Annex B

MANUFACTURING

A Report to the Congress on

DEVELOPMENT NEEDS and OPPORTUNITIES for COOPERATION in SOUTHERN AFRICA

United States Agency for International Development/March 1979

MANUFACTURING

IN THE

SOUTHERN AFRICA REGION

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TABLE OF CONTENTS

LIST OF TABLES

ABBREVIATIONS USED IN THE REPORT

ACP	African, Caribbean, and Pacific Countries
AGMARC	Agricultural Development and Marketing Corporation (Malawi)
APA	African Purchase Areas
BEDCO	Basotho Enterprises Development Corporation (Lesotho)
BDC	Botswana Development Corporation
BEDU	Botswana Enterprise Development Unit
BLSN	Botswana, Lesotho, Swaziland, and Namibia (peripheral countries that are members of the South African Customs Union, including Namibia's de facto membership)
BLS	Botswana, Lesotho, and Swaziland
CDC	Commonwealth Development Corporation
EEC	European Economic Community
EEC/ACP	European Economic Community and the African, Caribbean, and Pacific Countries (signatories of the Lomé Convention establishing a trade group between the EEC and former colonies)
ESAPTA	Eastern and Southern Africa Preferential Trade Area
FMO	Netherlands Finance Corporation for Developing Countries, Ltd.
GRSA	Government of the Republic of South Africa
Indebank	The Investment and Development Bank of Malawi
INDECO	Industrial Development Corporation
LNDC	Lesotho National Development Corporation

MDC	Malawi Development Corporation
MIC	Ministry of Industry and Commerce
NDB	National Development Bank of Botswana
NDBN	National Development Bank of Namibia
NEDCO	Namibian Enterprises Development Corporation
NIDCO	Namibian Industrial Development Corporation
NIDCS	National Industrial Development Corporation of Swaziland
NORAD	Norwegian Agency for Development
RUCOM	The Rural and Commercial Industries, Ltd. (Zambia)
SSE	Small-Scale Enterprise
SACU	South African Customs Union
SEDCO	Small-Enterprises Development Corporation (Swaziland)
SIDA	Swedish International Development Agency
TTL	Tribal Trust Lands
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VIPCOR	Vipya Paper Corporation (Malawi)
ZIMCO	Zambia Industrial and Mining Corporation, Ltd.

CURRENCY CONVERSIONS

Country	Currency	Symbol	Value*
Botswana	Pula	P	P1=$ .90
Lesotho	Rand	R	R1=$1.15
Swaziland	Emalangeni	E	E1=$1.15
Malawi	Kwacha	K	K1=$1.13
Mozambique	Escudo	ES	ES1=$ .03
Zimbabwe	Rhodesian Dollar	R$	R$1=$1.54
Namibia	Rand	R	R1=$1.15
Zambia	Kwacha	K	K1=$1.33
South Africa	Rand	R	R1=$1.15

* as of 7-24-78

A. Introduction

The main body of this report is essentially a sector specific constraints analysis and profile of the manufacturing in the economies peripheral to South Africa combined with recommendations for the lessening of some of those constraints. Before proceeding to review the sector in these terms, it may be useful to highlight some of the limitations and assumptions inherent in this approach.

The Terms of Reference have been constructed to permit an analysis of manufacturing in eight countries of southern Africa.[1/] It has been assumed that these economies and, by extension, their manufacturing sectors, are in varying degrees <u>dependent</u> upon South Africa, that the leadership[2/] of these countries - given the option - would prefer to lessen or eliminate this dependency and that the international donor community is or should be interested in facilitating this process. It has also been assumed that certain <u>potential</u> exists in each of the eight countries which is constrained by specific identifiable elements which can be modified or removed; thereby allowing at least some of this potential to be realized. In this way, dependency may be reduced or at least the evolution of more interdependency may occur.

1/ Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

2/ Assuming here that Zimbabwe and Namibia achieve genuine independence.

There appear to be at least two difficulties with these assumptions: (1) some of the peripheral economies are so heavily dependent upon South Africa that they may be more properly characterized conceptually as <u>extensions</u> of the South African economy rather than as distinct entities which <u>as entities</u> can somehow alter their status and (2) the assumption that potential is constrained leads logically to an assessment of how those constraints may be ameliorated rather than beginning with an analysis of the extent of potential <u>per</u> <u>se</u> (e.g. natural resources, energy, geography, etc.).

The first observation would suggest the need for a thorough analysis of the center - of South Africa - as an integral part of any assessment of the periphery which has as its objective the identification of initiatives which may be taken in the periphery to alter the linkages with the center. An assessment of center-periphery congruences would aid in determining whether the economies (and for the purposes of this assessment, specifically, the manufacturing sectors) of some peripheral states are in any quantifiable sense <u>distinct</u> from the South African economy. A better understanding of this relationship is crucial if initiatives are not unwittingly going either to reinforce the dependency or strengthen the extended center economy in the peripheral states under the guise of "development." Sources of spare parts, raw materials, energy and expertise, likely implications for transport of manufactures through South Africa or in conveyances controlled by South Africa (i.e. cargo planes, railway rolling stock, etc.) and possible new vulnerabilities to South African policy changes in SACU or more generally are examples of potential new dependencies or even greater center-periphery economic integration. The present assessment does not consider such implications in any depth since the scope of the assessment and the time available for its completion do not permit such treatment. When the comparatively more micro findings of this assessment are analyzed together with those of other sector assessments to permit a single synthesized document to be prepared by USAID for Congressional presentation, the whole should be more than the sum of its parts in the sense that the various sector pieces should reveal a broad pattern of constraints and dependencies which no single appraisal is likely to demonstrate. From this perspective, the character of the peripheral economies should be more clear and the impact of the no doubt numerous recommendations emanating from the various sector assessments should be more evident in terms of their probable implications for center-periphery relationships.

The second observation, with respect to the extent of the potential which may exist in the peripheral economies, would suggest (1) a survey of potential and (2) a survey of the limits placed upon the realization of that potential for the benefit of indigenous populations - not by the technical/economic/development constraints which are the focus of most of this assessment - but by the fundamental geopolitical constraint which may be represented by the overwhelming dominance of the region by the South African economy which is then exacerbated by white minority control exercised through Apartheid and based on racial exploitation. In the absence of a thorough analysis of the political economy of the region and the way it is structured from within and reinforced by the capitalist economies of the West, from without, recommendations on the project and program levels may be perceived as mere palliatives to substitute for addressing the critical relationships which historically and at present define how wealth is generated, by whom and how it is distributed in the region. In short, projects and programs recommended herein may be necessary but are not sufficient. They may be valid avenues for more adequately meeting some of the basic human needs of the poor but their efficacy should be examined in the larger crucible. They may be well-intentioned and logical micro actions to alleviate specific constraints but they may also become part of the problems of the peripheral states if their implications beyond sectoral confines are not fully assessed prior to their adoption. Such a full assessment is the challenge before AID and this sector assessment is intended to contribute data and an appraisal of that data in sector specific terms to facilitate the larger process.

B. Manufacturing in the Region

1. The Dimensions of the Sector

Defining the sector in terms of its contribution to the GDP or employment is complicated by the various definitions used for both "employment" and for "manufacturing sector". Whereas the percentages of GDP below reflect fairly standard estimates which appear in Government and World Bank documents for formal sector firms normally employing 20 or more people, complications arise when one distinguishes between large, medium and small scale enterprise, between formal sector wage employment and informal sector employment which nonetheless may be salaried in the sense of being in the money economy and between "sub-sectors." Some analysts include construction, commerce, tourism, informal small scale activity of "hawkers" and other related activities in the general rubric "manufacturing" while others will generally provide figures separately. Some documents estimate the number of self-employed small scale entrepreneurs and add this figure to those for the "modern wage sector." Finally, figures are sometimes used loosely without the year they are estimating being provided. It is remarkably easy to end up comparing a 1974 figure for manufacturing which excludes tourism and some categories of small trader for country "A" with a 1977 figure for manufacturing which may include tourism and different categories of traders for country "B." Finally, many documents do not indicate what is included in a given statistic and how it was arrived at.

With the exception of South Africa, the manufacturing sectors of the southern African countries are small in absolute terms and, frequently, also in terms of the contribution of the sector to GDP. While an elaboration of this point will be found in the country specific sections of the report in Part II, the estimated share of manufacturing as a percent of GDP may be compared for the region as follows: Southern Rhodesia 27% (1976), Swaziland 22% (1975), Zambia 17% (1975), Malawi 15% (1976), Namibia 10% (1975?), Botswana 5.4% (1976/77) and Lesotho 2.1% (1977). Mozambique was estimated at 15% of GDP prior to independence but this figure has almost certainly declined since then.

Again bearing definitional and conceptual problems in mind, the manufacturing sector as defined by the countries in question in their respective NDPs and in related documents reported as follows: (1) for Botswana the SNDP reported 1975/76 employment in the sector as 2,435 out of a total wage sector of 65,756 while the CSO estimated 4,550 for the same year, (2) Lesotho reported about 2,500 jobs in the sector out of a total wage force of 32,100 in 1977, (3) Malawi is reported by the World Bank to have had a wage sector employing 271,000 persons 1976 while in 1973 about 25,600 were engaged in manufacturing out of a total 1973 wage labor force of 215,300. Given an annual average growth of wage sector employment from 1968-1975 of 8.5%, one could estimate that about 30,000 people were employed in this sector in 1976,

(4) in Mozambique in 1970 the sector was estimated to employ 43,500 persons while in 1975 the estimate had climbed to 100,000 1/, (5) in Namibia estimates of the number of Africans employed in the sector range from 10,000 - 13,200 for 1975 with an annual average rate of growth of six to seven percent, in an overall wage sector employing 52,955 Africans and 33,500 whites, (6) in Swaziland approximately 7,400 persons or 13% of the total wage labor force of 76,942 were engaged in manufacturing, (7) in Zambia the total for wage sector employment in 1976 was 466,200 (including domestic service) while the February 1978 Monthly Digest of Statistics as amended reports a total of 393,490 employed as of December 1975 (excluding domestic service) of whom 41,230 Zambians and 3,100 non-Zambians were employed in manufacturing, and (8) in Southern Rhodesia (Zimbabwe) the estimated African workforce in 1975 was 944,000 which includes foreign African workers in the country of 200,000 plus 119,700 whites. Of these, 136,100 Africans and 23,830 whites were engaged in manufacturing.

To the extent possible, each country assessment has been introduced by summarizing the available country specific data which defines the "manufacturing sector". From this information, the sector could be characterized in general terms at the regional level as:

1/ See "Transition in Southern Africa: Mozambique," by Harry Carr submitted to AID in February 1977, p. IV-43.

a) generally small in both absolute and relative terms;

b) high priority placed on import substitution;

c) high priority placed on processing domestic resources for local consumption and especially higher value exports;

d) generally ranked third or fourth after other sectors by governments (usually behind agriculture and education and sometimes mining);

e) more capital-intensive in most countries than may be warranted if employment creation is to have increasing importance as a sectoral objective;

f) sometimes reflecting uncoordinated initiatives on the national and certainly regional levels which can create new difficulties because the "development" of a given enterprise was not well linked to a given economy's capability. This can result in the absence of long term viability or promotion of similar enterprises in neighboring countries when complementary enterprises would promote trade and development more effectively.

2. <u>The Objectives of the Manufacturing Sector</u>

Most governments have articulated both broad developmental objectives to which the sector is expected to contribute and more specific targets for individual sub-sectors or enterprises. It borders on being a truism to say that developing countries expect manufacturing to contribute to employment generation, increasing local production of processed goods, and enhancing their export position and, hence, foreign exchange reserves. The path each country chooses to achieve these objectives and the relative priority placed on each can, however, be quite distinct. It should also be noted that the gap between ideals enshrined in a five year development plan and the resources and political will available to achieve them can sometimes be considerable.

The objectives which are most often repeated by governments in the region for this sector are:

1) to increase domestic production of basic commodities for domestic consumption (i.e. import substitution and greater self-reliance);

2) to generate surplus processed goods with optimal value-added for export (i.e. to obtain foreign exchange and a satisfactory balance of payments position);

3) to generate wage sector employment for increasing numbers of citizens (i.e. employment creation);

4) to locate enterprises in various parts of the country to prevent overconcentration of industries (i.e. to reduce rural-urban migration and promote more balanced national development and greater equity);

5) provision of rural infrastructure and services (i.e. to link manufacturing endeavors to the needs of agriculture and other sectors to ensure that they are mutually reinforcing);

6) as an expansion of number five, to focus on "enabling industries" (i.e. those which produce goods which will permit in particular the expansion of small scale enterprise, labor-intensive approaches to production, etc.).

The distinction between objectives and the policies to implement them are sometimes blurred in the literature, however, it is useful to maintain this distinction in order to ensure that the "why" of manufacturing is not lost in the discussion centering on "how" it can best be achieved. For example, all governments of the majority-rule states with varying degrees of enthusiasm have proclaimed their desire to increase the volume of foreign private investment in their economies. This is a <u>policy</u> to achieve certain objectives and ought not to become an end in itself. Maintaining this perspective will have the practical result of ensuring that more of the right questions are asked of prospective foreign investors in order to optimize their contribution to the achievement of the objectives set forth above.

Similarly, efforts to promote greater local ownership of enterprises, the establishment of more small-scale enterprises, the development of indigenous institutions to promote manufacturing and the attempt to diversify both the sources of foreign investment and their location in the host country are means[1/] to progress towards the basic objectives set for the sector. As such, they should be assessed in terms of their respective ability to lessen the sectoral constraints identified below and to achieve the objectives in question.

Policy means may also be evaluated by developing countries in terms of their impact on the socio-political fabric of a society and measured against a particular national philosophy or ideology. If the latter imposes too rigid a formula for determining acceptable means, valuable opportunities may be lost. If, however, there are no standards for appraising the non-economic costs of the means and structures employed both in the pursuit of sectoral objectives and broader national economic objectives, a country could find itself seeming to achieve some objectives while at the same time making it more difficult or impossible to achieve others. Judgements

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1/ These "means" and others will be considered in section C below as possible elements of a strategy for sectoral development and a consequent lessening of constraints.

with respect to these issues are for the governments and people of the region to make, however, international donors should be sensitive to the need of independent countries to make such decisions and should adjust their own assistance criteria to accommodate the priorities and approaches of the countries who seek technical cooperation with donor states.

Finally, the above discussion may be relevant to prospective private foreign investors from the West who may not be familiar with the central role of planning ministries, the nature of parastatal organizations or the extent to which governments actively seek to promote non-economic goals through the articulation of a manufacturing sector with rather specific characteristics and capabilities.

3. Constraints on the Achievement of Objectives

The constraints on manufacturing in the southern Africa region do not affect all countries equally and in some cases what may appear as a constraint to one government may be perceived of as an opportunity to another. Bearing these caveats in mind, the major constraints which have adversely affected the manufacturing sector include:

a) Sector Specific Constraints

1) inadequately skilled and educated manpower to form a workforce characterized by high productivity;

2) inadequate numbers of entrepreneurs with sufficient business, commercial, administrative and management experience;

3) insufficient volume of risk capital, especially for small-scale enterprises;

4) institutions charged with policy implementation (parastatals, development banks, etc.) suffer from staffing, organizational, logistical and policy problems;

5) marketing institutions and procedures are sometimes inadequate to the task and there is frequently a shortage of storage capacity for what is produced which results in wastage.

b) Country Specific Constraints

1) the small size of domestic markets in terms of population and per capita income translating as purchasing power;

2) generally low population densities;

3) inadequate staffing of ministries responsible for manufacturing and for central planning functions sometimes results in lost opportunities, improper linkages of sector initiatives with each other and with other sectors within the national economy, delays in decision-making and poor data base upon which decision-making must be made;

4) poor performance in most countries in the agricultural sector which limits supplies of agricultural commodities for processing and export industries;

5) constraints are sometimes "interlocking" in nature, i.e. processing requires commodities which may be affected by climate (agricultural), a strike or disaster (minerals), world prices (copper, sugar coffee, etc.), the price of energy or transport, etc. Other sectors in turn may be constrained by manufacturing which fails to provide equipment, supplies, spare parts or other inputs which in turn reaffect manufacturing once other sectors experience poor performance.

6) inadequate feeder roads in rural areas, shortages of vehicle parts and other problems leading to high cost and limited availability of domestic transport and communications;

c. Regional Constraints

1) high cost and limited availability of physical infrastructure (roads, rail, air, telecommunications, etc.);

2) inadequate supplies of energy and/or limited resources from which energy could be generated in some countries;

3) continued trend toward polarized growth among members of the Southern African Customs Union (SACU) combined with non-tariff barriers imposed by South Africa which restrict opportunities for the development and export of manufactures in the BLS states and Namibia to the large consumer market in South Africa;

4) violent struggles in Namibia and Zimbabwe have probably made it more difficult to attract foreign investors to the region since it is unstable politically and, consequently, is subject to major and sudden economic adversities (border closures; attacks on railway export routes; rapid changes in the production levels of agricultural commodity supplies, etc.);

5) continued South African policy of Apartheid, which is perceived of as racially humiliating and oppressive, affects economic judgements in most majority rule states which must take account of the dominant political reality of the region and some states, to the extent possible, wish to reduce economic dependence on South Africa even where there may be opportunities for economic gain;

6) absence of regular institutionalized analysis of opportunities to promote the sector and to identify and promote complementarities at the regional level through an African organization of majority rule states.

As noted above, all countries are not equally affected by these constraints. While their impact on individual countries is considered in Part II, several major exceptions to the above generalizations should be highlighted here.

Mozambique has surplus energy from the Cabora Bassa dam which, at present, is sold mostly to South Africa. The country also has fewer transport problems linked to export since it has a lengthy coastline and good harbors at Maputo, Beira and Nacala and smaller ones at Quelimane, Porto Amelia and elsewhere. The former colonial power constructed railway lines to facilitate the export of goods to the major ports. Mozambique has serious north-south and local transport constraints, however.

Malawi has done exceptionally well in the production of agricultural commodities through estates and is now focusing greater attention on small-holder farmers through the National Rural Development Program. This provides raw produce for processing. The size of the country and the government's emphasis on improving national infrastructure (MK 43.5 million budgeted on the development account for infrastructure out of a total of MK 95.9 million with the next highest sum of MK 13.2 million for agriculture in 1977/78) has made local transport less of a constraint for Malawi than for many of its neighbors.

Botswana has an important beef industry which has overcome many of the constraints mentioned above. The country also appears to have a somewhat better data base due in part to the liberal use of expatriate technical personnel in the CSO, planning ministry and related areas.

Finally, it is only fair to mention that the nature of this report tends to highlight constraints to the achievement of objectives rather than dwell on the progress already made or the constraints already lessened. Many countries have, however, made impressive strides since independence in a number of areas. For example, Zambia has built a significant formal education sector from almost nothing, the economies of Botswana and Swaziland have in general shown important progress in terms of output and growth of per capita income, Lesotho has established a national university and has a high literacy rate for the region and Namibia beginning to train its nationals for government positions through the U.N. Institute in Zambia and SWAPO.

4. The Southern African Customs Union

Membership by the BLS states and *de facto* incorporation of Namibia into SACU is listed above as a constraint at the regional level to the development of the manufacturing sectors of the economies of these states. The impact of SACU is mentioned at several places in Part II where it has an effect on a particular national problem, however, the nature of this customs union and the consequences of membership for the BLS states and Namibia warrant special attention to ensure that the reason it is regarded as a constraint is understood. The AID Southern Africa Development Analysis Project (SADAP), of which this report is a part, commissioned a separate study of SACU to address this issue.[1/] Other analysts concerned with

1/ Mary Ann Knotts, "An Assessment of the Membership of Botswana, Lesotho and Swaziland in the Southern African Customs Union," (Washington, D.C.: mimeo., April 1978), 28 pp.

manufacturing in the SACU area[1/] have similarly devoted attention to this question. The numerous observations and perspectives of others cannot be included here, however, a summary of their views linked to this paper's discussion of constraints would seem to be useful.

The conclusion of Selwyn quoted below with respect to Lesotho is generally applicable to the other peripheral states and reflects the conclusion of Shourie and Knotts as well:

> The existence of the Customs Union Agreement places major constraints on Lesotho's freedom of action in the commercial field. Although, as has been pointed out, Lesotho is free to impose protective duties against South African products for limited periods, her ability to pursue an independent commercial policy is severly restricted. There are difficulties in the way of her concluding commercial agreements with third countries, although these are theoretically possible under the Customs Union Agreement. Any such agreement which involved trade concession by Lesotho could not be entered into without the agreement of the Republic, and special treatment for third country exports in the Lesotho market would probably involve alterations of the South African tariff schedules. The South African Government would hardly be willing to accord special treatment to third countries merely in order to meet a Lesotho interest (or even an interest of all peripheral country members of the Customs Union) This factor may be of importance in any negotiations between Botswana, Lesotho and Swaziland and an enlarged EEC. At the same time, unlike many other regional trading arrangements, the Customs Union Agreement has no provision for the regional planning

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1/ See Percy Selwyn, "The Dual Economy Transcending National Frontiers: The Case of Industrial Development in Lesotho," (Brighton, U.K.: IDS, Sussex, n.d.), 24pp.; H.D. Shourie et.al., "External Sector of Lesotho: Analysis and Proposals," (Geneva: UNCTAD, Jan. 1976), Mission Report Doc. GE 76-61354; P.M. Landell-Mills, "The 1969 Southern African Customs Union Agreement," (Journal of Modern African Studies, Vol. 9, No. 2, August 1971); and Paul Mosley, "SACU: A Reappraisal," World Development, 1978 vol. 6, no. 1.

of the location of industry in such a way as to improve the prospects for industrialization of the less developed members. Nor indeed would such arrangements necessarily be welcome to the peripheral countries since they could involve increased control by the Republic over their industrialization programmes." (p. 20)

In addition to the chief difficulty which is the constraint on freedom of action and the trade diversion effect which contributes to greater polarization of growth, the various authors offer the following observations which have been condensed and placed in chart form below:

COSTS (Negative Consequences)	BENEFITS (Positive Consequences)
1. Acute trade diversion caused by formation of an integration scheme between countries at very different levels of development. (Knotts)	1. Current SACU agreement provides revenue and includes compensation from RSA for polarization effect and loss of right to determine own duties. (Shourie)
2. Forfeiture of opportunity to buy lower cost commodities from outside SACU. (Knotts)	2. RSA proximity and consequent lower transport costs make this only theoretical since RSA usually cheapest source.(Knotts)
3. There are no assurances that changed economic or political circumstances would not render RSA unwilling or unable to supply goods & services and thus BLS are vulnerable to the consequences of likely upheavals in RSA and need to lessen their vulnerabilities rather than rely on RSA indefinitely. (Knotts)	3. BLS accessability to goods & services is facilitated by SACU membership. Use of RSA transport, marketing & financial institutions (Rand) promote welfare smaller states.

