reduce dependence and to meet the basic need of providing adequate productive employment and self employment.

Government Revenue is dominated by SACUA payments. With the exception of years marked by very high sugar prices leading to exceptional Sugar Levy and Company Tax revenues, SACUA payments amount to about 50% of Recurrent Revenue and the share appears to be on a rising trend. The question of eventual disengagement from SACUA is a complicated one. On a cash flow basis the "net" revenue gains from the 42% uplift are to a considerable extent offset by the lagged payment formula so long as inflation and/or quantity increases cause rapid growth in Swaziland's imports. However, the broader question of 50% dependence on import duties (the domestic excise component is very small) also confronts Swaziland. That dependence will remain until a broader export and company tax base can be created and/or local manufacturing provides a possible output base for a (manufacturer/importer level) sales tax and a significantly large taxable personal income flow.

Foreign exchange (including external finance) is not at first glance an area of dependence on the Republic of South Africa. Only about 10% of exports are to the Republic. However, by 1978 Swaziland's traditional positive balance of trade had turned into a deficit of nearly E.100 million (60% of total export value). 1979 is likely to have shown at least as unfavourable an outturn. Therefore Swaziland is becoming heavily dependent on external sources of finance. With the exception of official aid the bulk of these are RSA sources.



Increasing exports are essential to halt the growing dependence on external finance. To do that will require much more than the two coal mines now in prospect - at best they provide a breathing space. New natural resource based industries are essential to sustain Swaziland's past record of sustained growth and to avert a position of permanent, severe external trade imbalance which would be likely to lead to sharply increased financial dependence on the Republic.

Food is a major component of imports. Swaziland - despite a predominantly rural and agricultural population - is self-sufficient in few foodstuffs beyond its leading export, sugar. Grain, fruit and vegetables, tinned goods, meat and dairy products, cooking oil - in each case imports are a substantial portion of total and especially of total urban consumption. The dominant - indeed almost exclusive - source of supply is the Republic; a logical situation if the need to import is taken as given.

The need to increase domestic food production and, in particular, to achieve substantial rural commercial production directed to Swaziland's urban markets is evident. However, the requirements are complex. Food crop agriculture oriented to sales must offer an acceptable level of cash income or farmers will not engage in it. The rise in cotton production demonstrates that crops seen as providing adequate rewards are grown. The reasons for inadequate income doubtless include agricultural practices, knowledge and land tenure but are not limited to them. Marketing is usually poor (eg vegetables) or believed by farmers to be inequitable (eg maize). More generally, the uncertainty of rainfall means that in much of Swaziland there is a strong case for provision of irrigation (major scheme, minor scheme or borehole). Water use planning and implementation (and

subsequent water allocation) are central to future agricultural output trends and patterns and, therefore, to reduction of food dependency.

Power is increasingly imported from the Republic. Within a few years up to 75% of the SEB's power will be purchased from ESCOM if present trends continue. The power comes by one, soon two, transmission lines which are potentially highly vulnerable to interruptions of service. Further, moving from the earlier position of self-sufficiency to basic import dependence significantly worsens the external balance position.

The way to reduce dependence is self-evidently by domestic generation. The problem with coal-fired stations - at least in the next decade - is that SEB has no experience with them and, more serious, that economies of scale make ESCOM's (coal powered) supply significantly less expensive. A coal-based power self-sufficiency programme would entail severe rate increases. In respect to hydroelectric power the problems have been perceived differently. The project now under way will not entail major cost increases but will at best meet the increase in demand for a few years and not reduce absolute import levels. Beyond that project, future possibilities - seen from a purely SEB point of view - pose increasing problems of dependability, unit cost, or both.

Water is an area of dependency which is rarely cited as such. However, it is the most immediately and perhaps ultimately the most serious one. A very substantial portion of Swaziland's water supply flows into the Kingdom from the Republic. In the absence of international water rights agreements, these flows are now totally at risk. South Africa's own water resource projections show severe shortages in the face of rapidly increasing demand,

particularly in areas of the Rand which can, and will, be served by drawing on the headwaters of rivers flowing into Swaziland.

While a binding river use agreement with South Africa is essential to limit the loss of water, there is no chance that it will leave the Kingdom with adequate assured water supplies. That requires much better knowledge, leading to effective capturing and allocation, both of the water crossing the border and of that generated by rainfall on Swaziland watersheds.

River-basin water resource planning is critical in respect both to agriculture and to power. To date hydro and irrigation uses of water have not been considered jointly. Finding cost-efficient solutions to reduced external dependence - in respect to power, food, and including agricultural production for agro-industry, and/or direct export - requires a coordinated national water resource policy implemented through multi-purpose projects. Water is likely to prove to be the scarcest and most constraining resource in Swaziland; therefore its safeguarding, development and allocation is of central importance.

Transport and communications dependence is pervasive. Telecommunications are through the Republic. The same is true of long-distance international air services. Swaziland Railways are significantly dependent on South African Railways in respect to senior personnel, training, maintenance of heavy equipment and rolling stocks. Lorry operations are dominated by subsidiaries of South African firms.

Little of this dependence is inevitable and much is uneconomic even in the short term. A Class B ground satellite station would end telecommunications dependence and be profitable. Extending Matsapha Airport to 737 standard (as now planned) would allow

medium distance passenger, mail and cargo service (e.g. from Nairobi and Kinshasa as well as Lusaka and Salisbury). Swaziland Railways can continue - and probably should accelerate - its training, rehabilitation, maintenance facility, marshalling yard and rolling stock procurement programmes to become a genuinely self-managed and serviced entity. Development of both small and large-scale local road haulage is possible if business can be assured and potential customers reassured.

Import sources are dominantly South African. Indeed given the limited development both of manufacturing and of commercial production of food, it is accurate to say that goods sources in general are dominantly South African. This situation limits growth of domestic employment and production as well as limiting freedom of manoeuvre and, in some cases, raising costs in respect to external trade. It also creates special problems in respect to any loosening of SACU links. To lose the SACU revenues while still buying from South African sources - whether least-cost or not - and at South African domestic wholesale prices - whether these were typical of RSA export prices or not - would be to achieve the worst of all possible worlds. There would be foreign exchange losses in respect to SACU and no gains on import costs. Further, under these circumstances to preserve revenue would require major (perhaps 20 - 25%) average increases in user prices.

The two ways of reducing supply dependence are evidently increasing and diversifying Swaziland production and diversifying sources of imports. The former is evidently a complex question but certain areas - e.g. food, construction, power - stand out. So do certain instruments including government purchasing policy. Diversification of imports is primarily an institutional problem. Existing

importers are largely South African based or tied and cannot be expected either to diversify on their own or, beyond a very limited extent, to respond positively to state pressures. Therefore, some new import house (or houses) able to procure effectively on a global basis is needed.

In respect to each of the areas cited there is a strong case for dependence reduction in order to achieve Swaziland development. This is true in terms of growth potential for domestic production and employment as well as of room for manoeuvre in formulating Swaziland's economic policies. That case is quite independent both of the nature of the South African regime and of the possibility of sanctions against, or problems within, the Republic.

The latter points affect, not dependence reduction as such, but priority, time scales, and degrees. The nature of the regime makes dependence on the Republic particularly unwelcome and constraining to Swaziland. Further, it means that unchanged dependency relations with South Africa may have increasing costs in terms of relations with other states in the region and with external aid donors and investors.

The possibility of sanctions against or of internal disturbances in the Republic creates particular urgency in respect to transport and communications, power, employment and sources of supply dependence and to SACU questions. Whatever the most desirable course, degree and pace of dependence reduction may be in the abstract, Swaziland needs to achieve a position in which selective sanctions against the Republic (or internal events in it), leading to loss of jobs, power and goods (particularly but not solely petroleum and

food), do not create intolerable conditions in Swaziland. Contingency planning and standby measures are part of the answer, but only a part. Airports and power stations cannot be built nor alternative commercial channels and firms created overnight. Even in cases in which standby arrangements are practicable they are likely to need to be backed by interim stocks, e.g. of petroleum products and foods or facilities designed primarily for contingency use, e.g. a link to a power grid other than ESCOM's.

## CHAPTER II

### What Action Programmes Are Needed?

This chapter and the two succeeding ones do not purport to be a complete list of programmes, still less of projects for reducing dependence. In the first place, we have neither the expertise nor the detailed knowledge of Swaziland to attempt such an exercise which would, in effect, constitute the bulk of a twenty year perspective plan for Swaziland. Secondly, the Swaziland government requested us to concentrate on a limited number of areas.

In respect to these we have sought to identify programmes relevant to reducing the main elements of dependence outlined in the first chapter. Where possible we have also sought to identify programme and policy instruments - including those now under active consideration or preliminary implementation which we feel could be effective in promoting the positive aspects of dependence reduction identified in Chapter I.

The areas covered are:

- a. seeking foreign support;
- b. water reservoirs;
- c. transport and communication;
- d. industrial development;
- e. customs union;
- f. sources of goods.

The first four are covered in this chapter, the fifth in Chapter III and the last in Chapter IV. This arrangement is not intended to imply that the last two are substantially

more important than the others - indeed it is arguable that water resource development is the most critical. Rather it flows from the fact that particular questions posed to us required in the Customs Union case a detailed analysis and in the sources of goods case a coherent set of proposals of full chapter length. In the other cases such lengthy presentations appeared unnecessary, especially because in some - e.g. transport and communications, water resources development, a substantial body of materials and proposals exists.

This section of the report is meant to be read together with the Interim Report. Where we have no new comments or suggestions as to a sector or a project, we have in general not repeated the interim report's analysis and suggestions.

#### Foreign Support

Assisting Southern African states to reduce dependence on the Republic of South Africa is a stated - and to varying degrees an operational - goal of most major sources of official development assistance. However, to capitalise on this goal as a means to securing finance requires rather more than Swaziland's assertion or belief that a project or programme reduces dependence.

Demonstration is needed that:

1. the project or programme would be an integral part of a pattern of development increasing Swaziland's economic viability and economic options by reducing one or more of the dependencies cited in the previous chapter; and/or
2. is critical to contingency planning to enable Swaziland to avoid major disruptions or massive costs in the event of external sanctions against or internal disturbances in the Republic.



In some cases one or both are easy to demonstrate. A hydro-electric (or a coal fired thermal) power station falls in both categories, as does a Class B earth satellite station.

In other cases more care is needed to make the connection. A national water resource development plan implemented through multi-purpose projects is critical to employment, food and foreign exchange dependence reduction. However, that is not self evident to the avid agency reader and must be argued convincingly. Similarly an import sector joint venture at first glance has little to do with medium term dependence reduction and less with contingency planning. In fact it relates to both. Without a new import house not oriented to RSA sources, import concentration on the Republic will not fall and withdrawal from SACU will never become a viable option. Further, without such an enterprise in being the costs - in money and in shortages - of forced withdrawal from SACU and forced alteration of import sources consequential on sanctions/disturbances could be crippling (see Chapter IV).