4. RSA maintains near monopoly of rail transport and uses cartel arrangement to limit possible competition, for example, from trucks licensed in Lesotho which have difficulty getting RSA licenses and must return empty from RSA.

5. The rail monopoly also results in higher export/import costs to BLS which in some cases would find road transport cheaper & does not provide employment for BLS nationals as would be the case with a national road transport fleet. (Knotts)

6. Regional schemes in principle are to enhance rate of development of members, expand market and stimulate growth of industry yet "such benefits have accrued mainly to RSA." (Knotts)

7. "BLS manufacturing activity curtailed due to RSA non-tariff barriers. RSA controls Union to prevent establishment of concerns in BLS which might compete with RSA enterprises. (Examples: fertilizers in Swaziland, Honda assembly in Lesotho, breweries in Botswana & Swaziland, etc.)1/ (Knotts, Mosley)

4 RSA can control transport with or without SACU given present infrastructure in the region. Thus states should benefit from present situation.

5. This assumes that BLS could transport goods as efficiently as RSA and RSA would maintain that this is unlikely given manpower & related problems in BLS states.

6. RSA maintains that this would occur in any event, that the revenue-sharing formula now compensates BLS for this and that BLS have right to invoke infant industries clause using protective tariff for eight years.

7. In 1976 an amendment to SACU provided for a stabilization of revenues by establishing a floor of 17% and a ceiling of 23% in the ratio of revenue shares to denominator items with any discrepancies made up from RSA's share of the revenues.

1/ Non-tariff barriers imposed by RSA on BLS to prevent the latter from benefitting fully from SACU can be illustrated as follows: a) in 1971 RSA vetoed establishment of chemical factory in Swaziland by denying South African farmers existing consumer subsidies on fertilizers if they made purchases of Swazi fertilizer and then increased the tariff on two products essential to fertilizer production that would have been imported from Iran into the SACU (ammonia from three to thirty percent and phosphoric acids from 15% to 30%) to meet Swazi production requirements, b) in 1971 RSA prevented Honda from setting up a motor assembly plant in Lesotho, c) RSA pressured wholesalers and retailers not to buy or sell Swazi beer in RSA and spread rumors that the beer was made with bad water. Once the brewery was bankrupt, South African breweries bought them out, d) Several sources report disappearances of imports for Lesotho required for manufacturing which go beyond the occasional human error and reflect a conscious pattern of disruption, e) the South African Meat Control Board compels Namibia to export cattle to RSA on the hoof to be slaughtered and processed in RSA enterprises and to ensure full loads for S.A. Railways from Namibia to RSA. Numerous other examples appear in the literature so that it is unlikely that these are isolated product specific incidents.

It has also been pointed out that there are no plans within SACU to accelerate the rate of growth of the peripheral economies, there is no institution which could coordinate or conduct research for such an undertaking and there is no financial institution to supply capital specifically for this purpose. Further, the establishment by RSA of the so-called "homelands" has been accompanied by significant concessions from RSA offered to South African and other businessmen who will agree to locate in or preferably on the "borders" of these entities. This represents direct competition for the BLS states which is subsidized by their erstwhile partner.

The conclusion of Knotts on this particular point is important to an assessment of what elements make sense as part of an overall strategy for the manufacturing sector of the states of the region and for a determination of which elements may be strengthened with the assistance of the international donor community.

> "It can rationally be argued that the lesser developed members...have not experienced industrial growth because they lack the necessary physical, economic and entrepreneurial infrastructure. It can equally well be argued, however, that the Customs Union has been based on a relationship characterized by the BLS economies openness to South Africa and South Africa's selectivity in allowing BLS commodities to enter its market. It should be noted that the few basic industries which have been established in the BLS are owned predominantly by South Africans singularly or in partnerships with Westerners and these concerns establish few if any backward or forward linkages with indigenous activities and thus tend to form enclaves. (p. 16) 1/

1/ For an expanded discussion of this point see also Ann Seidman, South African Captives, chapter 13 (forthcoming).

C. Towards a Strategy for Manufacturing in Southern Africa

Not surprisingly, there probably is no single grand strategy which can be applied at the regional level for manufacturing. There are too many national and local peculiarities; national sensitivities; economic, social and political constraints and uncertainties to make theorizing at that level very productive. There are, however, specific areas in the sector in each country which could benefit from the appropriate type and volume of assistance. These initiatives, when taken together, may comprise the elements of a strategy or perhaps, more modestly, an approach, which could contribute to the achievement of the national objectives of the countries in question.[1/] It is also important to be aware of which elements of a given approach and which problems relating to which elements are and <u>are not</u> likely to be aided through external donor assistance.

Specific recommendations on a country level have been made at the end of each country appraisal. These have involved technical and capital assistance, scholarships for training and education and occasional policy recommendations. It is not necessary that the aid which is recommended come from the U.S. Indeed, multilateral channels of assistance and cooperative efforts with other donors in a multi-donor framework can offer a number of advantages on both the project and program level.

1/ As mentioned under "B, 3" above, this approach will need to be integrated with initiatives in other sectors to promote suitable linkages and a multiplier effect and prevent actions which could be counterproductive.

Most of the recommendations revolve around certain categories of initiatives or means to achieve objectives which are meant to serve as building blocks for a coherent approach. These categories include:

1. Manpower Development

   a) Technical and vocational training for workers to obtain industrial and commercial skills;

   b) better quality and greater quantity of formal education at all levels to provide a foundation for more specialized studies and an adequate "trainable pool" upon which a country can draw for its future needs;

   c) Management training for private and public sector executive personnel in companies, parastatals and relevant government ministries;

   d) Non-formal education for small-scale entrepreneurs in the field of accounting, inventory, credit, etc.

. Appropriate Technology & Assistance

   a) Technical assistance which assists existing enterprises to optimize their efficiency and productivity often leads to a focus on small-scale enterprises. This in turn requires an adaptation of technical assistance to a scale which is appropriate for the enterprises;

   b) Labor intensive approaches to manufacturing appear to be of renewed interest in the region. This will require quite different types of technical cooperatio from capital intensive larger-scale undertakings with implications for the choice of technology and types of expatriate personnel which may be needed;

   c) Emphasis on initiatives which require minimal recurrent budget expenditures from developing country governments has important implications for the type and volume of technology provided and the nature of indigenous institutional development;

3. Financing Manufacturing Development

   a) Provision of adequate credit for high risk small-scale entrepreneurs who are supported by technical assistance as above (training & technology) 1/;

1/ Stress would be placed upon enterprises with a high level of labor intensiveness, which are locally owned, which require no or little infrastructural support which would involve financing from government budgets and which would not be energy intensive in energy short areas.

b) Encouraging private foreign investment consistent with developing country objectives, priorities and investment codes from a variety of sources;

c) Capital assistance grants and loans from bilateral donors and multilateral international financial institutions will permit capital poor countries to develop natural resources and other assets to a point where they are productive;

d) Ensuring a sound investment policy, a minimum of corruption and a set of well designed objectives for the sector is an essential underpinning for any capital assistance;

The above categories are no more than logical extensions of the three basic components necessary for sector-specific production: labor, capital and technology.[1/] Over sixty donors are active in the southern African region and many of them provide assistance, inter alia, in the manufacturing sector. Some of this assistance is identified in the Appendix. Specific recommendations with respect to individual project components, specific persons with skills required in the sector and specific items

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1/ The absence of "land" in the standard trio of land, labor and capital is largely but not entirely accurate. In most majority rule states land is the collective property of the people and is held in trust for them by the state. Individuals may have life long leases for its use or exercise a claim by traditional occupation so that the problem of land alienation in the Latin American sense is not usually a problem in the region. Some major exceptions to this follow. In Southern Rhodesia half the land has been reserved for the four percent white population with the remainder divided into Tribal Trust Lands (under control of "traditional" authorities who allocate it among people under their authority) and African Purchase Areas which represent relatively small areas where Africans can purchase land and receive title to it in a Western sense. In Swaziland nearly half the land is owned by non-citizens, chiefly South African whites.

of equipment are the primary responsibility of the developing country governments working in close cooperation with donor field representatives who, over a period of years, are able to maintain a steady flow of technical assistance, assess its effectiveness and provide feedback to donor headquarters. Recommendations in Part II which are somewhat specific in nature have been made mostly where there has appeared to be a consensus in the field that these elements are required.

From among the categories above, it appears that the following initiatives would be ones which donors could undertake, which would be welcomed by host governments and which could assist the governments of the region to achieve the objectives they have defined for themselves.

Recommendations for Donor Assistance

1. Manpower Development

A multi-sector manpower development program for the region which would invest significant amounts of new resources into improving the quality of education and its volume is required. A program of this sort would involve formal and non-formal education and training and would be linked to weaknesses identified by host governments in their overall manpower development efforts.

A common approach in the past has been to request national counterparts for foreign technical specialists who could either be trained to replace the expatriate or could learn by working with him on the job. Frequently, the trained counterpart would leave the program prior to its completion because he was needed more urgently elsewhere in government or he would be enticed away by higher salaries in the private sector. A project might train one or two people to replace a given specialist over a several year period only to have one be transferred or leave and another die in a road accident. The difficulty in obtaining counterpart personnel is a reflection of the small trainable pool[1/] of those with formal skills who can be recruited for further training.

Vocational and technical training schools have been established and numerous non-formal schemes attempted to expand the availability of skilled and educated manpower. Most countries suffer from inadequate resources to expand quantity while maintaining quality and quickly encounter constraints of physical facilities, teachers and administrative staff, equipment and supplies, etc. The SADAP report on manpower provides details of these difficulties as have numerous other reports cited in the bibliography of that report. With respect to the manufacturing sector, such training needs to be coordinated with manufacturing enterprises and periodic surveys are required to identify skill shortage and skill surplus areas. Beyond this, however, the underlying problem remains an aggregate shortage of suitably trained and educated manpower.

1/ This problem is especially critical in Zambia, Malawi, and Botswana. The exact situation in Mozambique is not known, however, the literacy rate and number of Mozambican graduates is extremely low and it can safely be assumed that the counterpart problem in Mozambique is severe. The situation in Swaziland is serious but appears less critical while Lesotho has a somewhat better situation in this regard.

Consequently, it is recommended that donors assist governments to achieve their goals of (1) universal and compulsory primary education, (2) of a modified primary curriculum which prepares pupils for life and work in their society and not just for a possible continuation to a higher level of formal education, (3) of expanded teacher training capacity and (4) the introduction or strengthening of business and commercial studies at secondary and tertiary levels.

It is also recommended that priority be given to non-formal training schemes for small scale entrepreneurs in both the urban and rural informal sectors. Such entrepreneurs have the capacity of developing the rural services infrastructure, improving marketing and distribution systems and generating employment for others as they grow. A program to train trainers in this field would also seem to be of central importance.

The severe shortage of trained managers and administrators deserves priority attention. Existing schemes can be enlarged and new programs set up at appropriate national institutions. Seminars for managers of parastatals and large scale companies could be held in each country for intensive periods of high level training. (This is accomplished in Zambia through an ILO Management Development Project which has had two-three day retreats, for example, to Livingstone for invited managers who wanted to improve the performance of their institutions).

2. Assistance To Small-Scale Enterprises

There appears to be a near consensus in recent literature on the subject that small-scale enterprises have been neglected and represent a significant source of employment generation and increased productivity. The NDPs of all the majority rule states have placed greater emphasis on this area for the next plan cycle. Most countries of the region have specialized institutions to promote SSEs and those who have been more successful appear to be characterized by:

a) independent management which is free to make decisions and take actions without prior approval from other branches of government;

b) emphasis on the creation of local ownership rather than purchasing or building their own enterprises and then trying to operate them makes small entrepreneurs more independent;

c) provision of marketing-related services to entrepreneurs;

d) provision of some form of management training especially in basic operations for small scale operators.

It is recommended that donors seek to increase the effectiveness of these organizations through appropriate training of their personnel and the provision of expatriate personnel when this is requested and appears to be of central importance.

3. Capital Assistance

a) Investment Promotion

All of the majority-rule states have proclaimed their desire to obtain a greater level of private foreign investment. Promotional efforts by the countries themselves have sometimes been disappointing. With regard to the promotion of U.S. private investment, it is recommended that:

i) A study be conducted by the Overseas Private Investment Corporation (OPIC) to identify ways it can assist requesting countries to obtain further U.S. investment. OPIC has primarily been active in the more developed of the developing countries (Brazil, Mexico, Philippines, etc.) but its mandate would appear to permit it to be more active in assisting small scale U.S. firms to expand into the region.

ii) OPIC or another suitable agency could prepare recommendations of measures which could be taken by the U.S. to identify likely sources of new investment intended for South Africa for which incentives might be devised to encourage its expenditure in the majority ruled states instead. Rather than having U.S. companies already active in South Africa expand their plants or open new branches in RSA, the Customs Union countries (Botswana, Lesotho and Swaziland) could provide attractive alternatives.

iii) a pilot scheme be considered that would involve a private U.S. consulting firm acting as trade promotion consultants to one or more countries in the region. The firm could use its knowledge of the U.S. business and commercial sector and its awareness of development problems in the region to identify potential companies, products, and incentives likely to attract them.

Rather than simply exchange information, the firm could function as the commercial adviser to the Embassy and the Ministry of the country involved. The pilot scheme could be replicated if the firm was able to "pay for itself" in the sense that the value of investments identified and brought to fruition in the country in, perhaps, an initial two year period exceeded the cost of the operation. Costs could then be transferred from a donor organization to the government benefitting from the project which would be able to pay costs from part of the resources generated by expansion in the manufacturing sector.

b) Industrial Infrastructure

Another form of capital assistance is the provision of finance for industrial infrastructure (buildings, sewerage, feeder roads, etc.). Once a government has identified a prospective investor for a given commodity (perhaps through the efforts of a U.S. based firm as suggested in a) iii), a donor might agree to provide the incentives needed to convince the investor to proceed. In Lesotho, the government reported that its existing industrial park needed to be supplemented. It is recommended that a policy be established in detail with respect to this question which would permit the developing countries to have some assurance that their needs would be met in this regard once the investors have been identified.

c) Loans to Small-Scale Enterprises

As mentioned above, neither the World Bank nor commercial banks appear prepared to guarantee such assistance. Properly conceived and monitored and based upon proper criteria, however, this could contribute to development of the sector. It is recommended that donors seek methods of providing this type of assistance.

II. SECTOR ANALYSIS

A. Botswana

The manufacturing sector of Botswana is small, highly concentrated, and characterized by significant foreign ownership and participation.1/ (See Table I) The manufacturing sector contributes about 5.4% of total GDP. By 1978 there were over 85 licensed manufacturing firms operating in the sector. Two-thirds of the capital formation of these firms was accounted for by three large enterprises: The abattoirs of the Botswana Meat Commission, the Prinz Brewery, and a spinning and weaving factory.

The formal manufacturing sector in 1975/76 employed 2,435 Batswana2/ in a country where the total wage sector

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1/ In 1976/77, for urban areas 76% of enterprises were foreign owned; for "major villages" 19% were foreign owned and for rural areas 29% were foreign owned (SNDP, p. 200). In the modern sector banking is 100% foreign owned, insurance 89% and pharmacies 71%. If the statistics are broken down by the scale of the enterprise, even the registered small business sector is composed of 46% foreign owned enterprises.

2/ The figure for employment in manufacturing varies by source and by definition of the sector. Unfortunately most sources do not carefully define the sector which leaves the interested observer at a loss to explain why there should be as many different statistics as there are sources. The figure above taken from Table I is drawn from the SNDP. The Annual Statistics Bulletin for March 1978 quoted a figure of 4,550 for the same year as the "estimated total formal sector employment" for manufacturing. Employment within the "small business sector" is estimated as 7,500 persons who are "formally employed" and 1,000 or so "hawkers." Presumably this relates to the 1,600 registered businesses, however, the source for these figures (AID internal memorandum of July 5, 1978: H. Soos trip report) admits that "There are no reliable estimates pertaining to the number of small businesses operating in Botswana" and no attempt is made to define "small business" in terms of capital or number of employees. It is unclear whether any of the so-called "formally employed" in "small business" are counted in the figures for formal employment in manufacturing provided by government sources and no reason for their apparent exclusion has been found.

TABLE I

BOTSWANA: PROFILE OF MANUFACTURING SECTOR, 1975/76

Type of Manufacturing	*Number of Establishments*			*Location*			*Sales in Millions Pula*		*Imports of Intermediate Goods Millions Pula*	*Value Added in Million Pula*	*Labour Force*	
	Batswana owned	*Mixed Ownership*	*Foreign Owned*	*Urban*	*Semi-urban*	*Rural*	*Locally sold*	*Exports*			*Local*	*Expatriates*
Building Materials	4	2	7	12	1		3,1	0,9	1,9	1,9	503	17
Garments and Textiles	6	2	4	6	4	2	0,1	2,9	2,5	0,4	585	18
Wood and Wood Products	2	1	2	5			0,6	0,1	0,3	0,2	172	10
Tanning and Leather	-	–	3	2		1	0,2	0,8	0,2	0,1	159	13
Metal Products	2	–	11	10	3		1,2	0,1	0,7	0,5	431	27
Beverages		–	5	5			3,3	0,3	1,6	1,6	230	10
Paper and Paper Products, Printing and Publishing	-	–	2	2			0,3	–	0,1	0,2	52	8
Agro based Products	–	–	1		1		0,1		0,1	–	78	1
Meat and Meat Products EX BMC	–	-	1	1			-	–	-	–	17	3
Chemical and Rubber Products	–	–	2	2			2,2	-	0,1	1,7	49	8
Miscellaneous	–	–	7	7	1		0,2	1,3	0,8	0,7	159	13
TOTAL	14	6	45	52	10	3	11,3	6,4	8,3	7,31	2 435	129

Source: Ministry of Commerce and Industry in 1976 employed 65,756 of whom 4,000 were expatriate. About 46,000 mostly male laborers are in wage employment outside the country, principally in mines in South Africa. Most of the enterprises are centered around the production of textiles, leather products, metal working, brickmaking, woodworking, and furniture making; most enterprises are small and utilize high percentages of raw materials imported from South Africa. It has been estimated that only about 20% of the total value-added in the manufacturing sector is local. Total industrial production in 1974/75 was estimated to be about P66 million, of which two-thirds was accounted for by the Botswana Meat Corporation. The meat industry is virtually the only significant enterprise with immediate export potential.

1. <u>Constraints to Developing the Manufacturing Sector</u>

a. <u>Market Size</u>

Botswana's domestic market is too small to support a wide range of possible import substitution industries. A population of 725,500 people dispersed over 570,000 square kilometers severely limits the scope of manufacturing activities that can be economically viable for the domestic market alone.

Botswana is not only small in terms of population size but also in terms of per capita income. Although per capita income is about $430--about the fifth highest in Africa--about 50% of the population subsists below the poverty datum line.

b. Transport and Communications

Marketing products manufactured in Botswana is also difficult because of the distances involved and the very poor road conditions, especially in rural areas. High transport costs increase substantially the cost of any item--whether raw materials for manufacturing or finished products.

Transport is also an uncertain proposition because of the country's geographic position. Not only does Botswana have no coastline, it is surrounded by hostile white minority states on which it must depend for transport of imports and exports. The railway in Botswana is operated by Rhodesia Railways at the same time that troops loyal to the white minority controlled government cross the Botswana frontier with impunity, inflicting loss of life and property.

The road to the north is to connect with Zambia but the border is only a point on the map in the center of the Zambezi River, the same point at which S. Rhodesia and South African occupied Namibia also meet.

Telecommunications are also deficient in many ways.

c. Unstable Political and Economic Climate

Botswana is bordered by two countries, Namibia and Zimbabwe, which are undergoing transition towards independence and whose political future remains uncertain. The political situation in South Africa, a third neighbor, is expected by most observers to deteriorate after the current conflicts in Namibia and Zimbabwe have been resolved. Given its geographic and economic links with the countries in question, Botswana's political independence and stability in itself wil be less effective in attracting foreign capital so long as the political climate in southern Africa continues to worsen. Further, if sanctions are imposed on South Africa, they will have direct consequences for the peripheral countries.

d. Manpower

There is an acute shortage of skilled manpower in Botswana, and this shortage can only be overcome in the short term by relying heavily on foreign personnel, either provided through technical assistance or hired directly under contract. In the latter case, the cost of acquiring expatriate skills can be very costly, given that high wages and fringe benefits must be awarded to entice foreign manpower. Expatriates now hold over 60% of skilled jobs.

e. Lack of Local Entrepreneurs and Managers

In addition to the paucity of skilled labor, there is an acute shortage of local entrepreneurs and managers. Most Batswana look upon cattle raising or a job in the civil service as the most secure and prestigious occupations in which to engage. They do not identify a secure future with industrial or commercial enterprises. Returning miners "invest" mainly in consumer goods or cattle and seldom in manufacturing activities.

f. Low Agricultural Productivity

The agricultural sector in Botswana has not developed as rapidly as its potential would indicate. Botswana is potentially capable of feeding its population, as well as exporting food--both in unprocessed and processed form; nevertheless, few productivity gains have so far been realized. Consequently, manufacturing activities centered around food processing have had to be foregone due to a general lack of investible surpluses.

Batswana traditionally lived from the land, making the concept of marketing difficult for a large portion of the population. For example, any attempt to sell milk in the villages is met with resistance because milk is considered a free good which comes from cows at no cost. People hesitate to buy milk regularly, instead deciding to wait for irregular gifts from friends or engaging in occasional barter.

g. Natural Resources

Botswana has few key raw materials suitable at present for industrial development. Those available are: copper, diamonds, nickel, coal, soda ash and sulfur.[1/] Currently, Botswana is working out an agreement with transnational corporations to cut and process diamonds,

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1/ The mineral sector has been developed from insignificance in 1966 to where its output totalled P125 million in 1977 and this is expected to double by the mid-1980s (chiefly from diamond production). The sector contributes 57% of exports, 20% of total cash employment. The rapid growth of the mining sector does not offer scope for significant new employment creation directly, however, it may offer opportunities for mineral processing, development of supportive manufactures and it will provide foreign exchange which, in part, will translate into greater capital resources for development of the manufacturing sector.

but this proposal is opposed by one of the world's largest diamond-producing companies. Given the low world price of copper and the fact that much of Botswana's copper and nickel are mixed and the process of separating the metals is costly, it will be very difficult for Botswana to compete in the world market in the short run with other countries exporting these metals.

Forty billion tons of coal exist of a quality which can be washed to produce a "low sulfur export quality steaming coal product," but coal gasification is prohibited at present by technical and market constraints. Water is also a constraint both as a potential energy source and for mineral processing which sometimes requires large quantities.

Botswana has potash (soda ash) and is currently looking for a partner to aid in its exploitation. Such a project will entail large investment. Nevertheless, it will give rise to other manufacturing activities (salt chemicals, fertilizer, etc.).

In sum, although Botswana possesses natural resources, several are currently not economically exploitable due to Botswana's inadequate infrastructure, low world prices, lack of technical expertise, or lack of a willing partner. Agricultural produce as a "natural resource" offers scope for processing once production levels are raised adequately.

h. South African Customs Union

A major constraint to further development of manufacturing activities in Botswana on balance is its membership in the Southern African Customs Union with South Africa, Lesotho, and Swaziland. For a discussion of this, see Part I of this report.

The questions of polarization of growth is also considered in Part I with respect to its impact on manufacturing.

2 Manufacturing Policies and Priorities

The manufacturing sector has been given a low priority in the Second NDP and follows mining, agriculture, infrastructure and education. The GOB has been slow to define clearly an overall short, medium and long-term set of development policies for this sector and to outline a specific and comprehensive strategy to achieve them. This represents a constraint on the sector.

The SNDP identifies four general national objectives for the sector: (1) to encourage private investment, (2) to diversify sources of investment, (3) to promote locally owned businesses especially in rural areas of a small-scale nature, and (4) to protect the consumer against exploitation. To achieve these, the SNDP touches on most conventional mechanisms and briefly mentions the need to do the following:

a) Identify investment opportunities;
b) Establish a Mineral Dressing Laboratory;
c) Strengthen the Industrial Development; Advisory Board;
d) Streamline tax incentives;

e) Review licensing legislation;
f) Protection for infant industries;
g) Development of rural infrastructure;
h) Establish Production Devlopment Committees at local level;
i) Technology Center for appropriate technology;
j) Increase captial in National Development Bank;
k) Provide risk captial for rural industries;
l) Mobilization of long-term capital in Botswana;
m) Expand the Traders Extension Service;
n) Market development;
o) Participation in Trade Fairs;
p) Increase training for industrialization.

Based on discussions with Botswana Government officials, the more general national objectives are presented here in more detail and an appraisal of the institutional structure available to implement them follows.

a) Utilization of Local Resources

The development of the manufacturing sector should be based on the utilization of Botswana's natural resources to maximize local value added and reduce the need to import expensive raw materials and intermediate inputs.

b) Attracting Private Investment

Botswana would like to create a stable environment to encourage foreign private investment. The GOB imposes low taxes on profits and allows unlimited repatriation of profits. In addition, the government gives preferential depreciation rates to prospective foreign investors.

Botswana officials are probably correct in their belief that political and economic stability will do more in the long run to attract foreign investors than a comprehensive package of fiscal and financial inducements. Botswana's domestic political and economic conditions are favorable. Nevertheless, foreign investment may be deterred by the political unrest in neighboring countries.

In some respects it can be argued that Botswana does not give sufficient technical support to investors. This is especially the case when one considers that South Africa grants substantial fiscal, financial, technical, and infrastructural assistance to foreign investors who are willing to establish businesses in the "homelands" as part of its Bantustan policy. Government officials in Botswana consider the homelands a major competitor for foreign investment. The fact that Botswana is politically independent whereas the Bantustans are part of RSA, cannot be considered an economic advantage to Botswana in terms of attracting foreign investors under present circumstances. If RSA experiences political upheavals with adverse economic consequences, Botswana will be seriously affected due to its overwhelming economic dependence on South Africa. Thus, a prospective investor, if he is going to invest in southern Africa at all, will probably take advantage of South Africa's generous concessions and assess the risks as at least comparable.

Botswana is also keen on diversifying the sources of its private capital investment. Currently the bulk of ownership of industry in Botswana is South African.

Botswana is actively seeking private American and European capital to provide better balance.

c. Provincial Diversification

Botswana is seeking to diversify the geographic base of manufacturing activities to discourage rural/urban migration by increasing employment opportunities and incomes in the rural sector. This policy has marginal application, however, in rural areas with low population densities and few local resources. The high cost of transporting raw material inputs to the rural sector, to be made into manufactured commodities, only to be retransported to the urban centers for sale, would result in substantial cost increases. A strategy to establish a few provincial centers might be carried out, but rural industry may be limited largely to those which can use locally available raw materials or which can produce for local consumption.

d. Export Diversification

The GOB would like to diversify industrial exports. It is currently seeking assistance from UNCTAD and the EEC to work out operational programs to provide local producers with the marketing skills vital to successful export business. Prospects are not encouraging for the short term but there may be potential once other sectors are developed further and can support such an effort.

e. Exploiting SACU Arrangements

The GOB is considering ways to exploit opportunities within SACU systematically. It proposes to make more use of the infant-industry clauses to allow light consumer goods industries, based on labor-intensive production, to gain sufficient strength to enter the regional market. The GOB supports the concept of a set of producers producing goods for the local market rather than one producer--as is currently found in the Customs Union provision for protection of infant industry.

f. Employment Creation

The GOB is interested in structuring policy measures with a greater bias towards employment creation. The dominant economic activities in Botswana, e.g., capital-intensive mining, cattle raising and arable agriculture, will not be able to absorb all the anticipated growth of the labor force even with new policies such as the tribal grazing land program, horticulture and dry-land farming plans.

g. Small-Scale Enterprises

It is reported that the small business sector is looked upon with increasing interest by the GOB as a source of possible employment for the growing numbers of school leavers and for some of the estimated 46,000 Batswana who are currently employed in South Africa. It also represents an important vehicle for improving rural services and distribution of commodities. Although statistics on the rate of small scale employment are fragmentary, there appears to be considerable scope for expanding repair and construction services, furniture and tanning enterprises.[1/]

It should be noted that a significant proportion of small-scale businesses, especially retail operations attached to the home, are operated by women. Partners for Productivity, an AID funded training program for small-scale entrepreneurs, reported that 73% of program participants have been women. Many appear to perceive of their businesses as an income supplement and do not follow accounting or other business procedures. There may well be additional scope for initiatives involving women entrepreneurs.

The following institutions are available to promote small-scale enterprises and most have other purposes and functions as well.

3. Institutions that Support SSEs

a. Barclays Development Fund

Barclsys Development Fund is an independent aid agency which substitutes for conventional security or collateral by guaranteeing up to 50% of any loan which may be made by a Barclays' manager. The purpose is to support

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1/ H. Soos, Internal AID Memorandum, July 5, 1978, p.4.

small-scale, Botswana-owned businesses which may lack capital, but which have owners who possess the skills to make their enterprises succeed. The Development Division of Barclays was created in April 1976. Criteria for loans include:

- long-term commercial viability once the development phase is completed
- production-oriented
- employment-creating
- import substitution (export-promoting)
- locally owned (either by an individual company or other body)

b. Standard Bank

Standard Bank has no special program which addresses itself to the needs of small businessmen without traditional collateral. Standard Bank, however, has recently concluded an agreement with BEDU to provide financial assistance to entrepreneurs who have outgrown BEDU's assistance.

c. National Development Bank of Botswana

Although under its charter NDB can provide loans to small businessmen, an average of 66% of its activities are confined to agriculture from where most loan applications originate. Water development and farm purchase/improvement represent another 24.6%. There are no special provisions made for high-risk pioneering of small ventures for local entrepreneurs who do not possess the traditional banking collateral. The fundamental lending policy of the bank is to finance only viable projects which are competently managed. The only special consideration given to small businessmen is the support given to BEDU and the graduated interest rate structure that provides lower rates for small loans (6% up to P1,000; 8% for loans between P1,001 and P2,000; and 12% for loans above P2,000).

NDB is the only credit agency for small borrowers requiring medium-/long-term assistance. It seems likely that additional long-term loan or grant funds may shortly be made available to the bank by both the EEC and the Federal Republic of Germany for the specific purpose of promoting small industrial/commercial enterprise. The FRG is also providing a small business credit expert to assist in identifying worthwhile business opportunities.

d. Botswana Enterprise Development Unit

Established in 1974, BEDU provides direct assistance to local entrepreneurs and, with a staff of 15 Batswana professionals and 22 expatriates, has so far assisted 63 enterprises employing 963 persons. A further 80 potential enterprises have been identified which qualify for BEDU assistance. BEDU supports SSEs as follows:

1) Workshops on Industrial Estates

BEDU currently operates five industrial estates where BEDU-approved entrepreneurs may rent workshops and storage space at low, subsidized rates. The estates are: Gaborone Garment Estate, Gaborone Construction Estate, Pilame Estate, Francistown Estate, and

Trade Fair Estate. Each estate specializes in a different industry in order to maximize the use of scarce technical expertise in the country.

2) Technical and Management Training

SIDA, NORAD, UNIDO, and the Peace Corps provide a number of technical experts to BEDU to aid in technical and management training of BEDU entrepreneurs. Training may take place on the job, in classrooms, in seminars and workshops, and occasionally outside Botswana if the training is not available in Botswana. So far, six major skills have been promoted: woodwork, metal work, textile/garmentry, leatherwork, gem stones and construction. Five of these, primarily artisanal in nature, have supplied goods for the tourist trade. The third phase of Swedish assistance to BEDU envisages expansion to training for road contractors, carpentry, building materials, furniture, soap, shoes and pharmaceutical products.1/

3) Lease/Purchase of Machinery and Equipment

Because most BEDU entrepreneurs lack capital, a lease/purchase scheme has been established whereby BEDU entrepreneurs rent small machines and equipment from BEDU and later purchase them for a nominal fee (P1) after the cost and interest payments on the machine have been met. BEDU's policy is to encourage purchase of

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1/ H. Soos, Ibid., p. 10.

machinery and equipment so that the entrepreneur will own it when he moves off BEDU's estate to go into business on his own.

4) Bulk Buying of New Material

BEDU purchases raw materials in bulk at lower cost and resells to its entrepreneurs at lower rates than can be found in the outside market.

5) Other Services

BEDU has made agreements with Barclays, Standard Bank, and NDB to assist BEDU graduates to obtain loans to help them establish their businesses.

BEDU also rents heavy, specialized machinery and equipment on an hourly basis which may be beyond the financial capability of its entrepreneurs.

Finally, BEDU aids its entrepreneurs in marketing their products--local and export.

6) Effectiveness of BEDU

The following quotation briefly summarizes the principal difficulties encountered by BEDU and suggests some means for possibly ameliorating them:

> BEDU has faced problems in several areas: (1) it has not been able to reach large numbers of entrepreneurs despite a large staff, possibly because its assistance involves training in technical skills and "creating" enterprises rather than assisting/encouraging existing entrepreneurs. BEDU's "directed" approach of identifying what enterprises should exist, and which merit support has resulted in the underemployment of BEDU staff. It would perhaps be preferable to allow a combination of market forces and Botswana's interests to determine assistance to enterprises;

(2) BEDU assistance has heretofore been limited to five "urban" centers, since assistance is easier to manage when all the enterprises are close to each other; (3) marketing has been a problem in some instances, owing to quality of goods, and to limited market demand for some goods. A longer term problem is posed by the fact that enterprises which export to South Africa cannot be funded by the Swedish program, even though most inputs are imported from South Africa. A small amount of funds from a donor not limited in this manner would eliminate this constraint. (4) BEDU has not been able to channel increased business in this sector to banks which have funds available; and (5) BEDU has not assisted enterprises in the service or commercial sector, even though such enterprises need assistance in management and book-keeping, and form an important part of the rural sector. Despite these problems, BEDU has impacted on (sic) a difficult sector in which inroads do not come easily.1/

e. Botswana Development Corporation

BDC is a parastatal organization owned by the Government of Botswana. Most of its activities are limited to large-scale ventures, usually joint ventures with foreign capital where the corporation holds shares (usually 50-100%) in the undertaking.2/

f. Botswana Rural Industrial Promotions

A non-profit association, Friedrich-Ebert Foundation of Germany, has set up the Rural Industries Innovation Center at Kange in order to carry out research,

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1/ H. Soos, Ibid., Pp. 10-11.

2/ For a discussion of BDC's policies see the Memorandum from the Manager for Corporate Planning to the Managing Director of 11 October, 1974, 24 pp.

to develop implements and techniques suitable for the commercial exploitation of locally available resources and to train rural dwellers in the use and application of such implements and techniques.

g. Brigades

Initially the Brigades Movement provided training for primary school graduates in technical and vocational areas, thus supplying certain technical skills needed for local industry, especially in the rural areas. Emphasis was placed first on training; later it was placed on training and productivity in order to finance the program. Academic and vocational training are provided in classrooms and on the job to develop suitable values attitudes, knowledge, and skills. Specific training in such areas as bookkeeping, English, and mathematics necessary for the acquisition of specific trade skills are also offered.

Brigades manufacture such commodities as bricks and blocks and wethouse horticulture systems in order to generate employment in the rural area for brigade graduates and to make profits which may be reinvested in the centers. The centers also develop and produce low-cost, labor-intensive tools and machinery for small-scale industry ranging from hand-operated molds for the production of cement blocks to tanning drums for small-scale tanneries.

Brigades have experienced certain difficulties. They have:

a) Sometimes produced goods that compete with those of their graduates;

b) Sometimes tended to produce skilled labor more than competent entrepreneurs;

c) Often suffer from inadequate supplies, facilities and poor teacher quality;

d) Suffered from poor management and poor choice of training activity on occasion.

On balance, the Brigades are and will continue to provide critical services to fill gaps in the rural economy. In 1976 there were 1117 trainees with a planned increase of 15% per annum. Government is seeking to overcome the constraints mentioned above by providing a recurrent per trainee subsidy to needy Brigades. In addition, a World Bank loan has been obtained of P1.6 million for capital projects plus P300,000 for construction of a Brigade Skill Development Center (BRIDEC). Government is keenly aware of the danger of creating dependency on government by the Brigades and has, therefore, established guidelines for assisting them which should minimize this. The Brigades are providing the foundation for a future entrepreneurial class in Botswana and, as such, are contributing to one of the major themes of this report: the need to expand the trained and trainable manpower pool as a basis for future expanded activity in any aspect of the sector or, for that matter, the economy as a whole.

h. Partners for Productivity

Similar in intent to the Brigades is the PfP program. It is an AID funded effort to train personnel for the Ministry of Commerce and Industry's Traders Extension

Service to assist small businesses. By training agents and using its pilot scheme to provide assistance to entrepreneurs in southern Botswana, the PfP expects to increase the skills of small scale business operators.

4. Prospects for Development in the Manufacturing Sector

Cattle ranching and diamond mining are at present the two pillars of Botswana's economy. The arable agriculture sector has to date faired rather poorly. Copper/nickel mining at Selebi-Pikwe is totally geared to the export market and offers no scope for secondary processing. At present, therefore, the prospects for the development of the manufacturing sector in Botswana appear to center around (1) the further processing of the by-products of the meat industry, e.g., leather and leather goods, meat canning, and possibly soap manufacturing using animal tallow, (2) service industries such as veterinary remedies, supplementary animal feeds, protective clothing, and foundry products, and (3) some agricultural processing.

Botswana's agriculture potential, as indicated above, is only barely developed. The Ministry of Agriculture plans to expand and diversify this sector's development during the next Plan period (1980-1985). To the extent that this effort is successful, it will provide the basis for the development of the food processing industry and such auxiliary industries as fertilizer normally associated with such development.

Botswana has millions of tons of coal, albeit of rather low quality. In addition, there are millions of tons of soda ash salt and potash, various clay deposits, additional deposits of copper, limestone, gypsum, asbestos, and possibly others yet to be uncovered. These minerals clearly offer great scope for development of a relatively diverse mix of secondary processing operations sometime in the future.

5. Political Perspective

Regional cooperation in the manufacturing sector involves the creation of some scheme for economic integration or some type of limited trade agreement. The prospect of Botswana joining a formal scheme for economic integration at the customs union level with any of the countries at this time appears unlikely for the following reasons:

- the failure of past schemes linking countries in southern, eastern and central Africa
- discontent with its membership in SACU
- general political instability in the neighboring countries
- disappointment arising from Lesotho's decision to pull out of the regional University of BLS
- lack of a regional infrastructure to encourage trade

Botswana would welcome a settlement in Zimbabwe and Namibia. Since Zimbabwe has a fairly advanced industrial sector producing both final and intermediate goods, Botswana could switch many of its trade relationships from RSA to Zimbabwe. A free Namibia would provide an outlet to the sea for Botswana via Walvis Bay, rather than through South Africa. Botswana would welcome any regional transport project linking the two countries.

As for the countries farther north, such as Zambia, there does not seem to be much potential for trade in manufactures. There already exists a trade agreement between Zambia and Botswana, but it is used only to a limited extent. Zambia's goods are priced much higher than those produced in SACU. The prospect of importing Zambian cement, for example, was restricted by cost. In addition, Zambia has a severe balance of payments problem and lacks foreign exchange to pay for its imports from Botswana.

Botswana also has a trade agreement in textile goods with Malawi. Nevertheless, this treaty is not particularly useful because Botswana has only a modest textile industry. Other than this, Botswana has very little export to Malawi.

Botswana still has a trade agreement with Southern Rhodesia but under an independent Zimbabwe such an agreement may require modification. Botswana does not recognize S. Rhodesia, but still maintains some vital economic linkages.

Botswana is interested in the Eastern and Southern Africa Preferential Trade Area (ESAPTA) because it may provide an alternative to SACU. In addition, Botswana's beef industry will probably benefit from the larger market. Botswana initially viewed its membership in the EEC/ACP Group as providing a potential market for its beef, but beef exports to the EEC encountered political problems in the European community. In addition, the ACP countries believe, in general, that some potential benefits from the Lome Convention have been reduced because the EEC has access to Third World countries for their exports.

In sum, Botswana's lack of options and desire to reduce its dependency on South Africa will provide an incentive at least to consider membership in potential regional trade groups if the political situation in the area becomes more favorable. It will probably consider membership in weak groupings and joint ventures in manufacturing in the near future with other African countries.

6. Recommendations for Assistance

a. Financing

The development of the manufacturing sector has been hampered in Botswana by its inability to attract foreign capital and technical know-how. Botswana finds it difficult to provide the same level of support that its major competitor, RSA, provides to investors in the Bantustans. To alter this trend, GOB could be provided with flexible financing, inter alia to construct appropriate industrial estates in the urban areas. This support could include building factory shells as needed, service roads, and providing electricity, water, and sewerage to service the area. Similar assistance may be appropriate in some rural areas to facilitate SSE development.

Assistance for this purpose may take the form of soft loans with about a 10-year grace period before interest is applied. This should provide enough time for infant industries to learn the arts of production, marketing, and general business operations to permit loan repayment.

b. Business and Management Training

Botswana's manufacturing sector suffers from an inadequate number of trained managers and businessmen. Consequently, the country must import expatriates to run businesses, at very high costs. Assistance could be provided to Botswana to expand programs to train businessmen and women as managers. An Institute for Business and Managerial Training might be created at UBS to train Batswana in business management. This Institute could be regional in scope,embracing Swazi students (under the UBS framework) and refugees. The training program should include advanced-level training abroad under a program designed specifically to provide entrepreneurial skills and experience.

c. Technical Assistance

Based on discussions with government officials in Botswana, it appears that the following areas may require technical assistance to facilitate their efforts:

1) The Ministry of Commerce and Industry (MCI) needs to strengthen its ability to engage in industrial planning for the 1980-1985 National Development Plan, to help implement the Plan, to carry out industrial policy studies, and to train Batswana working in the Industrial

Planning Unit of the Ministry to carry out policy studies for long-term planning and policy modification.