Apparently some projects critical to reducing dependence and to increasing options have been rejected by some prospective donors on the grounds that they fall outside "basic needs". This - if a genuine reason for opposition or rejection - can and should be refuted.

The formal international definition of basic needs centres on expanded employment and self employment at levels of productivity adequate to allow households to meet basic personal consumption needs (e.g. food, clothing, shelter) and the state to provide basic communal consumption (e.g. education, health, water, transport, infrastructure). The World Employment Conference Report which is the most internationally authoritative definition is quite

inconsistent with any interpretation limiting basic needs to government services such as health and education.

Almost every programme and project within a dependence reduction strategy does relate to several basic needs - notably employment, rural incomes and food in respect to water resource planning, development and allocation. Certain contingency oriented projects may not at first glance relate closely to basic needs. However, since their purpose is to avoid Swaziland being put in a position where it could not meet basic needs as a result of events external to itself, the lack of direct relevance is much more apparent than real. For example, extending Matsapha Airport may be a marginal project in terms of short-run contribution to top priority goals. However, in the event of sanctions against or serious internal disturbances in the Republic, it would be vital to providing fast, direct access for passengers, mail and freight to the outside world. This would be particularly critical in the first months after any such contingency before new sources and routes could be established on a more permanent basis.

Both the dependence reduction and basic needs goal on the part of aid agencies and of Swaziland create a special opportunity and problem. This is securing some proportion of "soft" funding for directly productive projects. For example, it is likely that some multiple purpose river basin water development projects will have discounted rates of return of 10-12%. Those are not adequate rates to render it safe to use totally commercial finance at 18-20%, even when account is taken of probable inflation erosion of the true cost of debt service. If however, both dependence reduction and employment, rural incomes, agro-industry, food and export development require massive, co-ordinated water development, then the answer is not to

reject the projects as unviable but to secure a substantial proportion of the finance on grant or concessional loan terms.

Ironically, a particular set of problems arise in relations with aid agencies precisely because of existing patterns of dependence. These relate to the agencies' great reluctance with regard to procurement from South Africa and construction contracts awarded to South African firms - even in circumstances where the Swazi Government feels that other sources would involve intolerable costs or delays.

Potentially these conflicts can be used as ways to educate the agencies to the importance of increasing Swaziland's self-reliance and options. In the case of construction a number of possibilities arise: e.g. accepting the extra costs of using Swaziland construction firms; supporting the establishment of a joint venture between a European construction firm and a Swaziland public sector entity; providing technical assistance to identify possibilities for and build up domestic production of construction inputs; and/or support for expanded technical and vocational education. Certain actions by Swaziland in respect to government purchases and development of a new import enterprise oriented to non-RSA sources, discussed in Chapter IV below, might also make a contribution to removing some of these obstacles to harmonious relations with aid agencies by reducing the share of RSA goods in procurement for projects.

#### Water and Power

Water is critical to Swaziland's development. It is equally closely linked with dependence and its reduction.

The first problem is that Swaziland's present flow of 1,125 cusecs

from South Africa would - on present South African plans - be reduced to 337 cusecs by 1990. The loss would be particularly severe in the Komati Greater Usutu, Nguampiji and Assegani flows. This unsatisfactory situation is compounded by Swaziland's moral and practical obligations to permit some level of flows into Mozambique from the Ngwavuma and Usutu basins.

There are no established user rights agreements among South Africa, Mozambique and Swaziland. Negotiations have been held sporadically since 1966 with no results. Meanwhile South Africa has begun to divert water and will continue to do so. Swaziland has been hampered by lack of data and of bargaining leverage. The 1979 and 1980 technical work by the US Army Corps of Engineers should have helped remedy the first weakness for the critical 1980 negotiations. However, prospects for retaining adequate flows - especially in the Komati valley - are not good. In that case an "established practice" case (which has some international legal foundation) can be made in negotiations with RSA. Given the priority RSA sets on projects such as the SASOLS to which it intends to divert the water, the results are uncertain.

In the past water development has not been approached systematically. This is now urgent. Available water - if the RSA flows are reduced - is of the order of 2,677 cusecs. Present use (including the Mbuluzi irrigation scheme) is of the order of 1,800 cusecs. To bring 100,000 additional acres known to be suitable under irrigation would raise the total requirement to 3,400 cusecs which is above total availability quite apart from growth in urban and industrial demand.

Since agricultural development - especially in the low veld - and domestic power supply are both dependent on availability of water,

the prospects are alarming. They indicate that co-ordinated action is required to assess, to augment (eg by storage), to harness and to allocate water resources to priority uses and to cut waste (eg overuse in irrigation) to a minimum. Then and only then can Swaziland continue rural and urban development despite RSA reduction of water flows.

### Data Collection and Analysis

The preliminary USACE study suggests that careful study of availabilities, ways of augmenting them and multi purpose approaches to river basin development could yield significant gains. Their draft terms of reference for a 50 year study appear sound. We advise that commissioning and completing that study is a matter of priority and of urgency.

Given the shortage of water, combined irrigation/power development - not separate projects for each - seem to be indicated. Otherwise optimal storage and release patterns cannot be achieved and much of the potential value of the water to agriculture and/or power generation will be lost.

Multi purpose projects are expensive and have long gestation periods. A tentative conceptual study of such a project for the Little Usutu basin suggests a total cost (discounted at 10%) of about E 130 million including, or E 110 million excluding, interest. Direct monetary benefits on the same basis total about E 140 million of which E 130 million arise from irrigation (120) and power (10).

These estimations - in the absence of data from the proposed water resources and uses study - are necessarily highly tentative. They suggest four things:

1. multi purpose projects are likely to be viable at least for some basins (especially if any allowance is made for social benefits);
2. the margin of viability is not very wide so that projects are highly sensitive to interest rates and major cost overruns;
3. viability would be greatly increased if a substantial proportion of the capital required could be secured on a grant or soft loan basis with an extended grace period but would be destroyed by borrowing the bulk of the funds on 15-18% 5 to 7 year Eurodollar loans;
4. total costs (excluding interest) for a 10-15 year multipurpose water development programme are likely to be of the order of E 500 million (about E 1,000 per citizen of Swaziland).

These factors strongly suggest that as soon as adequate data from the study are to hand, at least one multipurpose river basin water development feasibility study should be commissioned and completed as a matter of urgency. If possible, discussions with potential co-operating aid agencies should be begun as soon as preliminary feasibility study results are to hand. Involvement of USAID, EEC, and the Federal Republic of Germany might be particularly useful, as their commitment to water development in Swaziland would - via their governments - increase Swaziland's leverage with RSA in water flow negotiations.

The sense of urgency flows from the fact that such projects have a long gestation period at the best of times. If the overall survey is completed by the end of 1980 and the feasibility study by late 1981 then mid-1982 would be the earliest date by which finance could

have been arranged. Mid-1983 would then appear to be an optimistic estimate of the actual start of construction and 1986 for the project providing irrigation water power. With such long built in lags, it is critical to avoid furthering extending the time frame by gaps between stages.

Allocation of water raises issues beyond the scope of this report. However, if employment, food and rural income aspects of dependence reduction are seen as critical, allocating all or most of the water to a series of large estates is not likely to be optimal. Careful consideration of alternative uses within a total rural development strategy would appear to be important. Because most existing experience - especially in the low veld - with irrigation is in the form of large estate or medium sized freehold farm use, it is desirable that detailed studies on how water availability could be used within the framework of the Rural Development Area programme to transform traditional agriculture be begun now. Water development does take time but so do devising and testing approaches to incorporate water availability in peasant oriented rural development programmes.

#### Power

Swaziland's brief period of self-sufficiency in power has ended. SEB now buys half its power from ESCOM and the percentage is growing because sales have grown 13% a year while output has been static.

A detailed study of options has been carried out for Swaziland. It appears to be technically competent and broadly reasonable in its cost and economic assumptions. The picture it paints is depressing but does indicate some possibilities for action.

The Lupohlu-Ezelweni/Edwaleni/Magudza group of hydroelectric developments should be undertaken. They would yield about 13MW and cover the increase in demand from 1979 to 1983/4 when they would be commissioned, ie reduce 1983/4 ESCOM purchases to 1979 levels.

Economic projections suggest that in discounted cost and required tariff increase terms these hydro projects are competitive with purchases from ESCOM. In principle the discounted cost of the ESCOM/Hydro option is 1.8% higher than that of purchasing all additional power from ESCOM but a 1.8% difference is within the margin of error of the estimates.

The viability of the project to Swaziland would be increased if a substantial proportion of the capital cost could be secured on concessional (8% or less interest, 5 years or more grace period) terms and if training and initial expatriate staff costs could be secured as technical assistance (perhaps from the country supplying the main generation equipment).

Beyond those projects, which should be expedited unless they can be shown to jeopardize subsequent multipurpose water development very seriously, there do not appear to be additional cost efficient opportunities for single purpose power dams. However, it does seem probable that a multipurpose development programme would yield some additions to SEB's domestic sources. It is very unlikely that these would cover the 1983/84 - 1990/91 increase in demand.

The Report's findings are that coal fired thermal stations are very uneconomic. The problem does not lie primarily with the cost of coal



(which is only 10% of total discounted cost) but with the major scale economies of ESCOM's huge Rand stations.

The option of freezing ESCOM purchases at 1982 levels, developing hydro power through 1985 and thereafter adding five 15 MW coal units to 1999 (one each in 1987, 90, 93, 96 and 99) is however worth exploring further. It would reduce dependence on ESCOM from 60% in 1982 to 40% in 1992 and 30% in 2000. Its problem is one of cost if the plants are financed commercially.

Because the immediate projects are hydroelectric and are competitive, decisions on whether to proceed to coal fired thermal plant from 1987 on can be postponed to - say - 1984. However, in the interim, explorations could be made as to the probability of securing subsidized (to say 5% with 5 years grace period) capital for the plants and technical assistance for training and initial period expatriate costs. A restudy should then be done in 1983/84 on the basis of updated demand estimates, cost calculations, knowledge of available and potential hydro capacity and likely average interest/repayment requirements of a thermal programme.

#### Transport and Communications

This sector is critical to both long term development of options and to short term ability to meet contingencies. Ability to move goods, passengers, messages without transitting the Republic is essential to actual operation of any other dependency reduction and under some contingencies to the continued functioning of the Swaziland economy. The five critical projects are: Class B Satellite Earth Station, Matsapha Airport Extension, Railway Rehabilitation and Strengthening, Buildup of Domestic Lorry Capacity, Road Link to

Mozambique.