2) The National Development Bank requires personnel to provide Management assistance, train banking staff, develop a system for appraising loans in general, aid NDB in the development of a system for appraising applications of small businessmen, and to aid the bank management and GOB in making policy changes that will help the bank more efficiently carry out its operation.

3) The Investment Promotion Section of MCI requires personnel to aid in the development of an effective investment promotion scheme, including increased contacts with potential investors in the U.S. and elsewhere. Botswana is also interested in assistance which would permit the country to retain a firm in the U.S. which could aid the Ministry in encouraging prospective American and other investors to establish businesses in Botswana. It is recommended that such promotional aid be considered on a trial basis to determine the effectiveness of the approach.

e. Financing Feasibility Studies

The GOB has requested support to carry out feasibility studies of commodities that can be produced in Botswana for both local consumption and for export. Botswana is eager to find additional markets for its exports outside RSA. Thus, the emphasis should be placed on commodities that can be produced for export to the neighboring countries, the EEC, Japan, and the U.S.

e. General Recommendation

It should be recalled that Botswana receives the highest per capita volume of technical assistance of any country in the region[1/], that the sector is the fourth priority after mining, agriculture, infrastructure and education and that numerous other donors are already active in the sector. Providing assistance for a study here and a study there, a few scholarships for management training and perhaps some additional expatriate personnel to provide advice to the Ministry and its associated institutions will probably not be harmful in the majority of cases. Indeed, each person trained or educated is a definite plus and need not be pre-programmed into a particular slot, an exceptional study may provide badly needed ideas and expatriate personnel can sometimes make important contributions to the host government and society. One should not, however, be deluded. The basic problems associated with this sector derive from the larger economy and society and are linked to general problems of manpower shortages, dependency on South Africa and the arid character of the country. The sector-specific problems, therefore, cannot be considered in isolation from these. The country specific recommendations above represent particular needs

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1/ In 1975, Botswana received $76.4 per capita compared to $42 for Swaziland, $26 for Lesotho, $25.4 for Zambia (of which $8.4 was in loan form) and $12.2 for Malawi. These are based on Net Official Development Assistance figures for 1975 supplied by the OECD.

identified by Batswana with whom discussions were held. As recommendations, they come with the all embracing caveat "subject to their appropriate linkage with other sectors and activities." That linkage is properly the function of the GOB with the assistance of the full-time field and headquarters representatives of development agencies.

If donors seriously wish to promote the manufacturing sector in Botswana they should closely examine the composition of that sector in neighboring South Africa. They will note that many major transnational corporations are active participants in that economy. There are many who would argue that this contributes to polarized growth and the perpetuation of Botswana as a peripheral economy bordering the South African colossus. If even a small percentage of new investment by these multinationals was to be diverted to the BLS states, it could have a disproportionate effect on the expansion of the sector and on employment creation. The governments of donor states have mechanisms at their disposal to induce multinationals headquartered in their countries to alter their investment patterns. Positive incentives combined with the translation of the often proclaimed Western abhorrence of apartheid into disincentives to further investment in South Africa would pay economic dividends for Botswana.

Added to this must be a massive effort to expand the trained and trainable manpower pool for all sectors. No country, however modest its population (Botswana has nearly 700,000), can prosper when it graduated 173 students from its secondary schools in 1977 who were qualified to enter a degree program at university. Fears of unemployed school leavers reflect curriculum problems and social problems associated with unrealistic expectations which occur in any society where formal education is a relatively recent phenomenon and is so directly tied to wage sector rewards. As the education pyramid expands at the bottom and broadens itself at all levels, the trainable/educable pool will grow and the country will be able to undertake activities which may now seem remote. Manpower development could become the focal point for a serious effort to assist the majority population in the entire region. Combined with policies designed to begin to alter the fundamental problems of Botswana mentioned above, it may be possible to fashion a program of "assistance" worthy of the name.

B. Lesotho

The Second National Development Plan states that the "industrial sector was extremely small in 1970. In 1969/70 manufacturing generated R440,000, slightly over one percent of GDP. Industrial employment was also minimal, fewer than 600 persons."(p. 128) During the First Plan period an estimated 1,500 to 2,000 new jobs were created in the sector and it appears that by 1974/75 manufacturing was generating R3,2 million.1/ By 1977/78 government estimated output at R2.6 million for the sector at Factor Cost which represented 2.1% of GDP and about 20% of exports. When combined with the related construction and commercial and service sectors (as is done in some reports), expansion appears to have been from 22.6% of GDP in 1967/68 to 38.1% for 1977/78.

Manufacturing is undertaken in processing of local agricultural commodities, handicrafts based on wool and mohair, rugs and tapestries, furniture, pottery, lamps, candles, clothing, umbrellas and production of some construction materials. By 1977 there were about 2,500 jobs or about eight percent in manufacturing out of a total modern wage sector of 32,100.

1/ As in many countries, statistics for Lesotho sometimes vary by source and definition. While the SNDP quotes the 1969/70 figures as above, the Lesotho National Accounts for 1974/75 show a contribution from manufacturing of 2.1% of GDP in 1967/68 as well as for 1977/78. Neither source defines the sector in detail and rather than engage in a probably fruitless search for the definitive statistic, the relevant point is that the share of GDP from manufacturing is and has always been quite small and appears to have grown at a pace roughly consistent with the overall economy.

During the SNDP (1975-1980) Lesotho expects to create an additional 4,500 jobs (excluding rural industry and handicrafts) in manufacturing and an additional 2,500 in construction and civil engineering. To achieve this, GOL's planned public expenditure of R12,168,000 is heavily concentrated in the Lesotho National Development Corporation (LNDC) and its subsidiary, the Basotho Enterprises Development Corporation (BEDCO) which together have been allocated R9 million. Only R60,000 has been budgeted for training, perhaps because it is assumed that training opportunities will be available from international donor assistance.

1. Constraints to Developing the Manufacturing Sector

The participation of Lesotho in SACU is a mixed blessing. Since creation of the Customs Union in 1970, an average of about 60 percent of all GOL revenue has come from customs revenues reimbursed by South Africa and the World Bank uses a figure of 74% for 1977. The formula on which reimbursement is based is somewhat complicated, with several adjustment mechanisms, and has been renegotiated recently on terms relatively favorable to Lesotho. In theory, moreover, Lesotho has duty-free access to the South African market, which again in theory should stimulate growth of the Lesotho economy.

In practice, however, Lesotho's membership in SACU represents a major constraint to development of its manufacturing sector. First of all, Basotho enterprises cannot compete with South Africa's large-scale manufacturing. South African industrialists, frequently in collaboration with the GRSA, carefully protect their dominance of the South African market, and non-tariff economic and political barriers are imposed by the RSA to undermine efforts by Lesotho to make inroads into the South African market.

Under the terms of the Customs Union Agreement, Lesotho can apply for infant industry protection. The RSA must give its concurrence before any tariff modification takes place. Negotiation procedures are quite lengthy and bureaucratic. In certain cases the delay has provided the RSA enough time to establish competitive operations, and the process in general provides the RSA with the necessary information to counter applications.

Lesotho is dependent, for example, on South African consultants in conjunction with its application for infant-industry treatment. Several activities which have been considered viable by the GOL have nonetheless been subjected to negative analyses by these consultants. For example, Lesotho exports wool and mohair and has the highest per capita consumption of blankets in the world. Nevertheless, feasibility results always conclude that blanket-making would not be viable. But, in spite of this, South African blanket manufacturing firms are located on the border with Lesotho to cater to Basotho demand.

Various indirect and direct pressures can be used by the RSA to discourage industrial activities in Lesotho. All goods coming into and leaving Lesotho must pass through the RSA, and South African Railways reportedly has sometimes hindered Lesotho's efforts to trade with other countries; consignments destined for third countries have mysteriously disappeared for long periods of time, only to reappear without explanation.[1/] Similarly, when the GOL signed an agreement with Honda to produce motorcycles, the RSA frightened off potential investment by marketing of Honda motorcycles in the RSA. Trading companies, which in many developing economies serve an

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1/ For a more extensive analysis of the effects of SACU and the more general effect of Lesotho's position on the periphery of the South African economy see Percy Selwyn, "The Dual Economy Transcending National Frontiers: The Case of Industrial Development in Lesotho," IDS Communication 105, n.d. Mr. Selwyn argues the case for development of this sector partly to meet the need for rural industries which will create a more balanced domestic economy and partly to provide employment for Basotho whose access to jobs in South Africa is limited. He concludes that the beneficial "spread effects" normally associated with a core economy lying adjacent to a peripheral developing economy like Lesotho's "turn out on examination to have little substance" in this case. For each potential spread effect he offers a countervailing influence caused usually by the apartheid and repressive character of the South African government or the peculiarities of Lesotho's unique geopolitical status as an enclave. In addition, he enumerates "backwash" effects from the core economy including transport policy and the political interest of South Africa in attracting foreign investors into the so-called homelands which for example benefit from rebates of 15% on railway freight charges. See also the paper by Mary Ann Knotts on the SACU which was submitted to AID in early 1978 as part of the SADAP exercise.

entrepreneurial function, in Lesotho are 80% owned by outsiders, mostly South Africans; these trading companies have little interest in trying to assist or promote local production.

Efforts by the GRSA to restrict industrial development in Lesotho represent a mix of motives. Clearly the flow of goods from Lesotho could have only a negligible impact on the large South African market. The primary motive must be assumed to be basically political. In all fairness, however, it should be noted that the GRSA is in part responding to special interests within the RSA that pressure the government for protection from competition.

There is also a lack of indigenous funds for capital investment. Wages paid in Lesotho are very low and do not usually leave any surplus for investment. Miners returning from South Africa have reasonable sums held in trust by the GOL which could finance capital investment. Under the extended family system, however, each worker supports an average of five children, his wife, and his aged parents and relatives. Since such a large percentage of the active labor force works outside the country, agriculture is neglected and few families are self-sufficient in food production. A major portion of wages, therefore, must be spent for the purchase of food. Food is imported from South Africa, thus repatriating a large portion of miner incomes back to South Africa. A portion of the remainder is also used for the purchase of consumer goods.

The portion of earnings used for investment is expended largely for the purchase of cattle, traditionally the only prestigious and profitable investment channel for the Basotho. Few returnees view manufacturing as an occupational option, and mining incomes seldom provide entrepreneurial capital for industrial development.

The absence of an investment interest by wage-earners is mirrored in and compounded by the overall restricted development of financial institutions in Lesotho. There is no central bank and investment is largely dependent upon the monetary and credit policies established by the South African Reserve Bank.[1/] The three commercial banks in Lesotho are subject to certain local regulations but have contributed little to local investment. The largest of these is the Lesotho Bank, a fully-owned government bank, the activities of which are greatly restricted by staff problems. The other two (Barlays and Standard Bank) invest most of their funds abroad, partially because of

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1/ This statement is taken directly from World Bank Report No. 1332a-L50 of March 17, 1977 "appraisal of the LNDC and its subsidiary the BEDCO.", p.4. It should be noted that the Lesotho National Development Bank was founded in 1973 on the recommendation of the World Bank through the absorption of the Post Office Savings Bank and R1 million in capital paid in from the GOL. By 1977 assets increased to about R40 million with customer deposits accounting for over 50% of the total. The LNDB is compelled to function as a commercial bank to generate funds for re-investment and it pays tax to the GOL. It makes loans only to its customers, usually in the R600 to R2,000 range and has investments over R15 million. Loans have been primarily development oriented.

the limited opportunities for short-term investment[2/] and partly due to an insufficient number of suitable loan applications.

Development of the manufacturing sector is also constrained by the lack of transportation and communications facilities. The existing road network is largely restricted to the northern edge of the country where the majority of the population is concentrated. The inadequacy of the basic network is complicated by the fact that there are few links with the secondary population center in the southern region of the country; this area has traditionally been oriented towards markets across the border to the RSA. The establishment of "Transkei" and the resulting closure of the southern border has left the southern region of the country isolated from either Lesotho or South African markets. Efforts to extend the road system are underway.

Development of manufacturing has also been restricted by:

- o the small size of the domestic market, including only slightly over one million people and based on a per capita income of R185
- o the scarcity of natural resources
- o the failure of agriculture to provide products for processing
- o the extreme shortage of local entrepreneurs and skilled industrial manpower, particularly in such areas as industrial management and technical skills

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1/ World Bank No. 1332a, Ibid.

- the inability to attract foreign capital and technical expertise

2. <u>Policy Priorities and the Link to Implementation Agencies</u>

Lesotho faces a peculiar situation with respect to its dependence on the RSA. In addition to importing from the RSA about ten times the value of its exports to the RSA, more than half of its male labor force depends on the RSA for employment. The earnings of Basotho in the RSA, in fact, are greater than the entire GDP of Lesotho. Government officials are extremely concerned about the level of external dependence on the RSA for employment and promote investment in domestic enterprises which are labor-absorptive.

Although the agricultural sector, which is the largest contributor to GDP and employs the bulk of the population, is given the highest priority in the overall development program, the modern sector may offer the greatest potential for employment generation.1/ There is already an over-supply of people in the agricultural sector and agriculture cannot absorb large numbers of Basotho returning from the mines in South Africa, even with substantial productivity gains. Second-highest priority, therefore, is given to the modern sector in order to develop job opotunities. The objective for the manufacturing sector is to encourage industry for export, using the minimum imported imputs. The associated strategy is to encourage

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1/ See Selwyn, op. cit. and World Bank Reports 1332a and 1083a plus the SNDP.

foreign investment and to promote small-scale industry using local materials and skills.

GOL is committed to the principle of private enterprise and welcomes foreign participation either alone or in joint ventures with LNDC in the development of the country. The Pioneer Industries Encouragement Act has been the vehicle to attract foreign investors. The Act allows approved manufacturers either complete exemption from company income tax for the first six years of operation or deduction of specified allowances from its income for the purpose of calculating its company income tax. In addition to tax exemptions, the Act allows:

- Unlimited foreign exchange and relatively free movement of funds;
- Duty-free entry of all products into South Africa and many products in the rest of Africa, the EEC, and the U.S.;
- Unrestricted imports of raw materials for exportable goods;
- Large labor reserves at economical rates and no job reservation or other curbs on the use and development of workers and senior staff;
- Generous tax concessions for new industries and expansions;
- Guaranteed repatriation of profits, capital, and interest.

Two parastatals have been designated to foster manufacturing activities in Lesotho: LNDC and its subsidiary Basotho Enterprises Development Corporation (BEDCO). LNDC concentrates on promoting industrial investment, particularly through equity shares with foreign investors, and BEDCO is primarily concerned with promoting local entrepreneurs.[1/]

LNDC was established by an Act of Parliament in 1967 "to initiate, promote, and facilitate the development of manufacturing and processing industries, mining, and commerce in order to raise the level of income and employment in Lesotho." The primary focus of LNDC activities has been medium- and large-scale operations, ranging from construction and tourism to the manufacture of garments and handicrafts. Although systematic analysis of the impact of LNDC activities is not available, the IBRD estimates that about ninety percent of total industrial production in Lesotho comes from LNDC-assisted enterprises; such enterprises employ at least 2,000 persons. The fixed asset cost per job position of LNDC operations, moreover, is low, ranging from about R565 to R8,260.

For the fiscal years 1977 to 1981 LNDC has a projected operational budget of about R2.4 million. (See Table II) In 1977 the corporation held an equity portfolio, however, of only about R600,000, of which about half represented investment in sixteen subsidiary companies. Only a few of the LNDC subsidiaries have been making profits regularly; in 1966, the worst year for LNDC operations, only four of the subsidiaries and five of the twelve associated

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1/ For a detailed treatment of the problems and potentialities of LNDC and BEDCO see the World Bank Report 1332a-LSO "Appraisal of the LNDC and its Subsidiary the BEDCO," March 17, 1977 and Annex IV, A and B of this report.

TABLE II

LESOTHO NATIONAL DEVELOPMENT CORPORATION

PROJECTED OPERATIONS
(in R'000)

Year Ending March 31	1977	1978	1979	1980	1981
Approval & Commitments					
Loans	535	615	708	885	1,106
Equity	441	485	534	587	646
Factory Buildings	653	716	790	869	956
Infrastructure	1,700	-	-	-	-
Total	3,329	1,818	2,032	2,341	2,708
Foreign Exchange Component	2,497	1,364	1,524	1,756	2,031
Disbursements					
Loans	754 1/	583	665	814	1,018
Equity	752 2/	481	530	581	640
Factory Buildings	547 3/	686	754	830	913
Infrastructure	300	900	500	-	-
	2,353	2,650	2,449	2,225	2,571

1/ Includes R 433,000 approved and outstanding at 31st March 1976
2/ Includes R 355,000 approved and outstanding at 31st March 1976
3/ Includes R 220,000 approved and outstanding at 31st March 1976

Source:
World Bank. Appraisal of the Lesotho National Development Corporation and its Subsidiary The Basotho Enterprises Development Corporation 1332a-LSO. Washington DC: World Bank. March 17, 1977.

companies showed profits--the result was an overall loss of almost R1.2 million. Projected income since then has shown a small profit with low dividend payments supported mainly by holdings in hotels and tourist facilities. (See Table III)

A recent paper prepared by the LNDC Managing Director[1/] indicated that since 1973 the LNDC, in his opinion, had not had satisfactory results in attracting and establishing viable investments in Lesotho because of "(1) a lack of clearly defined policies and objectives, (2) management problems, (3) lack of organizational structure and clear procedures, (4) management and marketing problems in most subsidiaries, (5) lack of appropriately trained and experienced staff and (6) absence of a coordinated investment promotion program." To this list, during discussions in July, 1978,[2/] the Managing Director added the problems of a shortage of manpower to train entrepreneurs within LNDC and its subsidiaries and at the level of Basotho entrepreneurs targeted to benefit from LNDC activities. He also indicated that LNDC required assistance to attract foreign investors, required additional finance and equity capital, and required further aid to BEDCO (in addition to Canadian aid).

1/ See S. Montsi, "LNDC Investment Promotion," n.d., 9 pp.

2/ As reported in internal memorandum to AID from H. Soos, REDSO/EA, July 19, 1978, p.4.

TABLE III

LESOTHO NATIONAL DEVELOPMENT CORPORATION

PROJECTED INCOME STATEMENTS
(in R'000)

Year Ending March 31	Actual 1976	Projected 1977	1978	1979	1980	1981
Income						
Interest on Loans	27	152	212	258	386	430
Dividends	130	200	200	200	200	238
Rental Income	187	412	539	777	965	1,151
Interest on short-term investments	42	-	-	-	20	26
Other	19	30	30	30	30	30
Gross Income	405	794	981	1,265	1,601	1,875
Expenses						
Interest Charges	31	45	124	208	298	377
Depreciation	20	12	14	16	17	18
Administrative Expenses	316	360	432	518	622	746
Total Expenses	367	417	570	742	937	1,141
Profit before Provisions	38	377	411	523	664	734
Loss on investments	(293)	-	-	-	-	-
Provisions	(924)	(75)	(53)	(60)	(70)	(83)
Net Profit (loss)	(1,179)	302	358	463	594	651

Source:
World Bank. Appraisal of the Lesotho National Development Corporation and its Subsidiary The Basotho Enterprises Development Corporation. 1332a-LSO. Washington DC: World Bank. March 17, 1977.

Once BEDCO was established, the role of LNDC was redefined so that it now concentrates on medium to large scale industries while indigenous small scale enterprises are the responsibility of BEDCO. The two institutions are, therefore, complementary in terms of responsibilities but appear to be constrained by many of the same problems.

Established in 1975 with Canadian assistance, BEDCO became a wholly-owned subsidiary of LNDC in 1976. Empowered to promote and develop subsidiaries as well as to raise money for its operations, BEDCO can provide assistance to Basotho entrepreneurs through loans, equity investments and financial guarantees, technical and managerial assistance, and work/site facilities. At the time of the LNDC takeover, BEDCO held 51% majority share capital in three enterprises and had granted loans to five other operations. (See Table IV)

BEDCO's operation is currently experiencing serious difficulties. Since its conception in 1975 it has had three managers. The last manager changed the initial orientation of the program and BEDCO began setting up its own units and invited equity partners. This orientation almost ruined the program. The same manager ignored the Terms of Reference and began buying businesses for BEDCO which sometimes not only competed with BEDCO entrepreneurs, but also with LNDC operations. More importantly, the ventures were not profitable.

TABLE IV

LESOTHO:

BEDCO INVESTMENT PORTFOLIO AS AUGUST 20, 1976
(in Rands)

Name	Activity	Date of Esta-blishment	BEDCO Equity % Share Capital	BEDCO Equity Amount	Loans Disbursed under BEDCO SSE Credit Scheme	Maturity & Rate of Interest	Observations
M. Molapo	Chain Manufacture	1976	-	-	100	6 months; 10%	Repayments being made.
M. Mapitse	Brickmaking	1976	-	-	100	6 mos.; 10%	"
N. Sehloho	Watch Repairs	1976	-	-	166	20 mos.;10%	"
J. Moshoeshoe	Leatherworks	1976	-	-	1,813	33 mos.;10%	"
B. Ntisa	Leatherworks	1976	-	-	5,000	36 mos.;10%	"
Mohokare Heavy	Brickmaking	1975	51%	26,814	-	-	Start-up problems, expected to break-even in FY-77.
Senqu Construction Co. (Pty) Ltd.	Construction	1975	51%	13,000	-	-	Expected to break-even in FY-77.
Lesotho Quality Stone Supplies (Pty), Ltd.	Stone Crushing	1976	51%	15,300	-	-	Expected to be profitable in FY-77

Source:
World Bank. <u>Appraisal of the Lesotho National Development Corporation and its Subsidiary The Basotho Enterprises Development Corporation</u>. 1332a-LSO. Washington DC: World Bank. March 17, 1977.