### Satellite Earth Station

We supported proposals for a Class B Satellite Earth Station to handle Swaziland's international telecommunications in the Interim Report. Additional data are now available from a SP and T study.

Those data reinforce the case for the station. Total cost - including spares, training for Swazi's and expatriate staff salaries during the three years before qualified Swazi's were available - would total E 1.9 million at 1979 prices or - say - E 2.25 million for 1980/81 construction. Even using more cautious initial traffic estimates than the study, breakeven should be reached in year three, a cumulative cash flow surplus in year four and recovery of capital costs in five to six years.

We still consider the station as suitable for capital - plus training and expatriate staff - aid. However, on the data now available, it would appear that if an aid source cannot be located promptly, the project could be pursued using commercial finance.

### Matsapha Airport

Matsapha Airport can be upgraded to Boeing 737 (or DC9 or Hercules) standard. It would not be an ideal site because of terrain, but would meet most ICAO standards and be comparable to or better than a number of other airports handling medium haul twinjets. Such an extension could be completed in twelve months and would - including

improved navigational and other instrumentation requirements cost E 6-8 million.

With such a facility Swaziland Airways could develop its regional services more effectively and add air cargo to passenger operations. Similarly other regional and international cargo and passenger carriers could be encouraged to fly to Swaziland. However, the airport would be most critical in a contingency which disrupted normal air services to and/or flows of goods from the Republic.

The study for extension prepared by the Civil Aviation Branch using an international expert advisor appears to us to be sound and to justify the decision to proceed with the Matsapha extension.

The proposed new airport east of Manzini appears to us to be a much less attractive project. It could not be completed for some years. It would cost at least E 20-25million, perhaps E 40 million. Normal traffic would not cover recurrent costs, let alone servicing or repayment of capital cost. Traffic generation is likely to be slight. Certainly we do not consider that the proposed new airport can be justified on the basis of dependency reduction - for that purpose the Matsapha extension appears distinctly superior.

### Railways

Swaziland Railways faces multiple problems as sketched in the Interim Report. Further studies have only increased the list:

a. operating deficits rising to over E 611 thousand in 1977/8;

- b. inadequacy of existing corporate structure designed for a very different type of operation;
- c. lack of adequate numbers of skilled Swazi maintenance, operating and managerial personnel;
- d. inadequate traction and wagon fleets;
- e. inadequate marshalling, interchange and workshop facilities;
- f. poor coordination with Mozambique Railways;
- g. poor condition of existing roadbed.

Unfortunately in none of these areas does an adequate detailed description of the nature and magnitude of the problems backed by coherent, quantified proposals for overcoming them exist. The Transmark report does provide a good deal of data and some notes toward structures, procedures and training but is radically incomplete e.g. it does not include training for footplate staff to take over provision of traction nor for heavy maintenance personnel.

The traction and wagon requirements to 1983/84 appear to include approximately 12 line and yard diesel engines, 400 plus dropside wagons, 100 plus high side wagons, 40 general bogies, 50 ventilated vans, 40 plus molasses tank cars (subject however to reduction if ethanol is produced from the molasses in Swaziland), 25 petroleum tank cars, 15 brake vans and 10 livestock vans.

Training needs appear to include replacing 20 to 25 expatriates,

upgrading the skills of 100 serving citizen employees and training at least 100 citizens for new footplate and heavy maintenance posts.

While the maintenance report looks alarming and lists a vast number of faults, most are not individually serious yet, and all could be remedied at a moderate cost if regular maintenance can be restored within a year. New facilities needed include a marshalling and interchange yard near the Mozambique border and probably another at Phuzumoyo as well as a heavy maintenance unit. In addition extended sugar terminal facilities, a general import/export godown and conversion of the present iron ore terminal to coal are needed in Maputo. The last group of facilities need serious negotiation with Mozambique Railways as to possibilities, costs, dates and operating arrangements.

Each of these issues is urgent. Several are complex. The total capital cost seems likely to exceed E 75 million and the expatriate and training costs perhaps E 5 million if the total programme is handled over 1980/81 - 1983/84. Detailed recommendations are hard to make in the absence of more complete and coherent data.

We advise as a matter of urgency that Swaziland study the existing reports to see how complete and adequate they are. If, as we believe, they are neither complete nor combined with workable proposals and cost estimates, a new comprehensive study should be secured under technical assistance auspices. One railway transport advisor for one to two months on the terms of reference for such a study is needed. One evident present weakness of Swaziland Railways is lack of an internal planning unit. Such a unit, we believe, must be

started as a matter of urgency - presumably with an expatriate TA staff plus an inservice and overseas training programme for citizens. Until this is achieved there will be an endless series of demands for new external studies.

The comprehensive study is a matter of urgency as a complete railways programme cannot be drawn up until it is in hand. However, some action - e.g. on initial traction power and rolling stock buildup and the making good of deferred maintenance - should be begun at once. The former is an area in which capital assistance can be sought with fairly good prospects for success, the latter should be undertaken by the Railway itself.

Extensions to the railway pose somewhat different considerations. Sugar and coal development would be substantial beneficiaries from a line from Mpaka to Mhlume. However, that line would almost certainly not prove viable unless linked to the South African system and used to provide a short cut for non-mineral traffic from the Rand to Richards Bay and Durban now using circuitous routes.

Such a link cannot really be described as reducing dependence on South Africa even though it might - if favourable transit charges can be negotiated - increase the viability of the whole Swaziland railway system. Nor, however, if care is taken, need it substantially increase dependence. There are two key aspects in this regard. The first is to avoid making it so unilaterally dependent on SARR and H transit traffic that loss or reduction of that traffic would create an immediate, major financial crisis for Swaziland Railways. The second is to avoid Swaziland Railways being -

or being perceived by Mozambique to be - a pawn used by South Africa to exert pressure on Mozambique by threatening to divert traffic now using Maputo to Durban/Richards Bay via Mhlume-Lavumisa.

### Highways

Both internal economic integration and the development of alternative transport links to those with South Africa suggest early upgrading and bitumenizing of the Mpaka-Siteki Turnoff-Maphiveni-Lomahasha highway thereby improving links between the north-east and Mbabane/Lobambo/Manzini and also providing a through bitumen highway route to Mozambique. These are included in the 1978/79 - 1982/83 Main Roads Construction Programme. They deserve priority in funding and implementation.

An institutional question affects both rail and highway links with Mozambique. A Transport Sub-commission of transport officials from the two countries exists and meets on occasion. To date it apparently has dealt primarily with fairly narrow operational issues relating to the railway and the Swaziland representatives. have been largely expatriate railway officials. We suggest that consideration be given to use of this body to discuss a broader range of issues relating to road and rail traffic and that Swaziland members include senior citizen officials from relevant ministries including Planning. There is some reason to believe Mozambique would welcome such proposals and actions by Swaziland.

### Lorry Transport

The lorry transport sector is dominated by Swaziland subsidiaries

of major South African firms. In addition construction contractors apparently hire South African owner operators for small scale haulage operations.

The second situation could be corrected fairly easily. Internal haulage licenses could be given only to domestically registered firms which would effectively exclude South African based owner operators. There is some confusion as to whether such regulations now exist. If they do, there is some evidence that they are not effectively enforced. Strong local preference could easily be enforced, at least for haulage in construction contracts involving the public sector, without conflict with SACUA in a variety of ways.

To launch a large scale road haulage company would pose more problems. The key to success for such a firm would be one of the half-dozen large contracts in pulp and sugar. The alternative of a Swaziland Railways Road Services Company is probably not feasible now given the urgent need to increase the Railways' capacity to rehabilitate, maintain and operate its existing rail services.

In practice such a road haulage company probably can only be established viably and stably as a joint venture between a Swaziland public sector entity and a foreign (ideally non-South African) road haulage company. Such a joint venture would be in a position to bid or negotiate on equal terms for government and public enterprise business and might be well placed to negotiate one or more sugar and pulp contracts. The technical and financial feasibility of a road haulage joint venture appears to us to be an appropriate topic for a detailed study, probably under technical assistance auspices.



## Industry

Swaziland's most promising prospects for industry would appear to us to lie in processing and manufacturing based on Swaziland primary products. Such a sector would be likely to have a much firmer competitive foundation and to have more positive linkages with the rest of the economy than one dominated by assembly or labour-intensive operations linked to imports. This does not mean that no assembly or labour intensive operations can be viable, but that we feel they cannot provide an adequate dynamic for industrial development in Swaziland.

Raw-material-based industries have several positive aspects. They can provide substantial employment in the industry itself and in production/growing of inputs. In addition they can provide both higher value-added before export than present raw materials, and possibilities for new agricultural products linked to new exports as well as substituting for some current imports. Because Swaziland's strength appears to lie primarily in natural resources (including agricultural-ranching-forestry potential) industries based on them are likely to be more competitive internationally and domestically than ones primarily requiring high technology or cheap labour.

The following notes are intended as examples indicating some of the possibilities of the sector not as an exhaustive catalogue, still less as a formal list of projects of proven viability.

Export-oriented production of speciality food products such as stuffed cabbages would provide demand for cabbage, pig and cattle production. It could help in raising the income generating possibilities needed to sustain the Rural Development Area programmes

and encourage building up a feed lot (or other fattening approach) sub-sector of cattle ranching. Taking the additional value added in agriculture as well as processing, it would be relatively labour-intensive and would have a high ratio of net to gross export earnings.

Hides and skins are currently exported raw. Medium scale tanning has proven viable in many developing countries. Further it can provide leather to local leather-products firms ranging from medium-scale leather shoe factories to artisanal production of bags and belts for speciality export markets. A study of the options open would appear to us to be well worth undertaking as on the face of it tanning/leather products could radically enhance the value to Swaziland of its hides, generate a number of jobs, and provide opportunities for viable craft and workshop enterprises.

A larger-scale and more technically complex opportunity is paper (or conceivably rayon). Swaziland has enough pulp to feed an economic sized factory. The ratio of shipping costs to value for pulp is high, absolutely and relative to paper. There are real water supply and pollution problems but it is not self-evident that these are insuperable. However, a new joint-venture partner would be needed - Courtaulds now finds its Swaziland interests peripheral to main lines of group development and, while a competent manager of the existing pulp mill, is most unlikely to wish to devote personnel, time and finance to forward integration into paper or rayon, whatever its medium term economic viability. A medium-scale (by international standards) paper or rayon company might take a very different view. The chief potential for such a project would be foreign exchange earnings (critical given Swaziland's rapidly expanding trade imbalance) as the forestry sector already exists and neither a paper nor a rayon staple fibre

factory would provide a large number of jobs.

On the domestic market side, vegetable oil is an evident example. Cotton seed is available in increasing quantity: sunflower can be grown. At present the cotton seed is exported raw to the Republic and vegetable oil imported. Oil extraction and refining would provide a net foreign exchange saving. It would also allow development of sunflower growing by providing a domestic market and would make oil cake available at lower cost to the domestic cattle and poultry industries. If an economic size plant generates output surplus to Swaziland's requirements, there are several net vegetable oil importers in Southern Africa and the Indian Ocean.

A more technically complex domestic market oriented example is the proposed ethanol plant. At petroleum prices of \$40 per barrel cif Durban, ethanol production from molasses for motor fuel (gasohol, diesohol) can make positive contributions to gross domestic product and to the net foreign exchange position. This project also illustrates the detailed issues which need to be considered case by case:

- a. the conflicting points in respect to value added and revenue, especially in the SACU context;
- b. the problems of acquiring enough technical and economic knowledge to negotiate effectively with foreign firms and to identify alternative investors to improve the bargaining context.

Some of these have already been dealt with in more detail by a detailed brief on this project prepared by one of the members of

our team for Planning.

They are further illustrated by the fact that a reputable European firm, preparing a feasibility study for a similar plant in another country in the region, came up with capital-cost estimates per unit of output twice as high as those in the proposal before Swaziland. This related to the European firm, despite its general expertise, being unaware of the recent Brazilian technological advances and operating experience. Some aspects of the assessments in the Swaziland paper project study suggest that the negative conclusions reached there flow from similar gaps in the knowledge and perceptions of the consultants.

CHAPTER III

Alternatives to the Customs Union

It would not be appropriate for us to recommend that Swaziland stay in or leave SACU. That decision depends on factors outside our terms of reference. The Government of Swaziland does not at present intend to leave SACU. (It may well seek to negotiate changes - e.g. to permit other regional trading arrangements without conflict with SACU; or to reduce the lag between accrual and payments from the revenue pool.) Events could, however, induce - or even compel - Swaziland to leave SACU. We therefore recommend that, as an important part of contingency planning, Swaziland prepare a general structure of alternative customs arrangements, for the eventuality that these become necessary or desirable.

We recommend that, at an appropriate stage, early in the preparation of such a structure, Swaziland should consult Botswana, Lesotho, Mozambique, Malawi, Zambia and Zimbabwe, and possibly other members of the Southern Africa Development Coordination Conference (SADCC). (In our judgement, security of information should not be an overriding consideration, as compared with full discussion among interested parties; RSA must be well aware that BLS are sufficiently sensible to make economic contingency plans, and that these are not threats or politically hostile acts.) Since the break-up of the Central African Federation, the three successor states have pursued distinct policies towards SACU. The new situation in Central Africa strongly indicates:

- (a) that joint plans should soon be prepared, for the contingency that one or more SACU members might in future seek to denounce the treaty, by BLS in conjunction with Zimbabwe, Zambia, Mozambique and Malawi and possibly other members of SADCC.
- (b) that these countries explore together the short-run possibilities for trade and payments policies (including possibly

a payments clearing house), to promote balanced expansion of mutual trade and decreased dependence on RSA while SACU remains.

We accordingly recommend that Swaziland seeks such a multinational conference, involving Customs and Finance as well as External Affairs representation, to map out areas of agreement on these matters before finalising its own contingency plan for an independent revenue tariff.

The contingency plan, for an independent customs system in the event that Swaziland at some time in the future change its present stance and decides to leave SACU, should base that system on the following general principles:

- (a) Any new customs tariff should be as simple as possible. The existing SACU tariff is an extremely complex mixture of revenue and protective duties. For a country like Swaziland - with high imports (and border policing costs), per person and per unit of national income such a tariff would be unduly difficult (and very costly) to administer independently, and would invite evasion. Moreover, the protective elements in the SACU tariff are designed to protect South African industry, and have little relevance to Swaziland. If Swaziland adopted its own tariff system outside SACU, its new (and necessarily expanded) customs administration should be asked to operate something very much simpler than the present SACU tariff system.
- (b) One element in this simplicity should be that similar items should carry the same rate of duty. Where (as in the present SACU tariff) different types of the same goods bear different rates of duty in order to protect particular South African industries, importers can easily make false declarations so as to reduce their duty liability.

- (c) The other element in simplicity should be that only a few rates of duty should be charged. The number of different rates in the SACU tariff runs into the hundreds.
  
- (d) The main purpose of any independent Swazi tariff should be to raise revenue. We do not exclude the possibility that the Swaziland government may wish to use the tariff to protect local industry, and we suggest below appropriate methods for doing so. However, as pages 27-30 of this Report show, there are many more important and more readily remediable obstacles to Swaziland's industrial growth than her tariff structure, even within SACU.
  
- (e) Although the structure of any independent tariff in Swaziland would depart substantially from that of the SACU tariff, there would be some advantage in not creating too great a gap between Swaziland's duty levels and those of RSA. Swaziland has a scarcity of administrators, and if Swaziland's duties are far higher than RSA's, there could be substantial smuggling from RSA into Swaziland. If they are far lower, the Swaziland government could be unnecessarily foregoing revenue.

We suggest that there should be a single-column schedule. This is most readily accommodated in the GATT and Lome arrangements; is simplest to operate; reduces the opportunity for evasion through false declarations of origin; and permits imports from the cheapest possible source. If, however, these advantages are outweighed by new options for interregional trade, special preferential arrangements could be included in a separate schedule. It is partly to clarify these alternatives that we advise a conference along the lines indicated above.

We suggest that a tariff structure roughly on the following lines would

be appropriate for Swaziland if it decided to leave SACU.

Table 3.1: A Possible Independent Tariff Schedule

<u>Category of imports</u>	<u>Ad valorem duty rate</u>
Basic foodstuffs (e.g. foodgrains)	
Hand tools	Free
Simple agricultural implements	
Other foodstuffs	
Machinery	
Raw materials	10%
Construction materials	
Other goods of general consumption (e.g. clothing, household goods)	35%
Luxury imports and traditional revenue items (tobacco, liquor, petrol)	50 - 100%

---

If present price levels in Swaziland are roughly equivalent to the cheapest available world prices plus the level of existing SACU import duties and distribution costs, such a structure should have little impact on the overall level of prices - on the assumption that imports are procured from the cheapest available sources, either through individual market competition or as a result of actions by the Government of Swaziland to exploit economies of scale or bargaining advantages. But where the existing tariff is supplemented by quantitative restrictions (QRs) for protective purposes, and production in RSA is under monopolistic control, existing internal prices could be greater than world prices plus import duties. We understand, however, that such QRs are being phased out; such cases should therefore be exceptional. Furthermore, we assume that Swaziland would, outside SACU, always prefer tariffs to QRs; the



latter have identical protective effect to an appropriate tariff, but raise no revenue, more severely restrict consumer choice, and give more incentive to smuggle. Hence it is reasonable to compare Swaziland's present (SACU) position, and its position outside SACU on the suggested tariff structure above, assuming no QRs in both cases.

If competitive conditions in RSA industry are such that internal prices are less than import prices plus duty, an independent Swazi tariff outside SACU, on the lines indicated above, could lead to an increase in price levels. For certain products (e.g. some capital goods) South African prices are highly competitive, and Swaziland would probably continue to import such products from RSA if they are available. In such cases, the new tariff we propose would involve an increase in prices. We do not have sufficient information to judge how common such cases might be. In any event, competitive conditions change over time, and it would not be possible for us to judge now how competitive South African products will be at such time as Swaziland decides to leave SACU. But it seems probable that such a tariff would involve some price rises.<sup>1</sup>

We have tried to compare:

- (a) revenue received from SACU in each calendar year from 1974 to 1977;
- (b) revenue that would, on certain assumptions set out on pp. 38-39, have been received from the tariff outlined in Table 2.1 in each of these years.

It could be argued that under (a) revenue accruing from SACU is more

---

1 Of course, these price rises would affect consumers in Swaziland largely to the extent that they continued to buy the goods in question (i.e. could not satisfactorily substitute cheaper ones). To exactly that extent, the Government of Swaziland would obtain extra income revenue, enabling it to compensate consumers as a whole through lower indirect taxes, higher subsidies, or extra public expenditure.

appropriate for comparison; that the delay in payments of SACU pool revenues, together with the rapid growth of imports, means that each year's receipts seriously understate accruals for that year; and hence that our (a) above gives much too low a figure for the revenue from SACU. However, the operational comparison for a Treasury is between sums actually received from alternative sources at the same time. Future receipts are affected by inflation, currency fluctuations and other unknowns; and the delayed payments built into SACU are a real cost. If accruals (and not receipts) under SACU are to be compared with receipts under an alternative system, then the loss of value due to delays in the payments of such receipts (inflation, lost interest) must also be allowed for.

In calculating (b) above, we assume - for reasons given below - that the price, and therefore the volume, of imports in each category would not change much as a result of a decision by Swaziland to leave SACU. We also believe, for reasons given on page 33, that the tariff rate in each category would have to remain rather close to the RSA rate. Hence a decision to leave SACU would principally:

- (i) decrease Swaziland's revenue, because the 1.42 enhancement factor is lost, and because the right to tariffs from the pool on Central Government imports vanishes;
- (ii) increase Swaziland's revenue, because the 2-year lag in payments disappears at a time of high growth in the real value and price of imports - and hence in the value of tariff revenues, whether received or delayed, whether or not Swaziland is in SACU.

Our central finding, that in 1974-77 (ii) probably outweighed (i), much surprised us; rests on several assumptions, spelt out in pp. 38-9, that are uncertain even for 1974-77 and even more uncertain as

extrapolations as to the 1980s, when the decision about SACU will be taken; and in particular, compare a certain loss (i) and an uncertain gain (ii) - uncertain because future real growth, future inflation, their effect on imports into Swaziland, and the immunity of import prices and volumes to a decision to leave SACU are all themselves uncertain. Contingency planning requires a sophisticated econometric exercise which we, with the information available to us, could not usefully have undertaken.

We understand that such forecasts exist in the Government but we have not been given access to them. In view of the importance and difficulty of such contingency planning, and the inevitable preferences that develop within any arm of Government for well-tried procedures, we strongly advise an independent, external assessment of the revenue effects of the options, based on full information. Strict confidentiality should be possible, but is anyway much less important than a reliable, up-to-date and easily updatable revenue comparison.