The initial investment projected for BEDCO for the fiscal years 1977 to 1981 totaled about R5.5 million. (See Table V) Canadian aid which was to cover BEDCO operations for this period was used up, however, in two years; BEDCO activity has almost come to a standstill. The Minister of Commerce and Industry is currently reorganizing BEDCO, and Canada has agreed to provide additional funding to keep the program going. No new projects can be developed until better control is instituted. In addition to poor management, BEDCO has been faced with the following problems:1/

- Inability to find successful new ventures and capable entrepreneurs
- Difficulties in marketing products outside Lesotho;
- Insufficient funds for capital investment;
- Difficulties in competing with the quality of commodities produced in South Africa;
- Lack of adequate trained personnel and staff;
- Difficulties in getting BEDCO's entrepreneurs to become self-sufficient after initial support;
- Insufficient industrial sites;
- Refusal of South African distributors to work with black Basotho;
- Inability of BEDCO to provide the necessary guidance to its entrepreneurs;
- Credit restrictions and occasional loan defaults.

1/ For a more complete analysis see World Bank Report 1332a, op. cit.

TABLE V

LESOTHO:

BEDCO PROJECTED INVESTMENTS

(R'000)

		FY77	FY78	FY79	FY80	FY81	TOTAL
1.	SSE Credit Scheme	50	250	320	320	320	1260
2.	Sebaboleng Industrial Estate						
	a) Phase I	290	-	-	-	-	290
	b) Phase II	-	537	-	-	-	537
	c) Phase III	-	-	-	-	500	500
3.	Mini-Industrial Estates						
	a) Maputsoe	-	250	-	-	-	250
	b) Thaba Tseka	-	-	410	-	-	410
	c) Mohales Hoek	-	-	-	250	-	250
4.	Equipment Pool & Mobile Service Units	-	100	100	-	-	200
5.	Machine Shop	-	250	-	-	-	250
6.	Foundry	-	-	200	-	-	200
7.	Brick Plants	-	300	300	300	-	900
8.	Training Scheme	-	100	100	100	100	300
9.	Libeso (Pty) Ltd.	40	-	-	-	-	40
		380	1787	1430	970	920	5,487

Source:
World Bank. Appraisal of the Lesotho National Development Corporation and its Subsidiary The Basotho Enterprises Development Corporation. 1332a-LSO. Washington DC: World Bank. March 17, 1977.

3. Future Prospects in the Manufacturing Sector

In spite of the numerous problems that manufacturing faces in Lesotho, industry is still considered to be a major sector capable of reducing Lesotho's dependence on RSA. Some opportunities for investment exist in the building materials sector and in processing wool and mohair and handicrafts for export. Additional development of the sector, however, will be dependent upon imporved operation by LNDC and BEDCO.

Particularly interesting progress has been made in the development of mohair processing as a SSE. Begun in 1975 as a pilot project supported by CARE, the first phase of the project had a goal of training 205 rural workers in the production of hand-spun yarn. Primary focus was on employment generation for females. Initial employment schedules were basically met. Program expansion was scheduled for implementation in the fiscal year 1978 with a total participation of 5,000 workers projected by 1983. (See Table VI, Lesotho: CARE Village Level Small Industry Mohair Project.) The project gives considerable emphasis to local participation keyed to self-participation. Production units in each geographic area are structured into a single production cooperative. Activities have included market research, production planning, and analysis, and equipment refinement. The

TABLE VI

LESOTHO: CARE VILLAGE LEVEL SMALL INDUSTRY MOHAIR PROJECT

PROJECT ACTIVITIES	PROJECT TARGETS BY YEAR					
	FY-78	FY-79	FY-80	FY-81	FY-82	FY-83
a. To train rural dwellers in the use and operation of locally made spinning wheels, spinning techniques and basic grading and processing of raw mohair:	380	720	1,200	1,200	1,200	---
b. To arrange for production credit through the Lesotho Cooperative Credit Union League and its affiliated Credit Unions:	$33,000 (Approx.)	$63,000 (Approx.)	$105,000 (Approx.)	$105,000 (Approx.)	$105,000 (Approx.)	---
c. To supply project participants with locally made spinning wheels, carding combs, skein winders, etc:	330 units	720 units	1,160 units	1,200 units	1,290 units	---
d. To supply raw mohair to project participants:	21,000kg (Approx.)	63,000kg (Approx.)	129,000kg (Approx.)	215,000kg (Approx.)	301,000kg (Approx.)	352,000kg (Approx.)
e. To purchase hand spun yarn from project participants at the estimated cost indicated:	15,643kg $194,000	47,180kg $585,000	96,684kg $1,199,000	161,413kg $2,048,000	226,564kg $3,036,000	264,919kg $3,550,000
f. To market spun yarn at the estimated wholesale values indicated:	9,896kg $147,000	37,478kg $536,000	81,929kg $1,196,000	145,174kg $2,316,000	210,134kg $3,509,000	261,[illegible]kg $4,366,000
g. To carry-out a program of cooperative education and formation in conjunction with the Department of Cooperatives and the Division of Extra Mural Studies, National University of Lesotho for the establishment of primary production cooperatives with the indicated membership:	4 p.p.c. 400 members	8 p.p.c. 800 members	12 p.p.c. 1,200 members	12 p.p.c. 1,200 members	13 p.p.c. 1,300 members	---
h. To provide basic construction materials, cement, timber, lime, window frames, door frames, etc. for construction of village level production facilities and primary producer cooperative offices and storage facilities:	---	4 p.p.c. 20 V.L.P.F.	8 p.p.c. 40 V.L.P.F.	12 p.p.c. 60 V.L.P.F.	12 p.p.c. 60 V.L.P.F.	13 p.p.c. 65 V.L.P.F.
i. To construct and equip the secondary service co-operative headquarters including storage facilities and washing and dying plants	1	---	---	---	---	---
j. To provide management and cooperative training to the indicated number of (National) project staff:	---	2	2	3	3	---
k. To conduct marketing research and export product promotion for hand spun mohair yarn:	x	x	x	x	x	
l. To research and develop project proposal for a supplementary program for the production of value added hand-made mohair articles:	x	x				
m. To implement the supplementary project for production of value added hand-made articles:			x	x	x	x

monthly incomes of participants increased by an average of US$16.40 during the initial 17 months of the project.[1/]

The Center for Industrial Development in Brussels is carrying out a feasibility study on a petroleum supply facility for Swaziland which may later become a regional project, to include Lesotho. This project would set up a mini-refining capability for producing basic petroleum products in case Swaziland's (and Lesotho's) oil supply is cut in the event of an oil embargo on South Africa. Lesotho is interested in a joint venture with Swaziland. The project, including stock and storage capacity, is estimated to cost $28 million in 1979 prices. Project start up would be slated for 1981 at the earliest.

4. Regional Cooperation

Lesotho has demonstrated an interest in regional cooperation on the above-mentioned oil project. On the other hand, Lesotho recently withdrew from the University of Botswana, Lesotho, and Swaziland, the only truly regional institution in the area. Political relations with Botswana have been especially strained as a result of this action, and cooperation between these two countries in any regional institution is unlikely for now. There has been some interest in the development of a regional cargo transport service, but the inability of the BLS countries to agree on basic issues has led to independent air transport development.

1/ For a more detailed discussion of this project, see CARE/OPG, Lesotho, Village Level Small Industries Proposal, April 29, 1977, no. P.PL.

Lesotho's lack of interest in regionalism reflects both its geographic position as a landlocked state within the territory of South Africa and economic dependence on South Africa. The RSA is Lesotho's major trading partner and the economies of the two countries are linked as a result of the customs union. A settlement in Namibia or Zimbabwe will not have much impact on this relationship.

Lesotho is dissatisfied with its membership in the SACU. Nevertheless, given Lesotho's geographical location and the economic constraints that it faces, it has rather restricted options. Lesotho has, however, appointed a team to carry out a study to estimate the cost of withdrawal from SACU and is interested in the proposed Eastern and Southern African Preferential Trade Area (ESAPTA).

5. In view of the numerous difficulties facing the economy of Lesotho and the relative promise of the manufacturing sector, it is recommended that donor assistance to Lesotho be expanded in this sector. Such efforts should attempt to reduce Lesotho's dependence on RSA, especially in consideration of possible world economic sanctions against the RSA in the future which would profoundly affect Lesotho. Private investors will not locate in Lesotho without some form of public support, and Lesotho needs assistance to compete adequately with the incentives given to industry by RSA in Lesotho's major competitors, the Bantustans.

a. <u>Assistance to Industrial Planning</u>

The Ministry of Industry and Commerce does not have sufficient numbers of qualified personnel with the necessary training and experience to plan industrial development adequately. The individuals who are responsible for planning are also responsible for so many other important tasks that they often are not able to provide the necessary time and effort required to plan industrial development adequately. As a result, industrial planning has fallen far behind schedule in meeting the deadline for the next National Plan.

It is recommended that donors consider providing the expertise of two economic planners to the Planning Unit of the Ministry of Industry and Commerce. These individuals could assist government in its planning of industrial development and at the same time help to strengthen the institutional capabilities within the Ministry through counterpart training. One specialist should concentrate on SSEs.

In conjunction with this effort, it is recommended that a number of Basotho be given scholarships to study industrial development and planning. These individuals could replace the technicians following the termination of their contracts.

b. <u>Assistance to LNDC</u>

As discussed above, LNDC faces problems of poor management and inadequate promotional efforts of the corporation itself. In view of the serious difficulties that Lesotho is experiencing, it is recommended that donor technical cooperation be considered in the following areas:

1. Provide a marketing and promotional expert to help the Promotion Section of LNDC to attract foreign investors, possibly including LNDC representation abroad.
2. Provide resources to carry out feasibility studies to identify new manufactured products that can be successfully developed in Lesotho in line with its national priorities, e.g., labor-intensive, export-oriented, employment-generating, utilizing local resources.
3. Provide assistance in construction of industrial estates and providing basic infrastructure and utilities.
4. Lesotho would also like support to help it appraise in greater depth the costs and benefits of Lesotho's membership in SACU and to explore strategies for making better use of the Customs Union or alternatives to it.
5. LNDC needs assistance to organize and carry out its functions more effectively and to set up a comprehensive management training program, including overseas training.

6. Since capital is scarce and very difficult to attract to Lesotho, LNDC requests soft, long-term loans to support capital development in manufacturing activities.

c. Assistance to BEDCO

In view of the many problems facing BEDCO, it is recommended that additional donor support requested by the GOL for the development of Basotho entrepreneurs in conjunction with efforts by CIDA be considered. To this end, it is recommended that donors:

- provide technical assistance to help the Ministry of Industry and Commerce develop an appropriate program for entrepreneurial development in Lesotho (BEDCO needs assistance in management for both BEDCO and BEDCO-sponsored entrepreneurs in planning its manufacturing activities and in marketing its products.);
- aid BEDCO to promote the planting of fruit trees so that it can promote processing activities for its entrepreneurs (BEDCO would also like to receive assistance to develop small irrigation networks to produce vegetables during the dry season for canning.) In this way agro-industries will have more products for processing;
- provide funds to build factory workshops for BEDCO's entrepreneurs;
- provide technical support to help BEDCO develop furniture manufacturing, organize people in crafts, and other labor-intensive industries for export, using the CARE mohair project as a guideline for action.

d. Other Recommendations

1. It is also recommended that the U.S. remove trade barriers on mohair as an incentive to production while assisting in marketing through LNDC.

2. The U.S. Government should consider encouraging U.S. investors to invest in Lesotho by providing tax incentives and/or guarantees *inter alia*, through OPIC. Lesotho believes that the presence of American investors may force South Africa to reduce its restrictions on marketing Lesotho's manufactures in South Africa.

C. Malawi

From independence in 1964 until 1973, manufacturing output grew by an impressive average of 13% per annum. Growth has been less consistent since then attaining 5.8% in 1974, 15.4% in 1975 and actually declined by 1.1% in 1976. The decline in 1974 was caused by unfavorable weather conditions which resulted in a lower volume of production of agricultural commodities available for processing. The reversal in 1976 was caused primarily by unstable political conditions which resulted in delays in the supply of raw materials and other inputs needed from abroad. Since mid-1976, the economy appears to be recovering and adjusting to the border closure between Mozambique and Southern Rhodesia. During the first nine months of 1977, manufacturing recovered with improved weather and greater experience with alternative transport routes so that the manfacturing index increased by seven percent compared to the same period in 1976. (See Table VII) Despite fluctuations in the economy, therefore, the overall position of Malawi is favorable and agricultural development and production have been impressive.

The share of manufacturing in GDP is about 15%, which is relatively high for a country whose per capita income is about $140. Wage employment grew by an average of 8.5% per year between 1968 and 1975, about as fast as real growth of monetary GDP, attesting to the success

TABLE VII

Malawi: Index of Manufacturing Output, 1973-September 1977 1/

(For the annual indices, year 1970 = 100; for the monthly indices, average 1970 months = 100)

	1973	1974	1975	1976	1976 Jan.-Sept.	1977 Jan.-Sept.
Goods mainly for private consumption	150.4	171.7	194.8	194.6	168.8	204.2
Food, beverages, and tobacco	169.4	192.1	225.7	238.6	231.5	247.4
Footwear, clothing, and textiles	115.2	120.1	130.2	109.9	109.6	124.6
Other	142.4	175.1	187.3	176.8	163.0	183.4
Intermediate goods	147.6	129.0	157.6	128.6	128.9	135.0
Total manufacturing for domestic market	149.9	162.1	186.5	179.8	174.3	188.6
Export goods	137.7	131.6	154.0	172.3	186.4	194.1
Total production	147.4	156.0	180.0	178.2	176.7	189.7

Source: Monthly Statistical Bulletin.

1/ The index is based on information about monthly production of about 50 firms, each with over 100 employees. The firms covered account for approximately 75 per cent of the net output of all "larger" manufacturers (i.e., those with 20 or more employees) and for over 60 per cent of the total monetary net output of the manufacturing sector.

of the government's labor-intensive production policies. Fixed investments grew from 8.5% of GDP in 1964 to 22% in 1976. Large-scale industrial growth, defined as industries employing more than 20 employees, has been substantial, averaging 27% per year in current prices.

The manufacturing sector is based mainly on the processing of such agricultural products as coffee, tea, sugar, and cotton and the production of a number of import-substituting consumer goods. Included among the latter are cigarettes, soft drinks, beer and hard liquors; blankets, clothing, soap, edible oil, cotton textiles, and agricultural implements.

The 1976-77 recovery in manufacturing production was reflected in the production for both the domestic market and for export with the latter growing by 12%. During 1976 twelve new industrial licenses were granted. Representing an overall investment of over MK2 million, new industries were planned for industrial and potable alcohols, sheetiron, commercial vehicles assembly, trade containers, pharmaceutical products, and bulk, cured tobacco. Few applications were made for variations or extensions of existing industrial licenses.

During the first six months of 1977 an additional twelve industrial licenses were issued. This represented a projected total investment of over MK82 million and employment generation of 4,000 positions. The major project was the Dwangwa sugar mill and refinery estimated at a cost of MK80 million and providing employment for about 2,500 persons. Located in the Dwangwa Delta on the western shore of Lake Malawi, the Sugar Corporation will grow about 13,000 acres of cane sugar with a further 1,630 acres reserved for a smallholder scheme. Sugar production is expected to commence in 1979 and yield 37-40,000 tons for export. Other activities included dry-cell batteries, plastic products, steel drums, ready-made clothing, and wood products. During 1977 the GOM negotiated a loan of DM1.2 million from a company in West Germany to finance feasibility studies for such production as molasses utilization, knitted fabrics, oil refining, ceramics, tanning, and leather working. Production was intended for both domestic use and export.

1. Achievements in Manufacturing

Since independence the GOM strategy for industrialization has been to encourage import substitution in those areas where there is a sufficient local market. The Industrial Development Act, enacted soon after independence, was designed to regulate the process of industrial development and to encourage joint ventures in the consumer goods industry as a means of acquiring both needed capital and foreign technical expertise. The first industry to expand appreciably was textile production; this sub-sector has now expanded to be one of the largest in Malawi, employing a nearly 100% Malawian workforce (only about 35 are expatriates).

The sugar industry was opened in 1966/67, at first to satisfy local consumption. Before 1966 all of Malawi's sugar was imported, mainly from S. Rhodesia and Swaziland. By 1977, sugar production in Malawi reached 110,000 tons. Of the total, 35-37,000 tons was consumed locally and the remainder was exported.

Sugar is exported to the United States under the Sugar Agreement of 1973. The United States market has been quite instrumental in the development of the industry because it provides an assured market for Malawian exports. Malawi also exports about 20,000 tons of sugar to the EEC under the Lomé Convention Sugar Agreement.

In spite of Malawi's progress in sugar processing, the momentum recently has been set back by a levy on all sugar imports imposed by the U.S. Congress ($2.47 per ton). This levy, encouraged by American sugar producers, reduces the profitability of Malawian sugar sold in the U.S., although the guaranteed outlet for Malawian sugar is still attractive. Malawi hopes to increase its exports under the new International Sugar Agreement which is currently pending in the U.S. Congress. The Agreement would set up a Stock Financing Fund to remove 2.5 million tons of sugar from the world market to support world prices. The purpose of the Agreement is to raise the international price of sugar so that U.S. producers can compete more favorably.

Malawi opened its first cement factory (Portland Cement) in 1956 with used machinery. The output from this factory has been growing to keep pace with the rapid growth in demand for cement to meet Malawi's rapid construction needs. Last year the breakdown of an integral machine created a cement shortage. Thus Malawi was obliged to import cement at high cost.

A mineral survey indicates that good quality deposits of limestone, expected to last for about 100 years, are located near Kasungu. The Government of Malawi feels that there is a need for a second cement factory near Kasungu because of the projected increase in domestic demand--particularly in the central region--and for export. Currently, for example, cement used in Lilongwe, the new capital, comes about 250 miles from Blantyre as opposed to the 60 miles from the proposed factory in Kasungu. Cement production is given the highest priority in terms of overall importance to the economy, but financing is a major constraint. Estimated cost of the new facility is $60 million.

2. Industrial Development Policy

Since Agriculture is Malawi's major economic resource and 90% of the population resides in the rural areas, agricultural development is a key priority. The transport sector, regarded as a major constraint to greater agricultural productivity, receives the highest level of national development expenditure because of the nature and high cost of this activity. Industrialization, Malawi opened its first cement factory (Portland Cement) in 1956 with used machinery. The output from this factory has been growing to keep pace with the rapid growth in demand for cement to meet Malawi's rapid construction needs. Last year the breakdown of an integral machine created a cement shortage. Thus Malawi was obliged to import cement at high cost.

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The objective of Malawi's development policy is to utilize its natural resources to expand the range of economic activities, provide additional income and employment opportunities for Malawians, and to relieve the pressure on the balance of payments caused by imports of capital and intermediate goods. Malawi's approach is to base industrial development on the utilization of its natural resources, mostly agriculture and forestry, to increase the size of local value added.

Past policy has concentrated on providing reasonable tariff protection for local industry, but at the same time carrying out price control to reduce the impact of inflation. The GOM is quite sensitive to maintaining some degree of price stability to assure both international competitiveness and reasonable prices for manufactured goods sold to the rural population.

The new industrial policies for the Third National Development Plan are similar to the original, except for the following:

- more emphasis on improving the economic climate to attract foreign investment
- more emphasis on local ownership and SSEs
- limited use of tax holidays
- more emphasis on labor-intensive production
- more emphasis on regional industrial balance
- more industrial sites

a. Foreign Capital Investment

Government policies to attract foreign capital are generous. There are no requirements for local participation, although the government encourages joint ventures with either parastatal institutions or with private Malawians. Government appraises projects to determine if they fall within government priorities, i.e., overall impact on industrial development, employment, export, etc., however 100% foreign-owned interests are permitted and government allows full repatriation of profits.

In sum, the investment climate for foreign capital is favorable as demonstrated by the increasing involvement of banks and financial institutions in Malawi.

b. Investment Plans in Industry

The greatest share of industrial investment comes from private sources, most of which are foreign. Nevertheless, government parastatals such as Indebank, Agmarc, MDC, and Press Holdings, Ltd. are increasing their share of the total. VIPCOR (Vipya Paper Corporation), a large paper and pulp concern being developed mid-way along the lake shore, is a very large undertaking and should absorb a large share of future investments. More processing of tea, rice, tobacco, and cotton will also absorb investment resources in the near future.

c. Program to Promote Small-Scale Enterprise

As noted above, emphasis on SSE in the Third NDP represents a change from the previous focus on larger scale manufacturing enterprises which could be linked to Malawi's agricultural production or contribute to import substitution. The degree to which support for SSE in principle in the NDP has been translated into budgetary support for specific initiatives in this area is in some doubt since only one line item in the 1978/79 budget has been allocated for this purpose: The salaries of two professionals in the Small Scale Industries Unit of the Ministry of Trade, Industry and Tourism (MTIT).[1/] The SSI unit has no budget of its own and the Ministry of Agriculture is reported only to be considering including rural industries in its overall rural development programs.

Government policies may not have emphasized SSEs in the past since Malawi had not suffered from the acute shortage of local entrepreneurs typical of many of the smaller states of the region. The entrepreneurs, however, consisted mostly of Asian nationals. In recent years the GOM has forbidden the Asian population to engage in commercial activities in the rural areas. Asian businessmen as of 1978 may only operate in Blantyre and the new capital city, Lilongwe. The Asian population was

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1/ See Trip Report by Helen Soos, July 6, 1978 submitted to AID as an internal memorandum, p.4.

phased out of rural areas gradually, however, no provision was made to train Malawians to replace them or to provide incentives to this end. The rural areas now experience shortages of a range of commodities as a consequence.

A preliminary GOM survey of SSE showed about 500 units in the Blantyre area and another 300 in Lilongwe and indicates that: (1) there is scope for non-financial assistance; (2) many enterprises operate from small and unsuitable premises; (3) none of the interviewed entrepreneurs had more than primary education; (4) few kept records of business transactions and (5) few applied for loans because they believed it would be fruitless. Most ran on their own savings and profits and some borrowed informally from third parties.[1/] No employment statistics are available for this category of enterprise with figures kept only for those enterprises employing twenty or more people.

In response to this, the SSI Unit is expected to provide training and extension services, pre-investment advice and guidance, and will initiate policies and legislation designed to promote and encourage the development of SSEs. In conjunction with this effort, a fund will be created, to be managed by the SSE Development Trust, a self-governing body under the Trustee Incorporation Act.

1/ Soos, Ibid., p.2.

The plan is to establish one small-scale development nucleus in each of the Rural Development Project Areas (RDPs) of the National Rural Development Program. Additional centers are also expected to be established in two of the main urban areas. Funds will be required to assist local entrepreneurs in the acquisition of adequate working premises, machinery and equipment, procurement of raw materials/parts, working capital, and marketing. This will be done through various types of controlled credit arrangements.

It has been suggested that the MTIT use the data on goods imported for sale through its Chipiku Depots to identify products sold in stores which can be produced by SSEs. Indications are that such products as brooms and brushes, lamp shades, rubber sandals, and other traditional handicrafts, e.g., grass mats, straw hats and baskets (which are currently imported and sold in Chipiku Depots) are suitable for manufacturing in Malawi with available resources and technical skills. The GOM is planning to develop SSEs under the full control of the Import and Export Company of Malawi. Chipiku Stores will gradually phase itself out, placing the capacity to produce in the hands of small producers.

To improve the chance for success for these initiatives, the Ministry of Labor is planning to establish a vocational training institute for services, commercial trades and management development in Lilongwe with

UNDP/ILO assistance. Due to the absence of suitable accommodations (according to the Permanent Secretary in the Ministry of Labor), only male trainees will be accepted initially. This restriction is consistent with the general pattern of male dominance in education and training in Malawi, which is more pronounced than in any other country in southern Africa. Since the institute will only accept holders of a Junior Certificate or Malawi Certificate of Education, the majority of small entrepreneurs will be unable to benefit from this program in any event. Other training in Malawi (principally at the Polytechnic) similarly has very little if any impact on small scale entrepreneurs. (See discussion below on manpower constraints.)

d. Policy to Promote Regional Distribution of Industry

In order to prevent migration from rural areas to Blantyre, the GOM policy is to create major industrial centers throughout the country. Industrialization began in Malawi in 1964 with one industrial site in Blantyre. The site is filled to capacity and government plans to create another site on the outskirts of Blantyre. The government is interested in establishing an industrial site in Lilongwe in order to encourage industry to establish operations in the capital area, where growth is expected to continue as more government ministries and parastatals move to the new city.

Plans are also being made to establish an export-oriented center in Liwonde, about 73 miles north of

Blantyre on the Zomba/Lilongwe road near the railroad, where most export crops are transported to the Nacala Port in Mozambique for export. A groundnut grading factory has been set up there to grade confectionery nuts for export. In addition, factories making inexpensive shoes and brushes also operate in Liwonde.

A town to house about 17,000 persons will be established to support the planned paper mill at Vipya Plateau, about 200 miles north of Lilongwe. The area's natural resources include a plantation of about 114,000 acres of trees of various ages, suitable for the pulp/paper industry. The project is estimated to cost about $500 million, which includes the paper mill as well as the basic infrastructure (water, electricity, roads, and housing). It is believed that the paper mill will provide the basis for the establishment of other industries catering to the 17,000 individuals and also will provide a basis to support a larger population. The project will assist Malawi to develop its northern region, create employment and generate an estimated 180,000 tons of bleached kraft pulp for export annually.

e. Future Development Policies

The future direction of industrial growth in Malawi will be concentrated on domestic supply-base industries for the export market. Plans are currently being made for factories producing paper and pulp, sugar, and cement. These activities are expected to increase GNP earned from manufacturing from K31.9 million in 1970 to K81.0

million in 1980, a rate of growth of about 10% per year, compounded. Although a large increase is projected for SSEs, most of the growth is expected to come from large-scale industry.1/

Labor absorption is not expected to increase as rapidly as output, due to the capital-intensive nature of paper and pulp. Only small increases in labor productivity are expected. Labor in SSEs will probably increase due to the labor-intensive nature of this activity.

3. Financial Institutions and Aid to SSEs

a. The Investment and Development Bank of Malawi

Indebank was inaugurated in 1972. It is sponsored by the Agricultural Development and Marketing Corporation (AGMARC), Commonwealth Development Corporation (CDC), Netherlands Finance Company for Developing Countries, Ltd. (FMO), and German Development Company, Ltd. (DEG). The authorized share of capital is K2.5 million (shortly to be increased), but the sponsors have provided drawing facilities and increased the funds available for investment to K11.0 million. Indebank is controlled by a board of directors which consists of two representatives of each of the sponsors. It is commercially operated and its objective is to further the economic development

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1/ Prior to independence, SSE output was estimated at K3.3 million or 3.6% of GDP. While the sector has probably grown in absolute terms since then, the contribution to GDP and as a percentage of all manufacturing and commerce has probably fallen in view of the rapid increase in the non-Malawian business sector. (Source: H. Soos, Ibid., p. 3) of Malawi by providing finance and development services for viable and commercially profitable undertakings in agriculture, industry, mining, tourism, housing, and commerce. It finances Malawian organizations as well as joint ventures with other countries. Ultimate plans are to make available to the Malawian public the more attractive investments in its shared portfolio.

Indebank will consider both loan and equity finance, but equity participation will not usually exceed 35% of the total equity of the company. Loans usually require a minimum of 20% down. Indebank will normally require a representative on the board where equity finance is provided, but does not accept primary responsibility for management. Duration of loans must be less than three years.

Indebank reportedly has no risk capital to lend in the K2,000-5,000 range which effectively prevents it from aiding SSEs and some medium-scale industry. A World Bank mission attempted to negotiate a package loan of K4.0 million to Indebank, requiring that K1.0 million be set aside to help SSEs. Indebank refused the loan because the:

- World Bank's money was too expensive to lend to small-scale, risky ventures
- World Bank fixed interest at 8% with a one percent service charge. Indebank could only lend at 11%; thus the spread was too narrow.
- World Bank would not accept loan risk to SSEs.
- World Bank would not accept the foreign exchange risk for the money loaned.

- Indebank lacked experience in making loans to small-scale industry.

Indebank has only one branch, moreover, which is located in Blantyre. Indebank feels that commercial banks, which have branches all over the country, are in a better position to handle small-scale business and to appraise loans in the region where activity is to take place. Indebank feels that there is potential for small business in Malawi, but there is not enough support. The major problem is not finance itself, but the lack of technical, managerial, and institutional know-how to deal with small business. There is also a general lack of information and surveys on the profitability, needs, requirements, economic impact, etc. of small businesses.

b. Malawi Development Corporation

MDC began its operation in 1964 by an Act of Government to develop agriculture, commerce, industry, and mining and to aid in the overall development of the economy. The MDC, although a statutory body, operates on a commercial basis and must make a profit to generate funds to finance its continued development program. It is required to pay taxes on its net profit similar to private institutions in Malawi.

MDC has been active and successful in recruiting funds for investment from such international sources as the Bank of America, the African Development Bank, Carlsberg Brewery of Denmark, the First National Bank of Boston, City Bank of New York, German government loans, Danish government loans, Wells Fargo Bank, and from other international sources. NDC's success is due in part to the political stability of Malawi and its good banking practices and past record.

MDC has now increased its total available funds for investment to K30.0 million. The Government of Malawi only provides about K4.0 million, which means that MDC is no longer primarily a government agency. It makes a profit of about K1.0 million per year. The largest share of total investment in 1976 was in construction and material sector (36%), followed by milling, food and beverage (17%), tourism, hotels and catering (13%), and finance and property (11%).

The purpose of MDC is to develop industry, either with partners (both local and foreign), or by itself. The usual approach is to find foreign partners with expertise and managerial talents and to form joint ventures with them, with MDC usually holding a majority of the shares. It supports a wide range of investment activity ranging from building of hotels and industry to financial and banking activities.

MDC support for small-scale industry is very restricted. In addition to being prohibited from using its funds for high-risk, small-scale ventures, the MDC staff does not have the expertise to handle investment in SSEs. MDC has neither the excess staff to retrain nor the budget to hire additional staff qualified to deal with SSEs, even should it be allowed more liberal activities.

MDC operates from an office in Blantyre and does not have the branch offices in regional areas necessary to appraise and monitor loans for SSEs.

c. Commercial Banks

There are two commercial banks operating in Malawi--Commercial Bank of Malawi and the National Bank of Malawi.

The commercial banks have branches in major cities throughout the country but support SSEs on only a very limited scale. Even at that level, most is done in agriculture, where financial assistance is given to small-scale tobacco and tea farmers to buy fertilizer, agricultural inputs, and implements.

The commercial banks may be interested in supporting small-scale business; however, given the nature of SSE operations, i.e., high risk, low initial return, lack of conventional security, and long-term nature of activity, some form of government support is required. Bank managers feel that it is difficult to know if there is demand for financing in this sector and that the GOM should provide technical skills as well as liquidity to support this sector.

4. Constraints to Developing the Manufacturing Sector

a. Regional Political Instability

Malawi has traditionally imported most of its consumer goods from RSA. Goods previously were shipped by railroad via S. Rhodesia. After the border closure between Mozambique and S. Rhodesia the price of transport doubled. It is estimated that Malawi paid an additional K50.0 million in 1977 in transport costs as a result. She received only K1.5 million from EEC emergency funds.

The closure of the border also resulted in a shortage of imported raw materials and equipment and led to a decline in production by the manufacturing sector. A considerable portion of Malawi's exports, moreover, are perishable agricultural commodities which need to be shipped rather rapidly in order to prevent spoilage. The GOM is clearly concerned about political instability in the region, which could further complicate economic conditions for Malawi, and is especially interested in a peaceful settlement in Zimbabwe.

b. Inadequately Developed Energy Sources

Unlike most of the countries in southern Africa, Malawi has no mines. Mineral surveys indicate a deposit of 24.5 million tons of bauxite, but major mining companies are of the opinion that the quantity is too small for profitable exploitation at this time. There are also gemstones and some low-grade coal deposits in the north. The GOM is considering opening up coal mines because of the instability in import sources from S. Rhodesia and Mozambique. Mozambican coal exports were disrupted following a serious accident in the mines. The catastrophe in the mines resulted in reduced exports and forced prices in Malawi up from K38 to K70 per ton in a span of one year. It is estimated that Malawi can exploit her coal for about K50 per ton and is seriously interested in the exploitation of its coal. There is also some hydro-electric potential in the north which could be exploited to provide energy for industry.

c. Manpower Constraints

There is a shortage of properly trained Malawians to work in middle and upper levels of industry as technicians and managers. The government is aware of this constraint and is now adjusting its educational plans to produce trained manpower to meet the various levels and types of manpower requirements for the manufacturing sector.

Currently there are two technical schools under the Ministry of Education and Labor and three run by private individuals or missionaries. Some of the 13 secondary schools also teach technical subjects such as technical drawing, woodworking, and carpentry. The Ministry of Youth and Culture operates a number of technical schools, initially financed by West Germany, located in the south and in rural areas which cover some types of trade and business activity in the rural sector.

Malawi has reduced substantially its supply of migratory labor to the mines in RSA. Information about the ability of the economy to absorb miners into the domestic economy unfortunately is not readily available. Indications are that many miners were absorbed into the rural sector as subsistence farmers and as paid employees on tobacco estates. Others were hired in the construction sector in urban and semi-urban areas. The Ministry of Youth and Culture engaged some in its vocational training programs to provide such trade skills as shoe repair, building, bicycle repair, door and window making, and work in the rural sector.

d. Credit

Capital supporting large-scale industry does not appear to be a major constraint. Malawi has been relatively more successful in attracting foreign capital than many of the other majority-ruled countries in the area. Currently there is no financial institution which provides loans to pioneering, risky, small-scale investors, and the development of SSE is greatly restricted by a lack of credit. Existing institutions are not interested in providing funding for this function, and the GOM is currently developing an institutional framework within the Ministry of Trade, Industry and Tourism (MTIT).

e. Low Agricultural Productivity Among Small Producers

Malawi's manufacturing sector could be stimulated by greater small-holder production which is the objective of the country's National Rural Development Program (NRDP). The increased emphasis on small holders may yield positive results but it is too early to assess the program. Most of the obvious opportunities for establishing import-substituting industries already have been utilized. Future growth of Malawi's industry will depend primarily on expanding existing industries and on the development and expansion of industries based on the processing of agricultural produce.

5. Political Perspective and Regional Cooperation

As a result of previously negative experiences in schemes for economic integration, it is doubtful that Malawi will be eager to link its economy with other countries in southern Africa in the near future. Nevertheless, Malawi would probably be willing to discuss joint ventures in specific activities. Malawi sent a representative to the conference in Lusaka at the end of March 1978, and signed a Declaration of Intent and Commitment for membership in ESAPTA. This declaration only approves setting up an inter-governmental Negotiating Team to approve the Terms of Reference for the Team and a timetable for its work and does not commit any of the countries to membership if and when the Preferential Trade and Payments Area gets off the ground.

The countries with which Malawi appears to be more willing to cooperate at the current time are Kenya and Botswana. The principal areas for Malawi-Mozambique cooperation are transport and communication. Relations between Malawi and Zambia have also tended to be uneven due to different philosophies and priorities, and this has, at times, hampered close cooperation. In addition, Zambia's serious foreign exchange problems and transport costs via the Malawi route restrict the flow of trade between the two countries.

Trade between Botswana and Malawi may be more feasible. Malawi has a much more developed manufacturing sector and produces commodities which could be exported to

Botswana. The major constraint preventing such linkage at this time is the absence of reliable transport and communication links between the two countries. The removal of sanctions on S. Rhodesia should lessen these constraints.

It can be argued that Malawi's agricultural sector has profited from sanctions imposed on S. Rhodesia following UDI. This is especially true of Malawi's estate agriculture producing such crops as tobacco, sugar, and perhaps cotton. A share of the world demand for tobacco previously exported to S. Rhodesia, for example, was probably redirected to Malawi. It is uncertain whether Malawi can compete with Zimbabwe if sanctions are removed, however, Malawi believes that its produce is competitive with S. Rhodesia because the country now has international outlets for its exprots.

6. <u>Recommendations for Donor Assistance</u>

a. <u>Assistance to Small-Scale Enterprises</u>

There is no institution in Malawi providing assistance primarily to SSEs. The Ministry of Trade and Industry is seeking donor assistance to provide capital and technical assistance to SSEs and is considering opening a land bank to develop and support medium- to short-term undertakings. The GOM estimates an initial fund of K7-10 million is needed. The bank will support both agriculture and industry, with funds to be allocated about equally. The emphasis will be placed on size rather than on activity.

The GOM would also like additional support to carry out in more depth an initial survey being undertaken with Danish assistance to determine the needs of small-scale businessmen. This survey would provide the necessary information to define an overall program and policy. Initially, Malawi will need organization more than financial assistance. It is recommended that assistance should be provided to strengthen the MTIT to help establish MTIT capability in the SSE area.

The World Bank and the EDF are conducting a feasibility study of the potential for SSE. Their preliminary finding is that though intentions are many, concrete plans appear to be few. Once there is a complete assessment of SSE potential based upon the Danish assisted survey and the feasibility study mentioned above, a strengthened MTIT could then begin to articulate detailed project proposals for donor consideration. Given the importance of SSE for employment and productivity and its role in rural welfare, donors may then be more positively disposed to support such facets as underwriting credit schemes, expanding training and constructing infrastructure.

b. Manpower Training

Currently the GOM is seeking funds and aid to establish a degree program in engineering--civil, mechanical, electrical--at the university level. USAID has shown interest in this undertaking by conditionally agreeing to equip and provide technical assistance for the library, science building, student cafeteria and student union building.

There is an acute shortage of business and management training in Malawi. Malawi now has a small indigenous business class but their training leaves much to be desired. UNDP has a non-formal training project for basic traders and entrepreneurs in Malawi. The purpose of this project is to provide basic skills and to increase management training for small businesses.

Given the obvious deficiencies in the SSE area, donors may wish to increase their assistance to training by strengthening existing training institutions and encouraging new schemes through the MTIT, possibly using existing facilities of the MTIT or the Ministry of Education or Youth and Culture once an overall approach to SSE has been decided upon and government priorities have been more clearly established and translated into budgetary commitments. The concern for SSE should not overshadow assistance which may be required for Malawian managers and administrators at the large and medium scale levels. The number of expatriates in the country and their predominance in the more technical and higher managerial areas is a clear indication that more is required here.

D. Mozambique

The manufacturing sector contributed about 15% of GNP prior to Mozambique's independence. Political and economic uncertainties since then have probably contributed to a decline in this share. GNP declined 20-30 percent in real terms in 1974 and again in 1975. In 1973 GNP was estimated at $2.6 billion and per capita income at $318. At the end of 1975 GNP was reported below $2 billion and per capita income had fallen below $200. Much of this decline was due to a rapid reduction in manufacturing activity due to the exodus of skilled technicians and industrialists.

Manufacturing activity is confined to consumer goods for the domestic market, processing of export agricultural crops such as cashew nuts, cotton, sugar, and tea, oil refining and some food processing. Amongst major consumer goods industries are cigarette factories, breweries, clothing and textile factories, grain milling, and cement factories.

One can argue that the share of manufacturing in Mozambique falls much below its potential. The Portuguese during their lengthy rule devoted their attention to producing agricultural staples for export, and imported consumption goods from Portugal, South Africa, and S. Rhodesia. Portugal's relationship with Mozambique followed the typical colonial pattern, i.e., a source of primary products and a market for consumption goods. It neglected to provide the country with the basic infrastructure and capital investment necessary to encourage industrial development. In addition, Portugal itself was a relative late comer into the developed world and lacked the necessary industrial skills and technology to export to Mozambique.

1. Constraints to Industrial Development

- Since independence the manufacturing sector has suffered severe hardships. Foremost among the major problems have been:
    - Exodus of Portuguese managers, technicians, and skilled manpower
    - Closure of the border with S. Rhodesia
    - Unbalanced ports and rail development
    - Shortages of raw materials
    - Insufficient credit
    - Minimal private investment
    - Severe balance of payments deficits
    - Unexploited potential mineral industries
    - Socialist economic philosophy with frightens away some private capital (although it is not a constraint to industrial development per se)
    - General political instability in some neighboring countries
    - Large pay increases for workers and declining worker productivity
    - Lack of local entrepreneurs and managers

The exodus of Portuguese technicians and skilled professionals from Mozambique left the economy in a state of turmoil. The government has increased its efforts to recruit technicians from the socialist countries and from the West. Nevertheless, the language difficulties and adjustment problems have reduced their effectiveness. Recently the government has made an effort to improve its relationship with Portugal in an effort to attract Portuguese professionals until it has trained its citizens.

Although evidence indicates that Mozambique's mineral resources are vast and varied, they have been exploited only to a limited extent, thus preventing the development of potential mineral-base manufacturing. Currently only limited amounts of coal, beryl, copper ore, columbite, and tantalite have been exploited. The country is believed to have large gas and oil deposits but exploitation of these has not yet been initiated.

In addition to mineral resources, Mozambique has good agricultural potential. Agriculture was developed by large European-owned plantations during colonial rule with forced African labor. After independence Portuguese farmers left the country and agricultural productivity fell, reducing the amount of food for processing and export.

Manufacturing had traditionally been the occupation of the Portuguese. Thus Africans lack skill and experience in this area. In addition, there is a shortage of African entrepreneurs. These factors will make future development of manufacturing in Mozambique difficult, however, government is committed to the mobilization of the population for development, inter alia, through raised agricultural and industrial productivity.

If government is able to transform the economic structures of the economy left by the Portuguese into ones which are seen to be directly beneficial to large numbers of people and this is buttressed by worker participation in the decision-making processes of the workplace, Mozambique may be able to harness the energies of her people in a way which, with proper technical assistance, may permit the country to transcend at least some of the constraints enumerated above. For the present, such expectations are not being fully realized because of the objective historical conditions in which Mozambique finds itself and because of its current geopolitical position.

The manufacturing sector has been seriously affected by balance of payments problems which translate into an inability to import needed intermediate inputs and spare parts. The sector is also constrained by closure of the border with S. Rhodesia in 1976. Prior to this event, Mozambique was a transit port for Zaire, Zambia, Malawi, Swaziland, S. Rhodesia, Botswana, and South Africa.

The transport sector has in the past earned significant revenue for the economy. The border closure has resulted in the reduction of revenues from this source.

2. Industrial Development Strategy

Mozambique's national economic and social goals were articulated by the Third Congress of FRELIMO which met in February 1977. These were, among others, some of their goals:

- to accelerate the creation and consolidation of light and heavy industry
- to promote the socialization of agriculture and its gradual industrialization
- to orient the development process through global economic planning
- to develop scientific knowledge and technical skills among the population at large

Immediate priority was to be given to an increase in production and productivity in all sectors of economic life with first emphasis on agriculture. Manufacturing could play a supportive role in this undertaking particularly in the processing of agricultural commodities. To achieve the transformation implied by the above goals, Mozambique will require substantial technical cooperation. Several donors (Sweden, Denmark, UNDP, USSR, etc.) are already assisting in this regard.