Table 3.2, inserted as an appendix to this chapter, estimates the revenue obtainable in each calendar year 1974 to 1977 from the tariff outlined in Table 3.1. Table 3.2 assumes that existing import values as recorded in trade statistics are equivalent to cheapest available world prices plus South African customs duties, and that Swaziland would import from cheapest world sources. On these (admittedly unsafe) assumptions, the change to a new tariff would not affect retail prices. We have therefore not taken account of any reduction in imports which might result from price rises.

Table 3.2, then, estimates for the main chapters:

- (a) A rough average rate of duty that might have been charged by Swaziland in an arrangement independent of SACU - an average related to the SACU import tariff;

- (b) The value of imports (in each year 1974-77) net of duty, which are equivalent to imports at world prices at the Swaziland border;
- (c) The revenue which would have been raised in each year by applying duties (a) to values (b).

Table 3.3 compares the revenue in each year 1974-77 from (a) the independent tariff structure of Tables 3.1 and 3.2 and (b) SACU customs and excise pool revenue actually received.

Table 3.3: Actual and Notional Customs Duty Receipts      E mn

<u>Year</u>	<u>Actual Receipts</u>	<u>Notional Receipts</u>
1974	17.3	19.9
1975	18.2	27.7
1976	14.4	36.3
1977	32.5	41.5

Table 3.3 suggests the surprising conclusion that, over this period, the Swaziland Government would have obtained more revenue if it had been outside SACU, while consumers would have been no worse off.<sup>1</sup>

However:-

- (a) The column "Notional Receipts" in Table 3.3 is too high, because it applied our suggested rates (Table 3.1) to total imports in each category. In fact, if Swaziland left SACU, duties levied on goods imports for Central Government (directly and for local government would of course be purely intra-Government accounting

---

<sup>1</sup> This conclusion is strengthened by the fact that we have made no allowance for "outside SACU" excise duties in our calculations. But these would probably make very little difference.

transfers contributing nothing to net Government revenue.<sup>1</sup> We could not obtain reliable estimates of Central Government goods imports for 1974-77. In the case of Botswana, however, a very rough estimate suggests that in 1977 Government goods imports were about 15% of total goods imports. Most such imports, however, are in categories where fairly low duty rates are proposed for any "post-SACU" tariff schedule (Table 3.3) - e.g. construction and maintenance equipment and raw materials. Hence the over-estimate in the last column of Table 3.3, due to the inclusion of "duties" on Government imports, is extremely unlikely to exceed (15% of E 32.5 mn), or E 4.9 mn, for 1977. If we deduct this from the Table 3.3 estimate of E 41.5 mn, the remaining E 36.6 mn of notional receipts remains significantly above the E 32.5 mn actually obtained in SACU. This conclusion also applies to the other years.

- (b) The main reason for the surprising result of Table 3.3 is that 1972-77 saw very rapid increases in the value of Swaziland's imports. Between 1973 and 1977, the total value of imports rose by 31.4% per annum. Over a two-year period, this would amount to an increase of 73%. The SACU arrangements - to put things very crudely - deny Swaziland most of this (due to the time-lag, between accruals and cash transfers) but provide a 42% enhance-

---

<sup>1</sup> This applies also to direct imports by local government, which however are relatively very small. However, it cannot be argued for parastatals, which are not supposed to run at a loss, and which must therefore be presumed to pass on tariffs to their customers. Note that, at present, the SACU pool pays out duties (times 1.42) to Swaziland on all imports, although Central Government is not required to pay into the pool any tariffs on its own direct imports (as opposed to imports of local governments and parastatals); this fact, together with the high "standard rate" of duty (about 20%) paid out of the pool on all Government imports (as against the much lower rate that in fact applies to many of these imports if bought privately), substantially boosts the "Actual Receipts" column of Table 3.3.

ment of import-duty revenue. Hence a switch to an independent system appears to "gain" more (by removing the time lag) than it "loses" (by giving up the enhancement). However, this is a very crude comparison, and is heavily dependent on what may turn out to be an exceptional rate of growth in the money value of imports. Successful negotiation for a reduced delay in SACU pool payments, even along the modest and probably attainable lines proposed at Para. 4.18 of our Interim Report, would substantially reduce the apparent revenue attractions of the "independent tariff" option.

- (c) All these calculations assume that the efficiency of revenue collection, as indicated by the proportion of imports identified and the proportion of due duty on them in fact collected, is not altered by a decision to operate a separate tariff. To achieve such efficiency, substantial enlargement of the customs department would be required. The capital and training costs could almost certainly be obtained from aid donors on easy terms. The recurrent costs, including the "hidden" drain on scarce administrative skills, could not. Estimates made to us imply roughly doubling the size and costs of the Customs and Excise Department, if an independent tariff is to be efficiently run. The costs of this would need to be estimated and deducted from data for future years corresponding to the last column of Table 3.3.
- (d) We have emphasised our basic assumption that, if Swaziland withdrew from SACU, it could obtain imports at a price roughly equivalent to present import prices less import duty. In such a case the imposition of duties at levels roughly equivalent to those in the South African tariff would have little impact

on prices. But if our assumption is not justified and import prices turned out to be higher, the establishment of a separate tariff would lead to prices which were higher than would be the case with SACU, and consequently a lower level of consumption. Where the elasticity of demand for particular imports is low (i.e. consumption is not greatly affected by higher prices) this need have little impact on revenue. Indeed, revenues could even rise. But on items where the elasticity of demand is high (including many less essential commodities on which we have proposed higher levels of duty) there could well be revenue losses.

On the other hand, many SACU tariffs are designed to protect domestic producers, and hence they bear most heavily against cheap imports. In such cases, the present tariff margin on goods consumed mainly by the poor could substantially exceed the import duty rates which we have proposed. The retail price of such products could well fall with the introduction of the new tariff, and both consumption and revenue might increase. Of course, this would mean that any protective effect was reduced by the switch from SACU to the new tariff. Nevertheless, on balance, we expect that (because so many RSA products are in fact highly competitive, and now cost Swaziland considerably less than "world prices plus SACU tariff") the non-SACU tariff would somewhat raise prices; that the impact of this rise would fall mainly on price-elastic products; and that revenues would therefore have fallen short of the figures in the last column of Table 3.3.

In spite of these reservations, the estimates of Table 3.3 do suggest that leaving SACU might involve less budgetary cost to Swaziland than

has been feared. The outcome would depend mainly on, first, the extent to which imports can be obtained at South African prices less South African import duties and, secondly, the rate of growth of Swaziland imports both in total and in different tariff classes. The fact that SACU cash flows appear to grow very rapidly, according to current estimates, from the levels of Table 3.3 does not of itself affect the argument. The real issue is whether these revenues would be caught in an independent system or not.



APPENDIX TO CHAPTER 3

Table 3.2 National import duty receipts by category, 1974-7, from tariff proposed in Table 3.1

Commodity	Assumed present tax rate %	Proposed tax rate %	R 000		R 000		R 000		R 000	
			1974 Imports net of tax	1974 Revenue	1975 Imports net of tax	1975 Revenue	1976 Imports net of tax	1976 Revenue	1977 Imports net of tax	1977 Revenue
Cereals & cereal preparations	0	0	3,076	0	4,258	0	4,610	0	5,889	0
Other foods	0	10	4,662	466	7,139	714	9,446	945	10,162	1,016
Wine	5	10	478	48	781	78	838	84	1,604	160
Beer	50	50	663	332	1,159	580	2,321	1,161	1,441	721
Spirits	100	100	380	380	743	743	837	837	981	981
Cigarettes	100	100	358	358	793	793	551	551	627	627
Other Beverages/Tobacco	20	25	702	176	763	191	711	178	742	185
Crude materials	0	10	652	65	858	86	1,186	119	1,132	113
Petroleum products	100	100	5,128	5,128	6,417	6,417	8,796	8,796	10,667	10,667
Other minerals fuel lubricant	0	10	582	58	932	93	1,343	134	2,327	233
Animal and vegetable oil fat	20	10	353	35	468	47	398	40	518	52
Manufactured chemical fertilisers	0	10	2,438	244	4,154	415	2,901	290	4,691	469
Cleaning toilet preparations	30	35	652	228	1,247	436	1,345	471	1,588	556

APPENDIX TO CHAPTER 3

Commodity	Assumed present tax rate %	Proposed tax rate %	R 000	
			1974 Imports net of tax	Revenue
Chemical ele- ment & Com- pounds	10	10	2,114	211
Insecticides, fungicides, etc	10	10	1,252	125
Medical & Phar- maceutical Pro- ducts	15	15	1,350	203
Other chemical products	10	10	1,384	138
Rubber manu- factures	30	30	515	155
Paper manufac- tures	15	15	2,132	320
Textile yarns, fabrics, etc.	20	35	2,029	710
Cement	5	10	974	97
Iron, steel	10	10	1,284	128
Metal con- tainers	10	10	634	63
Metal household equipment	25	35	334	117
Other SITC 6	20	20	3,022	604
Agricultural machines & implements	5	5	2,929	146
Machines for general industry	5	10	2,406	241

Table 3.2 (Continued)

R 000		R 000		R 000	
1975		1976		1977	
Imports net of tax	Revenue	Imports net of tax	Revenue	Imports net of tax	Revenue
1,526	153	3,564	356	3,135	314
1,407	141	915	91	1,516	152
1,096	164	1,310	197	1,230	185
1,518	152	1,741	174	2,219	222
578	174	744	223	1,156	347
2,040	306	1,957	293	2,247	337
2,271	795	2,835	992	2,583	904
749	75	796	80	1,385	138
2,227	223	2,668	267	2,637	264
752	75	1,586	159	1,714	171
682	239	729	255	845	296
3,133	627	4,252	850	4,358	872
3,220	161	2,931	147	2,688	134
2,929	293	6,664	666	3,090	309

APPENDIX TO CHAPTER 3

Commodity	Assumed present tax rate %	Proposed tax rate %	R 000	
			1974 Imports net of tax	Revenue
Machines & appliances n.e.s. (not electric)	5	10	1,725	172
Electric generators & distribution equipment	5	10	1,144	114
Domestic electric equipment	25	35	234	82
Telecommunications equipment	20	20	588	118
Passenger motor cars	100	100	1,565	1,565
Other road motor vehicles	30	30	3,574	1,072
Road motor vehicle parts	20	20	2,503	501
Other SITC 7	10	10	4,815	482
Plumbing, heating, lighting fittings	15	20	527	105
Furniture	25	35	863	302
Clothing	35	35	4,102	1,436
Footwear	30	35	773	271
Other SITC 8	25	30	2,853	856
Commodities not classified by kind	20	20	10,373	2,075
Total				19,927

Table 3.2 (Continued)

R 000		R 000		R 000	
1975		1976		1977	
Imports net of tax	Revenue	Imports net of tax	Revenue	Imports net of tax	Revenue
2,369	237	3,132	313	3,223	322
1,312	131	3,153	315	2,677	268
323	113	262	92	478	167
3,931	786	7,114	1,423	818	164
2,410	2,410	2,215	2,215	2,890	2,890
3,837	1,151	9,166	2,750	8,418	2,526
2,568	514	3,612	722	3,768	754
8,026	803	10,106	1,011	7,182	718
477	95	668	134	895	179
936	328	1,542	540	1,720	602
4,720	1,652	4,862	1,702	6,001	2,101
1,178	412	1,140	399	1,263	442
2,546	764	4,014	1,204	3,420	1,026
20,797	4,159	25,687	5,137	44,793	8,959
<hr/>		<hr/>		<hr/>	
27,726		36,313		41,543	
<hr/>		<hr/>		<hr/>	

## CHAPTER IV

### Sources of Goods: Substitution and Diversification

The dominant source of goods to meet Swaziland's demand is South Africa. This is true in the sense that most imports - about 90% judging by admittedly imprecise trade data - are Republic products. But it is also true in two additional senses. Many of Swaziland's imports from other sources came via the Republic (and are sometimes listed statistically as of RSA origin) and via South African based firms. There are few direct imports and these are concentrated on a few foreign-aid projects and a handful of large enterprises by the SEB. Finally, imports are the dominant source of goods purchased in Swaziland - in 1976 imports were equivalent to 70% of GDP at market prices, or to over 80% excluding households' consumption of their own products (the so call "subsistence sector"). Imports categorised as of South African origin, therefore, were in 1976 equivalent to over 60% of market-price GDP. In 1978 the ratio was probably higher since imports had risen by 70% and even allowing for inflation the growth of GDP was probably not much over 50%.

#### Causes

One reason - and by no means a minor one - for the heavy dependence on imports is that Swaziland is a very small economy. Further its natural resources are rather specialised (e.g. mountainous areas suitable for pulpwood; soils containing iron ore, land highly suitable for citrus and sugar if water is made available) so that the development of production has been concentrated along a few lines, providing the exports to pay for imports.

Similarly the facts that South Africa is both economically large and contiguous to Swaziland are major contributing factors to the concentration of imports on South Africa. This is, to a degree, natural - the United Kingdom is Ireland's largest import supplier and Germany is Denmark's.

Because South Africa is next door, Swaziland can more easily know what RSA firms can supply what goods than it can, for instance, with Sweden or the UK. Because banks are common to the two countries credit (and credit references) are easier to obtain. Proximity also reduces the time from order to delivery and the uncertainty as to how long that time will be, thus reducing the ratio of inventory to sales needed. For many products South Africa is - given the advantages on transport cost, finance charges and delivery time/stocks needed - a low-cost source of supply.

These causes are reinforced by the fact that most medium or large scale enterprises are linked to the Republic. Many are branches or local subsidiaries of South African firms. Others are managed by South Africans and/or form part of the South African regions of global corporate groups (until its new Mbabane Regional Headquarters is complete even CDC falls in this category). Even in respect to apparently local firms, many owners or managers - whether resident or citizen - have personal and business ties with the Republic. For these firms the "natural" place to look is RSA; but the naturalness is partly a matter of habit and of their own South African links rather than of inherent economic logic.

Finally, these causes are massively reinforced by the Rand Monetary

Area and South African Customs Union Arrangements. The RMA removes exchange rate fluctuation risks on transactions with the Republic as well as dispensing with exchange control formalities on them. SACU gives South African goods protection against non-SACU goods in the Swaziland market and has limited the degree to which special encouragement could be given to Swaziland production for domestic market.

This is not to argue that the RMA has not given benefits - there are costs and risks in managing an independent currency, especially if it is a weak one. However, Botswana's experience - albeit with a relatively strong currency - suggests these by no means necessarily outweigh the gains and possibilities. Similarly, SACU has provided some net revenue transfers and reduced problems of tax collection and administration. However, Chapter III indicates that the net cash flow gain from SACU is not as large as is commonly supposed - and may have been negative in some years - while a recent paper by the Consultant to the Commissioner of Customs shows that a Swaziland Customs and Excise service outside SACU would be administratively feasible and would have a relatively low ratio of cost to revenue.\* The point made here is that RMA and SACU increase the natural forces working toward a high proportion of imports in the Swaziland purchase basket and a dominant South African share in imports.

---

\* In general we agree with the points made in the paper. Our main doubt is on costs. However, we would not expect them to exceed 2% of gross customs and excise revenue. While some collection problems would arise on "shopping" and goods brought by returning workers these do not appear to us - any more than to the author of the paper - to be insuperable. The number of practicable routes to main population and commercial centres in Swaziland is limited. Trekking for miles across mountainous terrain and lowveld scrub to evade duty on "shopping" and goods brought back after working on the Rand is unlikely to be attractive enough to make a national system of Customs hopelessly leaky.



## Implications

The marked dependence of the Swaziland economy on imports and on imports from RSA in particular has several implications and consequences.

First, it limits opportunities for domestic production, over and above the constraint imposed by the size of the economy and its range of available resources. This is particularly evident in respect to construction and agriculture.

Second, in respect to some commodities it raises costs. Petroleum products, textiles and garments are examples.

Third, it limits the opportunities for, and competitiveness of, domestic commercial enterprises. They are at a distinct disadvantage to branches and local subsidiaries of South African commercial houses with their better knowledge of, and contacts with, South African sources.

Fourth, it creates problems in respect to external relations, both with other states in the region and with international and bilateral aid agencies. In both cases, opportunities for cooperation are not enhanced by the present degree of dependence on RSA sources.

Fifth, it raises risks in respect to future dependability of supply - particularly, but not solely, of petroleum products - because of the possibilities of external sanctions against or internal disturbances in the Republic. These are quite independent of any action Swaziland does or does not take. For example, in the event of oil sanctions,

whatever assurances may be given, our judgement is that South African oil supplies to Swaziland would at best be cut sharply and at worst halted, whether Swaziland imposed sanctions herself or not.

In principle there are two offsetting gains. The first pertains to export specialisation in general and certainly has a good deal of validity for a small economy with specific resource advantages, such as Swaziland. This is that natural resources and natural-resource-based industries should be developed so as to capture economies of scale and to achieve the greatest income flows to Swaziland. Clearly this does imply the correctness of forest exploitation for export, whether as pulp and pit props or - better, to the degree that it is economically and technically feasible - as paper, cardboard and furniture. However, such activity is not inconsistent with greater production for the home market - particularly in food, construction, and manufacturing suitable for relatively small workshops and plants - than has been achieved to date.

The second supposed advantage, access to the South African market for manufactured goods and secondary crops, is more hypothetical and apparent than achieved or real. Swaziland manufacturing based on natural resources - e.g. pulp and potentially paper - is not tied to the South African market. Swaziland cannot compete in labour-intensive industries against South African subsidized "homeland"-based ventures. Internal reforms (to reduce African unrest and unemployment) or emergence of an African-ruled South Africa would increase, not remove, this limitation. Swaziland industries - e.g. fertilizer, television sets - based on peculiarities of drawback, rebate, licensing and other provisions of the South African tariff - live very dangerously. They can literally be abolished by a stroke of a pen

in Pretoria - as the textile/garment factory was. Further, given the highly cartelized and restrictive nature of the South African industrial sector, they will face severe problems in winning and holding any important market share in any product of real interest to one or more of South Africa's major private or public sector corporate groups.

### What Can Usefully Be Done?

In considering appropriate courses of action it is useful to divide the question into three categories:

1. goods for which local production might be substituted;
2. petroleum products;
3. general imports.

Each poses rather different problems and possibilities and each would appear to have rather different appropriate programmes.

Our discussion of domestic production does not purport to be complete, nor to attempt a detailed identification of products. To do so would go far beyond our terms of reference and capabilities. What it seeks to do are to suggest a few priority areas and a few potentially useful approaches. It is likely to be most useful if read in conjunction with Chapter II of our Interim Report.

### Import Substitution and Public Policy

A broader range of goods could be produced in Swaziland with substantial benefits to GDP, to external balance, and to the internal

economic integration of Swaziland. Because the immediately identified clusters of such goods - construction, food, craft and small scale manufacturing - are relatively labour-intensive, their expansion is critical to expanding Swazi employment in Swaziland to meet the needs of the growing population and to reduce employment dependence on South Africa.

As we have noted earlier, the availability of more genuinely national construction capacity and goods would ease relations with overseas aid agencies and some aspects of their building might be made part of aid agreements. We have also pointed out that, at least in the medium term, national water resource development is critical to employment generation in agriculture and agro-industry as well as to food supply and generation of demand for local small scale manufacturing and construction.

Identifying specific possibilities for domestic-market-oriented production is a lengthy exercise. Further, it is one that can usefully be undertaken only if there are identified potential users of the data - whether public or private-sector, actual entrepreneurs or promotional and finance companies. We believe that a systematic survey of what is produced, how, on what scale, and what imported, would be a useful baseline, especially if complemented by data on which of the now-imported items were typically domestically produced in small low-income economies. The ILO might provide technical assistance toward such a study.

However, the data will not by themselves result in production (beyond production of reports). For real effect, they need to be fed into

promotional and investment bodies, to be used in designing training programmes, and to be made available to potential investors - Swazi, joint-venture and foreign. Bits and pieces are done in each of these areas - in some cases done well - but there does appear both to be a lack of an overall approach (e.g. technical and artisanal education and industrial development to date proceed more in parallel than together) and no real consideration of effects of these efforts upon economic dependence.

Beyond that, questions of general public policy frameworks arise. These are not limited to protection in the tariff sense nor ruled out from the start by SACU membership. Some measures in fact would amount to removing de facto discrimination against domestic (and in some cases non-South African external) sources; others, while preferential, are broadly consistent with SACU and are practised in South Africa. The following notes are intended to be not exhaustive but suggestive, in both coverage and depth.

#### Removal of Obstacles

Many licensing procedures and standards for goods and construction in Swaziland appear to be closely modelled on those of RSA. Building regulations and phyto-sanitary restrictions are examples. These may or may not be appropriate in the Republic. They are certainly easier for South African firms or their local subsidiaries to meet than for small Swazi enterprises (or foreign firms from outside the Republic).

Doubtless some of the provisions are appropriate. However, there seems to be a case for a general review of licensing provisions and standards, asking these questions.

- a) Are these regulations needed at all? Do they really serve any purpose?
- b) If so, is the form of the requirement appropriate to what Swaziland needs?
- c) How could the requirement be restructured so that - at the minimum - they are neutral between small Swazi and larger RSA-based enterprises?