3. Regional Cooperation

Apart from S. Rhodesia, South Africa, and Angola, little trade has taken place between Mozambique and her Southern African neighbors. In 1973 African trade other than with the above countries amounted to only 0.2 percent of imports and 1.6 percent of exports.

Under the new government the content and direction of Mozambique's trade is expected to change. New aid and commercial connections are being established with Eastern countries, and the South African share can be expected to fall correspondingly.

A shortage of foreign exchange will place a constraint on the development of trade between Mozambique and her neighbors. A settlement in Zimbabwe will probably restore trade links between these countries and will reduce trade with RSA even more. In addition, removal of sanctions on S. Rhodesia will reopen transport links that were shut off after the border closure. This will set forth the conditions for intra-regional trade.

Differences in political and economic philosophies may also pose serious contraints on regional economic integration. Although there is some scope for the creation of limited trade agreements, ambitious schemes for regional cooperation are unlikely to be created in the near future.

4. Recommendations

a. Assistance to Provide Skilled Manpower

As a short-term remedy for Mozambique's skilled manpower shortages, it is recommended that

Mozambique be provided with the means to obtain trained manpower to help the country to:

- reopen factories shut down due to the Portuguese departure and to help revive establishments which are barely surviving;
- train Mozambicans to repair tools and equipment needed to maintain industry;
- aid the Government of Mozambique in setting up industrial priorities in keeping with its overall development goals, resource availability, and capital accumulation potential and to plan industrial development on a short-, medium-, and long-term basis;
- aid the Government of Mozambique in exploiting the mineral resources of the country;
- carry out feasibility studies to determine the commodities which can be produced in Mozambique for domestic consumption and for export;
- help rejuvenate the railroad network when the border with Zimbabwe is reopened.

b. Training Assistance

The long-term solution to Mozambique's skilled manpower problem can be found in training. Efforts should be concentrated on training managers for industries in Mozambique and could include:

- Identifying management development needs linking formal management education to the realities of the business world
- Training managers at various levels in policy formulation, rational decisionmaking and productivity improvement, and in marketing, finance, personnel, research and development

- Improving management in small-scale industry

- Organizing local research into current management problems

The Management Development Program should use the following means of action:

- technical cooperation field projects

- research and comparative studies

- short-term advisory services to government

- professional meetings, seminars, and roundtables

- fellowships and study tours

- publications and dissemination of information

It has been recommended throughout this study that business and management training be undertaken for southern Africa through the further development of indigenous institutions where these exist. In the case of Mozambique, the possibility of establishing an Institute for Management and Commercial Studies at Eduardo Mondlane University could be explored.

E. Namibia

Depending upon the source and definition, Namibia's manufacturing sector is estimated to contribute between 10 and 17 percent of GDP, employ from 10,000 - 13,200 persons (1975) and be growing at from six to seven percent annually.1/ Nearly 100 percent of Namibia's exports are of domestically produced raw materials which represent 80-90 percent of total value achieved in the primary sector (i.e. mining, fishing and animal husbandry).2/

The major manufacturing activity is centered around the processing of foods for export. Of total manufacturing output, one-third of total value comes from food products, mostly fish. Fish accounts for about 72 percent of total food value, 20 percent for meat, two percent for butter and cheese, and the remaining six percent covers other food products.

Second in importance is metal products manufacturing. Other products consist of construction materials, consumer goods, and miscellaneous items. It is noteworthy that recently Namibia has added a bottling plant, a cement factory, and a clothing and footwear facility to its manufacturing sector.

1/ W. H. Thomas (Nov. 1977) reports a figure of 12% of GDP or 17% if construction and electricity, gas and water supply are included for 1975. He estimates 13,200 employees representing 4.5% of total wage sector employment of whom about 7,500 (including 2,900 in construction) are white. The Country Resource Paper submitted to AID in March 1977 by S.C. Wilcox reports that manufacturing contributes 10% of GDP with an average 6.9% growth rate for 1961/2-1971/2.

2/ See W.S. Barthold, p.9.

Most consumer, capital, and intermediate goods are imported from RSA.

1. Constraints to Developing the Manufacturing Sector

The small size of Namibia's population (under one million) limits the potential for manufacturing based on import substitution. Per capita income is relatively high for a developing country--about $1,055 per capita. This figure, however, is misleading, since income is highly skewed in favor of the minority white population. Per capita income for non-whites has been estimated to be less than $400.[1/] In addition, the country is large, with a rather scattered population.

Independent Namibia's manufacturing sector will be constrained by inadequate managerial, technical, and professional skills. Traditionally, Namibia's non-white population engaged in subsistence agriculture and herding. Blacks have been excluded from secondary and tertiary production which took place in the modern sector. Many black Namibians consequently considered manufacturing to be the activity of whites. In addition, the colonial govermnent did not provide technical and business education to blacks.

There is a shortage of basic industrial infrastructure in Namibia. The railway transport line between Namibia and South Africa is adequate; however, roads and

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1/ The World Bank Atlas for 1976 estimate for 1974 was $800 per capita with a -2.9% growth rate for 1965-74. Meanwhile the UNIDO submission to the Namibia Nationhood Program quotes a figure of about $70 for non-whites in the northern "homelands" where a majority of the African population lives.

railways linking major regions of the country itself are minimal.

The availability of water is a constraint on manufacturing development in Namibia. The country has a very limited internal water resource; the cost and scope of schemes to supply water pose great problems.

Power is another constraint. Because of the vast distances involved, a national power network has not been feasible. Thus, individuals often have to provide their own power source. Since there are no known coal deposits in the territory, individuals either use diesel fuel or import coal from RSA over a distance of some 2,000 km., thus increasing costs substantially. The construction of the Ruancana project has improved the power situation. Neverthelss, the rising demand for industrial power will require more power-generating capability.

Namibia lacks financial institutions to provide capital for industrial development. Namibia is almost completely dependent on external sources for capital.

Although capital has not been a major constraint to developing manufacturing prior to independence, it will probably become a constraint after independence. The openness of the economy and domination by the export sector permit most of the profits generated in Namibia to be exported. In 1965, 91% of GDP earned was from export. The result is that GNP is less than 2/3 of GDP, which means that more than 1/3 of newly-created wealth was exported in the form of profit and dividend payments. These sources could provide funds to carry out economic development in Namibia.

The South African Customs Union, in which Namibia holds de facto membership, hinders development of manufacturing because of the strong competition from producers in RSA. In addition, South African producers, together with the RSA government may act to prevent Namibian products from entering the South African market.

The major constraint that has prevented development of Namibia's manufacturing sector as well as the country as a whole can be found in the policy of South Africa. RSA has always viewed Namibia as a colony in the traditional sense, that is , a source of natural resources and a market for manufactured goods. South African investments in Namibia have taken place only to secure and expand raw materials extraction. It has actively discouraged any processing, except that which is required to reduce the cost of transport. Any additional processing is carried out in RSA. Profits from mining left over after purchase of South African goods have been exported to RSA, thus robbing the country of necessary funds for investment in other sectors, including manufacturing. The RSA has ruled Namibia in its own interest. Any manufacturing effort has been quickly and actively discouraged, unless it would serve the interest of RSA.

Currently about 63% of GNP comes from exports which primarily consist of mining and food products (mostly fish) processed through the first stage. Even in the case of dairying, milk is only processed through the first stage.

There is no local manufacturing base for mining in Namibia. Mining inputs are imported from RSA. GRSA has carried out policies to prevent Namibia from processing its resources in order to encourage all processing in RSA. Even Namibia's cattle are shipped to RSA on the hoof to be slaughtered. GRSA has prevented Namibia from slaughtering its cattle to prevent trains carrying consumer goods to Namibia from returning empty. Such policies reduce the transport cost but also prevent development of manufacturing in Namibia.

The agricultural sector is very underdeveloped. Although the country's agricultural sector suffers from many natural constraints, it is capable of producing enough food to feed the population if measures are taken to raise the level of productivity. The northern area offers the most potential for expanding agricultural production, whereas mineral production and products from the sea takes place in the south. The inability of the county to raise the level of agricultural productivity has limited the opportunities for processing food for domestic consumption and export.

Fish processing is currently the major manufacturing activity taking place in Namibia. Fish also constitutes the third major export. The fishing industry is highly specialized. The industry is controlled and owned by South Africans. Boats come from RSA, process fish caught in Namibian waters, and then export to RSA. Very little fish produced in Namibia is sold and consumed in Namibia. Most fish sold in Namibia is imported from RSA. Thus, fish would provide the population with much required protein, but because of processing/shipping ramifications such is not the case in Namibia.

2. Post-Independence Development Strategies

Following independence, Namibia should consider following a limited model of import substitution in basic foods and export commodities which have high income elasticities. Most of Namibia's present food exports are those with high income elasticities.

Policies should be adopted to encourage more meat processing and dairy products. Abattoirs should be set up to process meat both for local consumption and for export. Beer, bakeries, and food processing should be developed.

In the long run, Namibia's industrialization should be based on the processing of her minerals. The major constraint to prevent mineral processing in the future is the lack of coal, iron ore, and oil. These constraints will be reduced when it becomes politically and economically feasible for Namibia to use nuclear energy (since

Namibia has a substantial supply of uranium) or to import oil from neighboring Angola.

Namibia should break away from SACU and the Rand Monetary Area as soon as it is politically and economically feasible.1/ Withdrawal will allow Namibia to purchase consumer goods from the cheapest source and pay for them with the proceeds from mineral and food exports. Namibia should establish its own currency to be able to carry out the necessary domestic and foreign exchange policies that will maximize trade benefits.

Initially, it will be difficult for Namibia to make the break, since coal, capital equipment, and consumption goods come from RSA. If it were to disengage, it would require other sources of energy. There must be an adjustment period before Namibia can completely disengage from SACU. An independent Zimbabwe may provide an alternative source of consumer goods and equipment for Namibia in the future.

Much emphasis should be placed on improving agricultural production not only to feed the population, but also to provide a surplus to be used in Namibia's manufacturing sector. Manufacturing centered around food processing and beverage production has traditionally been the first to be initiated in developing countries.

1/ This is consistent with the findings of W.S. Barthold (see bibliography) and the inclinations of the principal nationalist movement, SWAPO.

Reconstruction policies in manufacturing could be geared toward the development of small-scale industries in conjunction with the development of Namibian entrepreneurs. These industries could be centered around the use of local resources, using labor-intensive techniques for production. Production should be aimed at both the domestic and the foreign market. The new government should provide assistance to SSEs in the form of loans, equity capital, technical assistance, and production facilities.

Possible Industrial Policies after Independence

The purpose of industrialization in Namibia can be stated as follows:

- to assist in the establishment of industries to replace imports of consumer and intermediate goods in order to make the country less dependent upon imports from RSA;
- to raise the income levels of the people of Namibia and create employment for Namibians in the modern sector;
- to encourage the development of Namibian entrepreneurs;
- to encourage industries utilizing Namibia's mining and agricultural resources to increase the share of value added originating in the domestic market;
- to encourage regional industrial balance;
- to encourage production of manufactures for export;
- to minimize the impact of industrial pollution on the environment.

Industrial development can be carried out by the creation of government parastatals, the Namibian Industrial Development Corporation (NIDCO), which could concentrate on promoting large, export-oriented industries which may have a national impact on the economy; and a subsidiary, Namibian Enterprises Development Corporation (NEDCO), which could specialize in promoting Namibian entrepreneurs by supporting SSE who will produce commodities mainly for the local market. A National Development Bank of Namibia (NDBN), granting both large and small loans to industry, agriculture, and tourism, could also be established to aid in financing industry and other sectors.[1/]

Namibia's industrialization could be based on the processing of its agricultural and mineral resources for both local consumption and for export. Given the small size of its market, its major industries would have to be export-oriented. These industries could be promoted by NIDCO in joint ventures with foreign private capital under terms acceptable to the Namibian government while manufacturing for the local market can be put in the hands of small-scale industry. The Government of Namibia must be able to attract sufficient capital and know-how to exploit its minerals. Thus, policies for industrialization must be cautious and flexible to be successful.

1/ This approach is similar to that followed in Swaziland, Zambia and other developing states of the region.

Specific measures which can be taken are summarized as follows:

1) Reduce dependence on RSA. This can be done by breaking away from SACU or renegotiating the terms of the agreement to provide better conditions to Namibia to develop manufacturing.

2) Encourage trade linkages between Namibia and Botswana, Zambia, Angola, and Zimbabwe to find other sources of goods now being imported from RSA, as well as markets for Namibian manufactures.

3) Leave the Rand Monetary Area and create its own currency and central bank.

4) Encourage foreign investors once Namibia has developed its own investment code and priorities.

5) Create an entrepreneurial promotion program in conjunction with SSE, emphasizing production which:

   --utilizes local resources
   --is labor-intensive
   --is import-substituting or export-promoting
   --links with large- and medium-scale industry

6) Carry out an "Equal-Wage-for-Work-Done" policy to equalize white and non-white wages.

7) Carry out the necessary policies that will keep wage increases in check so as to maintain some degree of comparative advantage.

8) Insist on incorporation of Walvis Bay into Namibia after independence, as this deep water port is not only vital for Namibia's exports and imports, but it also provides a needed potential outlet outside RSA for other landlocked countries in Southern Africa.

Below is a list of the scope for industrial projects in Namibia as extracted from the W.H. Thomas study (p. 173):

Scope for Industrial Projects in Namibia

A. AGRICULTURE BASED

1. Grain/Maize Mills (in the north)
2. Processing and canning of meat
3. Processing of hides and skins (incl. leather ware, shoes)
4. Canning of vegetables
5. Dairy products
6. Processing of jute and cotton
7. Processing of karakul pelts
8. Assembly and maintenance of imported agricultural equipment
9. Production of simple agricultural equipment
10. Production (packing) of fertilizer

B. MINERAL BASED

11. Refining of base metals (and uranium)
12. Cutting of semi-precious stones (incl. making of jewellery
13. Cutting of diamonds
14. Assembly and maintenance of mining equ
15. Integrated heavy industry (combining uranium, gas/oil, coal and imported re materials)

C. CONSTRUCTION BASED

16. Production of cement
17. Production of timber material
18. Harbour maintenance, ship/boat repair and assembly
19. Brickworks
20. Assembly and maintenance of construction and transport equipment
21. Assembly (and production) of prefabricated structures

D. CONSUMPTION BASED

22. Processing of food and beverages (esp. the north)
23. Beer brewing
24. Assembly and production of furniture an household equipment
25. Assembly (final stages only) and mainte of motor cars
26. Fish processing for exports and local c sumption
27. Production of clothing, blankets etc. (imported or local material)

E. LABOUR/SKILL BASED

28. Homecraft industries for exports (souveniers) and local markets (baskets, sandals, household ware)

3. Regional Cooperation

After independence Namibia will probably initially maintain its membership in SACU which will automatically open up free trade with BLS and RSA. As mentioned earlier, Namibia's manufacturing sector is not expected to benefit greatly from this access (indeed colonial Namibia is a de facto member now); neverthless, the Union does provide a vehicle for trade between majority-rule members.

Trade opportunities between Botswana and Namibia are currently limited by the following constraints which, in varying degrees, apply to Lesotho and Swaziland as well:

- lack of an adequate transportation network connecting the two countries;
- similarity of the economies of the two countries;
- limited potential industrial complementarity.

There is no major Botswana-Namibia transport network. The proposed Trans-Kalahari railway link should expand trade opportunities between these two countries and others as well as provide an important east-west outlet to the sea for Botswana; however, such a link probably cannot be completed for another decade.

Trade in manufactures between Botswana and Namibia is currently limited because of the similarity of the two economies. Both specialize in mineral and animal products for export to pay for their imports of consumer and intermediate goods. Both are interested in promoting local industry and will try to develop basically the same products. Both have underdeveloped agricultural sectors and import large shares of their food consumption. Both lack indigenous entrepreneurs, managers, skilled labor, and industrial technicians, and both import these at very high costs.

In spite of the above, there may be potential for some regional economic cooperation over time, particularly with financial institution support to carry out feasibility studies, coordinate regional manufacturing activities, and finance regional projects. The SACU does not possess a regional development bank or other facility to carry out this function.

Since Zambia and Angola have supported Namibia in her struggle for independence, the future political relationship may facilitate some forms of regional cooperation; however, trade with other countries to the north is also constrained by the lack of transport. Namibia's transport network has been developed to connect with RSA.

Since Namibia was not independent when the conference on regional integration took place in Lusaka earlier this year, it did not sign the Declaration of Intent, signifying its interest in the proposed ESAPTA. Nevertheless, if such grouping is ever created, in all probability Namibia will join.

4. Development Assistance Needs

Regardless of the character of majority rule in a genuinely independent Namibia some white residents will leave. This is especially true of the majority of whites who are in Namibia because of the social, political, and economic benefits that they receive from an Apartheid system. In addition, those civil servants who are South African nationals will probably be asked to return home to RSA by any Namibian government because of their past support of Apartheid. If the new government chooses to modify the economic structure of Namibia substantially in order to use the economy for the benefit of the majority, a larger percentage of whites will leave. White contract workers in the mines, whether resident or foreign, will probably stay if the conditions of their contracts are not substantially altered and the living conditions do not substantially change.

An independent Namibia will find itself with a shortage of skilled manpower and entrepreneurs not only because some whites are expected to leave, but also because there is currently a shortage of skilled manpower, managerial talent, and entrepreneurs among whites in Namibia. Although the level of education is higher among whites than blacks, it is not adequate for the organizational requirements of a modern industrial economy. South Africa has always furnished the country with administrators, technical managers, and commercial management. Thus these skills have not been adequately developed even among whites.

As for the blacks, there was basically no effort made to provide technical and managerial education to them, since they were not permitted to engage in manufacturing. Consequently, there is virtually no entrepreneurial class of blacks, no technicians, and no managers. Thus, Namibia will need much outside technical support after independence in this area.

Closely related to the lack of an industrial class to foster manufacturing in Namibia is the lack of indigenous government administrators. South African administrators have ruled in the past and will leave at independence. Thus, Namibia will need foreign personnel and programs to train administrators. With reference to the manufacturing sector, Namibia will need support to organize the ministry of Commerce and Industry, develop parastatals and a strong industrial planning unit. Initially, foreign donors may be expected to provide technicians to carry out these functions and to train Namibians for these tasks. Finally, the country needs assistance in carrying out higher technical education to produce industrial technicians, managers, and skilled support staff for manufacturing.

After transition, Namibia should be able to generate capital by exploiting its rich mineral resources. Neverthless, Namibia will need support in analyzing and evaluating the economic profitability of potential joint ventures with foreign capital.

5. <u>Recommendations for Assistance</u>

a. <u>Transition Period</u>

The U.N. Council for Namibia has been working to prepare the country for independence. It is recommended that the US initially channel its support through the U.N. to carry out the projects that have been developed under the Namibia nationhood program. Seventy-one papers and projects were submitted to the Council for Namibia, which were estimated to cost about $100 million. Industrial projects were included in this package. A second workshop is planned for October, 1978 which is to refine project proposals further.

b. <u>Post-Independence</u>

It is recommended that SSEs be supported in two phases:

1) <u>Assistance to SSEs: Phase I</u>

The first phase should involve the provision of technical assistance to set up the promotional institution (NEDCO) for SSEs. This institution should be a subsidiary of NIDCO, but should have an independent management. The purpose of the NEDCO enterprise will be to promote Namibian entrepreneurs by providing loans, equity capital in some cases, factory shops, technical assistance, and marketing services. Initial support would be to aid the Ministry of Industry and Commerce to establish the institution.

2) **Assistance to SSEs: Phase II**

After the institution has been orga

support should then be concentrated on developing staff and management capabilities, providing production and marketing technicians who would advise NEDCO's management, train NEDCO entrepreneurs, and train Namibians to take over their functions after they leave. Initial seed money could be provided to get the program started and help finance factory shells and initial equipment.

3) Management and Business Training Institute

Capital and technical assistance toward the creation of a Management and Business Training Center for Namibians should be considered. Such a Center could concentrate on training Namibians for management in industry and mining and should teach all of the supportive skills (secretarial, bookkeeping, accounting, stocking, etc.) which are required by business and commerce. This could possibly be attached to the U.N. Institute for Namibia and moved to Namibia after independence.

As part of this program, scholarships will be required for Namibians to receive upper-level management training possibly in the U.S.

4) Assistance to Provide High-Level Government Advisors

Finally, it is recommended that Namibia be provided with a high-level advisory team to advise the new government on economic matters affecting the sector (assuming that the new government will want such advice).

The team could consist of the following disciplines, be attached to a Ministry of Commerce and Industry and act as a complement to technical personnel in a central planning ministry:

- Team leader
- Industrial Engineer
- Small-Scale Industry Technician
- Training Advisor
- Agro-Industry Advisor
- Maintenance Advisor
- Non-ferrous Metalogist

All of the above suggestions represent conclusions of the consultants and are meant to be a contribution to the discussion of options and priorities which will no doubt occur within the confines of the first independent Namibian Government. Any actions by donors should, of course, first receive the scrutiny and endorsement of the Namibian Government.