A parallel case exists for goods which are dumped or pushed by discriminatory business practices. Swazi commercial and production establishments could usefully be encouraged to make complaints (to Commerce and Industries and/or Treasury). These could then be checked. Where valid, pressure could be brought to bear on the South African authorities by the Treasury. If this proved unavailing, administrative or fiscal action could - well within SACU\* - be taken to offset the dumping or block the unfair business practice.

#### Administration and Suasion

Licensing and administration can play a more active role in respect to favouring certain types of enterprises, e.g. bakeries.<sup>+</sup> For certain types of activities - e.g. small-scale construction - it is possible to limit the issue of licences (or awarding of contracts) to Swazi nationals. This may be de facto rather than de jure - e.g. by use of citizenship of owners and of artisans, or by a required percentage of local purchases combined with some discretion.

---

\* Customs management for SACU is based on the RSA Act. That Act has stringent anti-dumping provisions. By analogy those provisions apply pari passu to trade among SACUA members.

+ This is a complex issue, as South Africa subsidises bakers' flour purchases but not flour exports, so that an "export subsidy" offset case for administrative action also arises.

Larger firms are subject to "moral suasion". If specifically requested to increase local purchases - especially if also given lists of local producers of certain goods or services now purchased from the Republic - they will respond to some extent if they view the government's interest as serious. For example, Peak Timbers and OK Bazaars will normally as a matter of convenience buy South African unless pushed. If pressed they could and would switch to local sources - including local contractors for small construction jobs - where quality and cost are not very different. Again this is a policy followed on a very large scale in the Republic and - more directly to the point - incorporated in some of Botswana's arrangements (e.g. with De Beers in respect of the Jwaneng diamond mine development).

### Fiscal

There is probably room for selective, limited subsidies in respect to inputs, e.g. seed and simple agricultural implements used primarily by local producers. However, care needs to be taken in each case to identify the actual beneficiaries and to incorporate the subsidies in a total programme which will actually increase production, not merely the profits of a few existing producers. Selective, cautious use of output subsidies may also have a role. However, the example of maize - in which the end result is generally believed to be merely to enhance milling surpluses while discouraging marketed production of maize (see our Interim Report) - is a warning that great care needs to be taken in formulating individual cases.

Formal protection for eight years is possible under SACU. If an industry would generate production of raw materials as well as value added in processing/manufacturing giving a high ratio of Swazi content

to total value and if over eight years economies of scale and learning were likely to bring costs down substantially, use of these provisions would be appropriate. While the general bias should be against widespread use of this approach, individual cases deserve consideration on their merits.

#### Government Purchasing Policy

Government is a major market for industrial products and construction. It is appropriate to organise its purchasing policy to give reasonable support to local producers and, in particular, small Swazi ones. Certain problems arise: orders are placed with times of delivery too short to allow smaller firms (or even larger local firms) to meet them whereas RSA suppliers can ship from stock; tenderers are asked for large chunks of construction or goods supply, limiting the possibility of smaller firms to tender; there does not appear to be adequate attention to how advance payments or assistance in ~~servicing~~ bank credit could assist small firms in acquiring the working capital needed to carry out contracts which are large relative to the suppliers' normal (previous) scale of operations.

Certain procedural changes can contribute to overcoming these problems:

- (i) Programmes, projects and lists of goods should be broken down into components in as much detail as possible as soon as they are approved, e.g. education projects should be broken down to individual buildings (and subcontracts for large structures), furniture items, etc. Information should be given to Commerce and Industries and public-sector promotional/support bodies in touch with small firms and craftsmen to give them lead time to determine what they potentially can tender - offer.



- (ii) Procedures should allow tenders for all or part of an item - e.g. 50 tables out of a total requirement of 100 - and should be called as long before the delivery date as is practicable to accommodate the needs of potential small scale suppliers.
  
- (iii) Where practicable delivery and payment should be phased - e.g. 50 tables at 10 per month over 5 months - to minimise the working capital requirements of small suppliers. Progress payments procedures in respect to construction contracts should be reviewed with the same objective in mind.
  
- (iv) Purchasing departments should examine specifications to adapt them to include local producers to the extent consistent with the actual use of the product. Specifying by brand names, quality of finish, etc., necessarily biases the procedure toward large, sophisticated South African firms.
  
- (v) Procedures for purchasing standard items - e.g. school furniture supplies - which are regularly needed as part of recurrent operations should be examined with a view to making them articulate better with the capacity of medium and small-scale domestic producers. For example, if adequate stocks of these items are held by government stores, then purchases can more easily be put on a steady flow basis with monthly deliveries and individually small contracts.
  
- (vi) The implications of government contracts for working capital requirements and sources of small enterprises and craftsmen should be studied. Progress payments can lower but not eliminate

the need to lay out funds in advance of receipts (e.g. wages, raw materials, transport, interest) which often hamper tenders (and satisfactory performance of contracts) by small firms even when they have the physical capacity to produce and deliver on schedule.

Government contracts should be usable as a basis on which to borrow working capital whether from a public body related to small and medium scale production or from a bank. Whether this is now feasible, whether small producers are aware of the possibility and how any gaps can be filled should be examined jointly by Planning and Commerce and Industries.

#### Petroleum Products

Petroleum products are currently imported entirely from the Republic although the bulk are shipped via Maputo (indeed via storage tanks adjacent to the Mozambique refinery). Direct shipments have, historically, been by road tanker from the Rand, an expensive alternative necessitated by inadequate storage capacity in Swaziland (variously estimated at 12 to 20 days) and, in recent years, somewhat erratic service on Mozambique Railways. Presumably, in the future, rail shipments via Lavumisa may be substituted for road tanker shipment and/or the Maputo route.

On the face of it this is a surprising area of dependence. South Africa is very far from self-sufficiency in petroleum. Even on completion of Sasol III (late 1980s) and assuming a substantial ethanol programme, self-sufficiency except under conditions of rationing (including severe cuts in exports to BLS) by 1990 seems

highly unlikely. Nor is South Africa a low-cost source of supply. While her precise oil sources are secret and she may be securing some oil direct from one or two producing countries, it is known that much of the oil is bought on the "spot market" at R4 to R8 a barrel above the normal contract price, a 10-25% cost premium. Nor is South Africa necessarily a dependable source of supply in the medium run. Events which could make her unwilling or unable to supply Swaziland, while by no means certain, are not unlikely, e.g. oil sanctions, refinery sabotage, transport difficulties in the Republic, denial of access to transit facilities in Mozambique ...

Nor are alternatives absent. The Maputo refinery is operating well below capacity; Mozambique is eager to contract-refine for export to Swaziland, Lesotho and Malawi. Swaziland could - directly or through the Mozambique refinery - purchase oil directly from one or more OPEC members. (Mozambique and Tanzania, for example, purchase directly from Iraq.)

However, there are reasons why the alternatives have not to date been pursued. First, the oil companies prefer the established South African connection. Given their ownership of RSA refineries and their somewhat strained relations with Mozambique, this is not surprising. It is very doubtful that they would refuse to distribute products supplied to them from the Maputo refinery were Swaziland to make and insist on such arrangements, but they cannot be expected to take the lead. Second, Mozambique has to date suggested payment for oil and refinery fees on arrival of the crude oil at Maputo. This would appear to be open to negotiation. In respect to the oil, Swaziland could probably secure extended (say 90 days) payment facilities from at least some

OPEC states (e.g. Iraq) if it buys directly. Bank credit could be used in respect to the refining fee. Third, there would be residuals (heavy furnace oil, etc.,) which could not be used in Swaziland and would need to be resold. This is a straightforward commercial problem. The Tanzania Petroleum Development Corporation has handled re-exports successfully and could probably provide details on ways and means. A reputable specialist broker could be retained as selling agent while the Maputo refinery could handle the physical side of the operation.

The case for more intensive attempts to develop alternative petroleum sources appears to be strong. They should - even allowing for a possibly higher refinery fee and interest on higher stocks in Swaziland - be cheaper than RSA supplies (at R5 per barrel on total import's savings would exceed R4 million). In addition they would increase Swaziland's room for manoeuvre and provide a safeguard against interruption of South African supplies.

There is no need to switch 100%, straight away. Indeed, to limit problems during the running-in period of the new arrangements, an initial 50-50 division has a good deal to be said for it. To achieve this would require:

- (a) Greater storage capacity in Swaziland (60 to 90 days). This is desirable in any case as a reserve against interruption of supplies. Botswana experience indicates that aid for construction of tanks and the initial reserve stock can be secured.
- (b) Arranging a team of Swaziland ministers/officials with expert technical and commercial advice to negotiate with Mozambican authorities and oil-supplying state bodies.

(c) Making clear to the oil companies that Swaziland would from a given date supply 50% of their sales requirements (at fixed quantities adjusted annually to approximate 50%). As they have accepted such action (and indeed 100% supply by the state) in other countries there is no reason to suppose this would lead to a crisis, though there would be a good deal of grumbling and possibly some blustering.

As indicated in our Interim Report a refinery in Swaziland is not viable. It would need to export at least two-thirds of its output - presumptively to RSA. Further, while residual oil is reexportable from the coast, it would not be economic to ship it back to Durban or Maputo and there is no market for additional heavy oil products in the Rand. Indeed, proposals for a refinery in Swaziland are likely, in fact, to be based on broadening South Africa's access to petroleum and to increase Swaziland's risks in the events of sanctions.

#### General Imports

It should be stressed that what we are proposing is not elimination of imports from South Africa. Except under abnormal circumstances RSA is the natural source for a large proportion of Swaziland's imports. To suddenly redirect these imports would be expensive. If it is to be done either in an emergency or as a result of a deliberate decision by Swaziland there must first be systematic capacity to locate, purchase, bring in and market goods from other sources. That capacity does not now exist. The least expensive and most practical way to create it would appear to be by a commercial venture specializing initially in goods which could be procured more cheaply or at the same cost

from sources other than the Republic of South Africa. Such a venture should aim to purchase about 8-10% of imports within three years of starting operations. Its performance should be judged by its success in cost-cutting, and in diversification away from RSA. No power of monopoly procurement, and nothing like a "Central Importing Agency", is proposed here.

Similarly these proposals do not assume prior withdrawal of Swaziland from SACU. As Chapter III suggests, such withdrawal would be very expensive if Swaziland had no import-sector infrastructure independent of RSA and continued to import from the Republic at Republic domestic market (not the lower export market) prices. An independent import capacity is a critical step toward broadening Swaziland's options in respect to SACU and toward being able to avoid severe shortages and losses if external events force her to withdraw. However, it is true that the scope for procurement from non-RSA sources would be broader outside SACU than in it. The South African tariff and import licensing system are overtly protective and therefore mean that many goods cheaper c.i.f. from other sources are no longer cheaper after duty is added.

#### Some Difficulties

It is not possible to diversify import sources via the present commercial sector. Most importers are branches of South African firms or so closely linked to them as to amount to the same thing. They simply do not have the knowledge or the contacts to locate alternative supplies. Further in most cases they are too small for a global procurement system to be viable.

There are exceptions. Public and joint venture enterprises and very large private ones (e.g. Libby's, Usutu Pulp) could operate broader procurement policies. SEBs experience suggests this would pay and would lead to at least some non-RSA purchases. Swaziland might well consider advising these large concerns to adopt such a policy. However, their response (except presumably for public sector enterprises) is not certain and their purchases do not constitute the bulk of imports.

Nor is it feasible to develop a globally-oriented import capacity through the Swazi private sector. Swazi businessmen, no matter how shrewd and competent in local retailing or wholesaling, have neither the experience, the contacts, the scale nor the specialised expertise to import direct except from the closest and most easily known source - i.e. South Africa.

A purely public sector commercial enterprise would, in principle, be feasible. The capital required (say E 15-17½ million including supplier and bank credit) is not prohibitive. Relatively efficient and profitable state commercial enterprises exist in a number of African states.

However, several disadvantages to such an approach can also be cited:

- (i) There are no citizens in the public sector with external trade expertise;
- (ii) There is a general shortage of citizen managers for public sector and joint venture enterprises;
- (iii) Given the lack of prior experience, Swaziland would find it difficult to recruit a competent and honourable team of expatriate managers. There is literally no-one in the

public service who could prepare adequate job descriptions, work out satisfactory contracts, evaluate curriculum vitae, interview candidates for these particular posts;

- (iv) The Swaziland government has a clear policy of preferring the joint venture approach in respect to new large-scale commercial enterprises.

Again in principle, it might be possible to encourage a new, European based foreign trade house to establish a subsidiary in Swaziland. The general Swaziland policy toward new 100% foreign private firms is not negative.

However, again several practical disadvantages arise, apart from the stated policy of encouraging joint ventures where feasible.

- (i) Without the certainty of government support (especially against "ganging up" and dumping by RSA firms), no serious commercial house is likely to view the prospects as attractive;
- (ii) Under certain circumstances Swaziland may wish to use the enterprise for specific purchasers (e.g. government and/or aid contract related ones) or specific purposes which either are not commercially ideal or which yield very large profits to the firm. In either case a joint venture is likely to be preferable to a totally private firm.

#### A Possible Approach

The most practicable approach would appear to be through a joint venture owned 50-50 by Swaziland (through an appropriate public-



sector entity) and a European-based foreign trading house. This could ensure global procurement expertise, international commercial expertise and availability of suitable expatriate staff. At least in respect to the Swaziland end of the operation\*, a training programme for Swazi's to become managers in the future should be part of the initial design.

Initially the firm would aim at a moderate proportion of total imports - perhaps 10% or E30 million. It is likely that up to that proportion of imports could be secured as cheaply or more cheaply from sources other than RSA even assuming continued membership in SACU. Combining the advantages of bulk buying (aggregating orders by several domestic customers) and identifying lines e.g. in textiles, garments, consumer durables, machinery, in which RSA is not competitive should provide an adequate commercial base. Further, in the case of goods (eg. tools and saws for the Forestry sector) now imported via South Africa, direct importation would appear to offer substantial cost savings. Government, public sector enterprise and other joint venture purchases should provide an initial base. This does not imply they should be compulsorily routed to this firm, but that it should be given the first or at least an equal chance of locating a low-cost source.

Some problems may arise on the consumer goods side. Many commercial enterprises - e.g. most of those in the Swazi Plaza -

---

\* Overseas, there is a strong case for using the foreign firm's general information and procurement system on a negotiated charge basis. Therefore, while it is desirable that Swazis be trained in this end of the operation, it may be less crucial to begin such training immediately.

may not be willing to purchase non-RSA goods even if they are cheaper. This means that special attention will need to be paid to developing sales to second line and small (and especially Swazi) retailers and wholesalers. Such efforts may require support from the Ministry of Commerce and Industries. More positively, they would also be of assistance to any programme the Ministry might launch to assist in building up Swazi expertise and stake in retailing and wholesaling.

An enterprise of the size envisaged might need E15-17½ million assets/liabilities and capital.

1. Warehouses, Offices, Vehicles	E 2½ to 5 million
2. Stocks (including goods in transit)	E 10 million
3. Credit to Purchasers	E 2½ million
	<hr/>
	E 15-17½ million
	<hr/>
1. Equity Capital	E 2 to 5 million
2. Long Term Loan	E 2 to 5 million
3. Commercial Credit (90-180 day)	E 5 million
4. Bank Overdraft	E 5 million
	<hr/>

The bank overdraft can be financed domestically. Presumably the loan can also be secured from a public sector financial institution. With a reputable partner, the commercial credit from suppliers should be available. The equity (and if desired the long term loan) would be subscribed 50-50 by the joint ventures' two owners.

#### Some Preliminary Steps

Before setting up a venture it would be advisable for Swaziland to

secure three preliminary studies:

- (i) A detailed study of the fiscal, import control and unofficial ("moral suasion" by state, private control) restrictions on imports from outside the Republic. A single expert - possibly from the GATT/UNCTAD International Trade Centre in Geneva - working with the relevant Treasury and Customs officials could do this in two to three months.
- (ii) A study of which goods were likely to be cheaper or about the same cost after duty and what were the low cost sources is needed to estimate the potential scope for the firm. This requires both data on c.i.f. costs to Swaziland from RSA sources (which can be collected as part of the first study) and knowledge (or ability to acquire it) on international prices. Again the GATT/UNCTAD International Trade Centre would appear an appropriate source of technical assistance. This study could usefully feed into the detailed analysis of the price input of SACU, vis-à-vis alternative tariff structures, proposed above.
- (iii) A study of the requirements for such a firm - warehouses and vehicles, senior personnel, training programmes for staff capital required, credit policy - is needed. This should be supplemented by rough estimates of profitability and a short list of potential partners. This study can best be done either by an actual commercial enterprise or by an individual with considerable managerial experience in the field. In the former category, the Scandinavian Wholesale Cooperative Federation (the largest single importer in Scandinavia and a thriving concern) is a possible candidate. Their services might be procured via technical assistance from one of the Nordic States (Denmark, Norway, Sweden or Finland). It might be possible for CFTC to locate an individual consultant for

a three month period if the second approach is thought preferable.

These studies are critical to ensure that any enterprise is launched on a viable basis. The present study does not, and cannot, go into enough detail for that. In principle this work could be left to the prospective partner. However, that has three disadvantages:

- (i) Studies 1 and 2 provide data which make it much easier for a prospective partner to decide whether it is interested and should help interest firms which might otherwise be dubious.
- (ii) All three studies provide data Swaziland needs to negotiate effectively. Without independent data, Swaziland is likely to end with joint venture arrangements more favourable to the private partner and less favourable to Swaziland than are necessary.
- (iii) Until independent expert advice is secured, Swaziland is likely to be uncertain as to the bona fides of prospective partners. Several past experiences with partners and management agents (e.g. the shipping line), point to the value of having independent advice in this respect before concluding a joint venture agreement.

#### Related Issues

Once the firm is established, thought can be given to selective expansion. One field might be exports. It seems likely that new markets for some wood products (e.g. mine pit props) and some manufactures (e.g. Tinkabi tractors, TV sets) could be located by a trading company with on-going global contacts. Further such a company would be more interested than Peak Timbers in finding new markets and better placed than the TV company itself to do so in

other independent African states in the region.

Both Botswana and Swaziland may be interested in a relatively similar approach to import diversification. If this turns out to be the case co-ordination between Swaziland and Botswana might be mutually beneficial. First, together they could negotiate better terms with any prospective partner. Second, the larger total orders which could be placed would probably allow winning larger discounts on some items. The co-ordination need not - probably should not - imply a single, three-way, joint venture, but rather that the Swaziland and the Botswana joint venture each has the same foreign partner, and builds up a set of working arrangements on pooling of information and bulking of orders. If Swaziland decides to pursue exploration of the joint venture option further it would be appropriate to contact Botswana to determine whether their thinking is along similar lines and, if so, to discuss possible areas of co-ordination.

ANNEX A

TERMS OF REFERENCE FOR A STUDY ON THE DEPENDENCE OF THE  
B.L.S. ECONOMIES ON THE REPUBLIC OF SOUTH AFRICA

(For the Interim and Final Report)

The Governments of Botswana, Lesotho and Swaziland (the B.L.S. countries) have reviewed their economic situation within the context of the Southern African region and have resolved jointly to commission an immediate study which will seek to quantify their economic dependence on the Republic of South Africa and recommend positive measures to assist their economic development in the light of changes occurring in the region.

2. Accordingly, the three Governments have determined upon the following terms of reference for the study:-

- (i) To identify, define and quantify the extent of dependence of the B.L.S. economies on the Republic of South Africa, with special reference to internal and external trade, energy, food and other essential supplies, employment, communications and services (such as construction, maintenance, distribution and finance) and where possible, measures that would progressively reduce the dependence of the B.L.S. economies on the Republic of South Africa.
- (ii) To identify measures to counter adverse factors which currently impede industrial development and investment in the B.L.S. countries and contribute positively to accelerated industrial development and investment in the B.L.S. countries.
- (iii) To identify measures of a preparatory and contingency planning nature, to be taken by the B.L.S. Governments, that would strengthen the ability of the economies of the B.L.S. countries to withstand the effects of international sanctions against the Republic of South Africa and of whatever retaliatory measures the Government of the Republic of South Africa might introduce with particular reference to:-

- (a) The Southern Africa Customs Union arrangements;
- (b) Fiscal and Monetary relationships;
- (c) The availability of oil and other essential supplies, and
- (d) The multiplier effect on the B. L. S. economies of a likely resultant recession in the Republic of South Africa.

(iv) To examine the potential implications on the B. L. S. economies of the recent South African legislation that empowers the Minister of Economic Affairs to have complete control over industrial production, with particular reference to those products that are of importance to the B. L. S. economies.

3. The Governments of the B. L. S. countries consider such a study to be of the utmost importance and urgency and wish, therefore, to be in possession of the report of the study as soon as possible.

4. 10 copies of an interim report and 20 copies of a final report shall be submitted simultaneously to each of the following:

The Secretary for External Affairs  
Private Bag 1  
GABORONE  
Botswana

The Permanent Secretary  
Ministry of Finance  
P.O. Box MS630  
MASERU  
Lesotho

The Permanent Secretary  
Ministry of Industry, Mines and Tourism  
P.O. Box 451  
MBABANE  
Swaziland