F. Swaziland

The significance of the manufacturing sector to the Swaziland economy is, in part, a matter of perspective. The Second NDP refers to the sector as being at an "early stage" and composed mostly of three mills processing sugar and wood pulp for export. The 1976 ILO study1/ stresses the sector's small base and close link to agricultural production. By 1977, analysts were stressing the encouraging growth of the sector with a Country Resource Paper submitted to AID in February of that year concluding: "Manufacturing has been increasing rapidly in importance in the past decade and is now the second most important productive activity in the economy, surpassing mining and forestry."2/

This more optimistic assessment reflects the government's own more recent conclusions as reflected in the draft chapter for the Third NDP for 1978-82 which provides the most recent available statistics on sector performance.3/ Table VIII shows that nearly half of all manufacturing enterprises still in operation in 1977 were established during the period 1973-77. The sector

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1/ "Reducing Dependence: A Strategy for Productive Employment and Development in Swaziland," (Addis Ababa: ILO, JASPA Team, June 1976).

2/ "Transition in Southern Africa: Swaziland," (Washington: USAID Africa Bureau, 1977), p. IV-49.

3/ The most recent Annual Statistical Bulletin available from the Swaziland CSO is for 1976 with figures for 1975 and in some cases only to 1973.

accounted for 22% of GDP in 1975 which represents an increase from 15% of GDP in 1971 for a growth, in real terms, of ten percent per annum in the value of production. Employment is estimated in the AID Resource Paper at 7,400 persons or 13% of total wage sector employment while the government's draft TNDP chapter states that 6,160 persons were employed in the ten largest manufacturing and processing enterprises[1/] which contributed about 15% of GDP in 1976.

Table VIII shows only six construction enterprises and, indeed, this sub-sector appears to be unable to satisfy national demand for construction. It contribued about 4.8% of GDP in 1976. Large-scale construction for the most part is performed by foreign contractors. Small-scale construction is promoted by the Small Enterprises Development Company (SEDCO) and the six small local contractors employ (together with the Public Works Department) about 2,300 people.

Manufacturing is centered in the processing of agricultural commodities. Table IX illustrates the position of sugar and wood which accounted for half of all exports in 1974. CSO figures additionally reveal the growing importance of meat processing, fruit canning and cotton

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1/ The ten largest enterprises with the number of their employees in parentheses are: Usuthu Pulp Co. (2,500), Libby (1,000), Peak Timber (760), Mhlume Sugar (500), Ubombo Ranches (600), Swaziland Meat (220), Swazi Breweries (100), Swazi Milling (60), Swazi Chemicals (150), Salora Enterprises (270) - Total employed equals 6,160.

ginning which together contributed about ten percent of exports in 1974. The World Bank Economic Memorandum, the ILO Study, the AID Resource Paper and the government's own assessment concur that prospects for expansion in this sector are good. Much of that expansion will occur through the investment of private foreign capital.

Approximately 33% of all enterprises in Swaziland are foreign owned, 28% are joint ventures and 39% are locally owned. Local entrepreneurship is restricted primarily to service industries, small and medium size manufacturing and trading operations. The scale of local entrepreneurship and the level of employment in SEDCO assisted undertakings is shown in Table XI. The likely rate of future expansion at the small-scale level is shown in Table XII.

1. Development Objectives and Targets for the Sector

The draft chapter for Swaziland's TNDP which relates to manufacturing has established the following objectives:

- promoting rapid industrial growth in order to raise incomes and employment, with special emphasis on labor-intensive industries
- promoting the development of local enterprises and management and to increase the participation of Swazi nationals at all levels of the industrial sector
- achieving a greater measure of Swazi ownership of industry
- establishing industries in the less developed areas of the country

TABLE VIII

SWAZILAND

ESTABLISHMENT OF ENTERPRISES STILL IN OPERATION, 1977

	Before 1968	1968-1972	1973-1977	Total
Manufacturing and Processing	17	10	26	53
Construction	3	2	1	6
Total	20	12	27	59

Source: Ministry of Industry, Mines and Tourism

TABLE IX

VALUE ADDED IN MANUFACTURING AND PROJECTED GROWTH RATE

(Million Emalangeni)

	1971/72	1980/81	Annual Growth Rate %
	(In 1971/72 prices)		
Food and Beverages	5.9	10.7	6.8
Sugar	(4.1)	(6.9)	6.0
Other	(1.8)	(3.8)	8.7
Wood and Wood Products	7.0	14.0	8.0
Other	0.9	2.5	12.0
TOTAL	13.8	27.2	8.0

Source: World Bank Economic Memorandum on Swaziland, November 1975, p. 30.

- obtaining maximum value from all local natural resources, especially by raising the level of the stage of processing in existing and future industries

- establishing export-oriented industries, primarily those with a potential for markets outside the southern African region

The specific targets for the achievement of these objectives are the following:

- creating 6,200 additional jobs in industry, of which 3,000 will be in the less developed areas and 3,700 will require government parastatal assistance (3,275 through NIDCS and 425 through SEDCO)

- developing the Nhlangano and Hgwenya industrial estates and expanding the Matsapha industrial estate

- through SEDCO, establishing an additional 128 entrepreneurs whose annual turnover will reach more than El million, to establish 4 new estates, and to assist an additional 75 construction entrepreneurs

- creating a new trade fair ground near Matsapha to replace the existing site at Manzini

- establishing a trade promotion body within the Ministry of Industry

- ensuring the successful establishment of the Third Sugar Mill and to bring its annual capacity up to 113,000 tons by 1983

The agricultural sector supports the vast majority of the population and is given the highest priority in the Third Development Plan. Second priority is given to health, education, and infrastructure supporting agricultural development. Industry is given third priority. The government parastatals, NIDCS, which will promote medium- to large-scale industry (above K50,000), and SEDCO, for small-scale enterprise below K50,000, are the vehicles for encouraging industrial development.

2. <u>Parastatals in Charge of Industrial Development</u>

a. <u>National Industrial Development Corporation</u>

NIDCS is the main parastatal in charge of promoting and assisting investment in the industrial sector. It does so by providing loans, equity capital or guarentees, factory buildings, liaison with other agencies, feasibility studies, and management and technical advice. NIDCS promotes large-scale enterprises whose capitalization exceeds K50,000. Since its establishment, the autonomous statutory body has supported more than 31 undertakings, 26 of which are in the industrial sector, and has invested about E7.5 million--E6.4 in industry and E1.1 million in the distributive business. The major problems facing NIDCS are:

- insufficient management capability
- under-capitalization of some of its industries
- promotion of capital-intensive industries with low employment-generating capability

To achieve its industrial targets, NIDCS will concentrate its efforts on encouraging vertical and horizontal linkages to maximize the use of scarce natural

TABLE X

SWAZILAND

NIDCS INVESTMENT PROGRAM

(in thousands of Emalangeni)

	1978/79	1979/80	1980/81	1981/82	1982/83	Total
Vertically Integrated Textile Industry	650	1 350	2 500	3 500	-	8 000
Tannery	400	600	-	-	-	1 000
Vegetable Processing Industry	-	-	-	500	1 200	1 700
Vegetable Oil Mill	825	1 500	675	-	-	3 000
Processing Industry for Sugar Byproducts	-	-	-	500	900	1 400
Ceramic Factory	800	3 300	2 900	-	-	7 000
Asbestos Processing	-	-	-	600	800	1 400
Tractor Project	250	250	-	-	-	500
Pre-Feasibility and Feasibility Studies	50	150	150	150	150	650
Infrastructural Development	200	200	200	200	200	1 000
Other Projects	4 125	500	1 000	1 000	3 000	9 625
Total	7 300	7 850	7 425	6 450	6 250	35 275
of which NIDCS's financial contribution	5 250	5 250	5 000	5 000	5 000	25 500

Source: Ministry of Trade and Industry, Swaziland.

resources and on attracting foreign capital to Swaziland. NIDCS will provide financial assistance, factory sites, and other services to prospective foreign investors. (See Table X, Swaziland: NIDCS Investment Program for a summary of NIDCS' planned investment program.)

b. Small Enterprises Development Corporation

SEDCO, a subsidiary of NIDCS, is an independent statutory body in charge of promoting small-scale enterprise. It began operations in March 1970 and became a U.N.-assisted project in 1972. Prior to SEDCO, most industry in Swaziland was owned and manned by expatriates, whereas Swazis operated in the traditional sector. SEDCO was established to bridge the disparity between the two sectors and to promote the ownership of industry by Swazi people.

SEDCO's approach is to create common service workshops and provide technical expertise to teach Swazi entrepreneurs how to manufacture and market their products. Machinery can be leased or purchased by entrepreneurs through SEDCO. In some cases SEDCO holds equity shares in establishments using new technologies and which will take a number of years to realize profits. By 1977, SEDCO built ten small industrial estates supporting almost 110 entrepreneurs. Employment had been provided for 782 individuals (1,047 including SEDCO's staff) at a cost of about E4,000 per job created, a low figure by international standards. Since the family in Swaziland averages about seven persons, SEDCO entrepreneurs supported an estimated 7,300 persons. (See Table XI).

SEDCO has experienced several difficulties. The number and size of industrial estates is limited. Currently there is a long waiting list of potential entrepreneurs whom SEDCO cannot accept due to a lack of space. SEDCO can barely maintain existing facilities and lacks resources to finance new projects. It has also experienced difficulties in finding products suitable for the area and the failure rate of SEDCO's entrepreneurs has been high. Finally, SEDCO's entrepreneurs have been unable to become self-sustaining at a satisfactory pace due mostly to the problem of procuring suitable land for small-scale industrial development.

SEDCO plans to increase its efforts to promote small Swazi entrepreneurs during the Third Plan period. (For a summary of SEDCO investment programs for the TNDP, see Table XII.)

3. <u>Constraints to Developing the Manufacturing Sector</u>

a. <u>Lack of Local Entrepreneurship</u>

One major constraint is the lack of Swazi entrepreneurs. Historically, the people of Swaziland engaged in subsistence farming; cattle raising was given high priority and the ownership of cattle was a symbol of success. Previous Swazi noninvolvement in business has contributed to a negative attitude among some

TABLE XI

SWAZILAND: SEDCO-ASSISTED ENTREPRENEURIAL DEVELOPMENT, 1973-1977

	1973	1974	1975	1976	1977
Development of Entrepreneurs					
Number of Entrepreneurs	57	60	65	100	112
Number of People Employed	237	337	395	512	535
Total Value of Goods Manufactured (in thousands of Emalangeni)	415	480	798	928	938
Assistance to Builders					
Number of Entrepreneurs	12	4	2	9	19
Number of People Employed				200	380
Total Value of Construction (in thousands of Emalangeni)	260	174	100	500	1050
Financial Aid					
Government and Donor	238	770	850	1015	700

Source: Ministry of Trade and Industry, Swaziland

TABLE XII

SWAZILAND: SEDCO INVESTMENT PROGRAM, 1978-1982
(in thousands of Emalangeni)

	1978/79	1979/80	1980/81	1981/82	1982/83	TOTAL
Estate Expansion	290	250	250	250	200	1240
Glass Works	65	67	41	-	-	173
Ruler Factory	11	-	-	-	-	11
Coat Hanger Factory	6	45	10	-	-	61
Manufacture of Chains for Bed Bottoms	-	20	4	-	-	24
Further Joint Venture Projects	-	-	-	90	92	182
Land Purchase	20	40	40	40	40	180
Building Section	100	100	50	50	50	350
Commercial Loans	100	100	100	100	100	500
TOTALS	592	622	495	530	482	2721

Source: Ministry of Trade and Industry, Swaziland

Swazis toward industrial activities and facilitated foreign ownership and control of a substantial portion of such activities in Swaziland.

Swaziland also has inadequate numbers of qualified Swazi administrators. Thus a large number of expatriates are involved in almost every private institution. An estimated 620 additional administrators and technicians are required to run the country per year, but only about 450 are being generated. University graduates often do not qualify for certain management slots because of insufficient training and business experience. There is a need for practical, on-the-job management training.

b. <u>Small Market Size</u>

The domestic market is very small, consisting of only about one-half million people. The per capita GDP of about $440 is fairly high compared to other countries in southern Africa. Neverthless, income is highly skewed in favor of the modern sector which supports only about 30% of the population.

The small size of the domestic market makes it impossible to set up a wide range of manufacturing production that could cater to the local market alone. Thus, Swaziland must identify commodities with an export potential. Swaziland has no natural comparative advantage and most manufactured goods find few markets in either the developed or developing countries.

c. Southern African Customs Union

SACU is discussed in Part I of this appraisal in terms of its impact on the region as a whole, however, the specific effect on Swaziland in terms of its constraining effect on the manufacturing sector will briefly be outlined here.

In principle, the Customs Union provides duty-free access for Swazi goods to the large market of of South Africa. In fact, Swaziland's membership in SACU has restricted the development of its manufacturing sector as follows:

1) SACU, linking the underdeveloped economy of Swaziland with the industrialized economy of RSA, has perpetuated a pattern of polarized growth, a long-term tendency for industrial growth to occur in the more developed economy of RSA.

2) It is unrealistic for a small country like Swaziland to compete with the large industrial sector of RSA when it is acutely deficient in such supportive areas as basic infrastructure, key natural resources, capital, entrepreneurial talent, and skilled manpower

3) The "Infant Protection" clause of SACU does not allow protection and frequently results in a reciprocal tariff. Such a policy prevents the benefits of economic integration from taking place.

4) More important than all of the above, RSA imposes non-tariff barriers to trade in BLS-manufactured goods to prevent competition with RSA-produced

goods and Swazi manufacturers are subject to pressure from South African industrialists. For example, in 1977 the textile industry experienced pressure from RSA with respect to the establishment of a textile factory. The Minister of Industry and Trade tried to resolve the problem with his South African counterpart, who accepted the Swazi viewpoint, but also admitted that the South African government could not ignore the textile lobbyists.

The fertilizer industry has also experienced problems in its attempt to enter the South African market. Although Swaziland Chemical Industries has gained only about a one percent share of the R300 million/year South African market, the fertilizer interests in RSA see it as unneeded competition and have accordingly applied for a protective tariff of R50 per ton on nitrogenous and phosphatic fertilizer imports. The South African Railways, which controls transport outlets in both countries, is also reported to have caused transport delays.

d. Undercapitalization

A large number of Swazi enterprises are hampered by the lack of capital. Buoyant market conditions a few years ago made it possible for Swaziland to establish and operate companies at low liquidity levels, but no capital was built up during this period, which resulted in a number of failures.

In addition, Swaziland has not been effective in attracting foreign capital and technical expertise.

Industrial incentives have been provided, however the country has not been able to accord fiscal incentives at levels similar to those RSA accords to investors in the Bantustans. Swaziland has attempted to attract foreign businessmen by stressing its location and access to the established market in RSA but business have been slow to respond to this campaign.

Outside capital is very expensive in Swaziland . Poor infrastructure adds to the cost of establishing business, since investors sometimes must provide the minimum infrastructure themselves, especially in agro-businesses.

4. Markets

Besides its relationship with SACU, Swaziland has made trade agreements with at least nine African countries, yet trade among them has not developed to any significant extent. Swaziland is also a signatory of the Lomé Trade Agreement which provides an outlet for sugar and beef.

The potential for expanding manufactured exports to other African countries is limited because most of the countries have similar policies--trying to encourage manufacturing concerns to develop domestic and export markets. Thus they are not apt to allow Swazi manufacturers to compete with their products. There is a lack of information about the type of Swazi-manufactured products that can be successfully produced in Swaziland and marketed in black Africa.

Swaziland's major export markets are the EEC and RSA, which take about 41.5% and 19.5%, respectively, of Swaziland's exports. Approximately 94% of Swaziland's imports, however, come from or pass through South Africa. Swaziland is interested in increasing its manufactured exports to the developed countries as well as diversifying the sources and destination of its imports and exports. Although it has some natural resources which are exported to developed countries, it does not possess the technical skills to process its natural resources into finished products.

5. Political Perspectives

A settlement in Zimbabwe is not initially expected to have a major direct impact on the manufacturing sector. The closure of the borders with S. Rhodesia has not had a major impact on Swaziland since it had only limited trade relations with S. Rhodesia prior to UDI.

Indirectly, a settlement in Zimbabwe might have an impact on Swaziland's manufacturing sector if Zimbabwe were to become an alternative source to South Africa for manufactured commodities following the lifting of sanctions. This could aggravate the balance-of-payments situation in RSA and might encourage South Africa further to prevent Swazi goods from competing in the South African market. On the other hand, if a settlement in Zimbabwe results in a resumption of transport ties with Mozambique, manufactured commodities now being imported from RSA could be imported from Zimbabwe via Mozambique.

A settlement in Namibia is not expected to have a major impact on Swaziland's manufacturing sector. Mozambique, Swaziland's only other immediate neighbor aside from RSA has a radically different economic philosophy from that of Swaziland which has acted to lessen Mozambique-Swaziland cooperation. The Declaration of Intent for membership in the proposed ESAPTA has been signed by Swaziland but the country would probably apply for membership in this grouping only if such could be done without losing its membership in SACU.

6. <u>Other Donor Support in Industry</u>

Several bilateral and international aid donors have supported industry in Swaziland, in particular SSEs. These incluse ILO, in association with UNIDO, the British Overseas Development Mission (ODM), Irish Aid, DANIDA, SIDA, Belgian Aid, Peace Corps, EDF, and the World Bank.

SIDA has been active in supporting SSE by providing scholarships for training Swazi entrepreneurs in Sweden, providing grant aid to start SSEs and supporting these enterprises with regard to product planning, product design, management, and training of local staff. The Swedes also provide funds to finance joint ventures between Swazi/Swedish or other foreign small-scale entrepreneurs with the aim of transferring technical skills.

Sweden has also provided funds to finance the building of small-scale industrial sites and purchase of equipment, and has provided the expertise of managers and technicians.

British aid has made available funds to SEDCO to develop estates and to erect workshops. It has also provided an expert and volunteers to staff the Building and Estate Planning Sections of SEDCO.

DANIDA has financed the post of an expert in ceramic and clay products. The European Development Fund has provided funds for training of SEDCO staff and entrepreneurs. The World Bank has approved a request by the GOS for a loan to SEDCO to finance new enterprises. UNDP provides international technical/industrial engineers and designers.

There are historical, natural, political, and economic factors persent in Swaziland that mitigate against the development of manufacturing. Given the existence of certain factors which are beyond the control of Swaziland, donor assistance may be required to accelerate industrial development. Areas in which donor assistance might usefully be channeled are summarized below.

1) <u>Small-Scale Enterprises</u>

One of the major constraints identified above is the lack of local entrepreneurs. The GOS has placed high priority on increasing the supply of Swazi entrepreneurs in both the Second and Third NDPs.

Progress has been made in the promotion of SSE in Swaziland, and of all the countries surveyed by this study, Swaziland has the most comprehensive, effective, pragmatic, and successful program. The promoting institutions' capital does not appear to be a major constraint, although greater coordination and control is needed in this area. Technical assistance is badly needed in numerous areas of the program to strengthen SSE development, including:

- Financing feasibility studies to determine (1) which commodities should be manufactured by SSEs in accordance with national priorities--utilizing indigenous resources, increasing use of labor-intensive methods, promoting export capabilities, etc., (2) how these could be stimulated by initiatives in related sectors through identification of "enabling" enterprises (3) which commodities should be manufactured for export within SACU and to majority-ruled countries in Africa, and (4) which commodities can be produced for Europe, Japan, the U.S., and in other developed countries.

- Financing and conducting studies to determine the cost/benefit of Swaziland's membership in SACU, to determine how Swaziland can make better use of the opportunities afforded by SACU, to identify other feasible groupings that might benefit Swaziland, both with and without continued membership in SACU.

2) <u>Technical Assistance</u>

Swaziland needs technical assistance in most parastatal and promotional institutions to aid them to develop accounting and financial systems, both for the institutions themselves and for the small businessmen. Technical assistance is needed in marketing and management for both the institutions themselves and for small businessmen.

SEDCO needs assistance to strengthen on-site training. Currently SEDCO has only two expatriates and one Swazi to provide such training. It is recruiting another Swazi but one of the expatriates is leaving this year.

SEDCO needs a technician to aid in product identification and to conduct feasibility studies. UNDP's funds were cut for this purpose and there is Swazi interest in having USAID replace U.N. financing in this area.

SEDCO needs an industrial engineer to aid entrepreneurs to increase their productivity. Both SEDCO and NIDCS need marketing assistance. It is recommended that financial and technical assistance to the Marketing divisions of both SEDCO and NIDCS be provided to help market Swazi goods outside the country.

Finally, both SEDCO and NIDCS need technicians to train their staffs. Donors might provide personnel to train Swazi administrators in the industrial promotion programs and provide staff fellowships.

3) Assistance to Attract Investors

Special emphasis should be placed on attracting foreign SSEs to join in joint ventures with Swazi SSEs to produce manufactured goods. Donor governments could provide guarantees and/or give tax credits to private investors who set up joint ventures with Swazi entrepreneurs. Donors could also make low interest loans to small-scale investors in joint ventures with Swaziland.

4) Training Assistance

There is a continuing need for technical and managerial training to lessen the shortage of trained Swazis in these areas.

Swaziland needs support to establish a business training program to be geared directly to the needs of the business sector. Currently expatriates are hired to provide managerial and business skills. These services could be provided by Swazis at a much lower cost if adequate training provisions were made. Training could be offered through the UBS or through special programs.

5) Capital Assistance

It is suggested that long-term loans with subsidized interest charges be considered for loans to Swazi businessmen. This could be done in conjunction with the joint-venture investments mentioned above. This could also be carried out by guaranteeing loans for this purpose provided by private banks in Swaziland which would be especially geared to the needs of small-scale entrepreneurs.

SEDCO needs funds to help construct and equip more industrial estates. Recently SEDCO had 110 applicants applying for 15 sites, and the managing director feels that the lack of adequate facilities is one of their major constraints.

6) U.S. Trade Policies

The U.S. Sugar Quota for Swaziland is fixed at 2,000 tons per year. Recent studies at UBS and the Ministry of Agriculture indicate that an expansion of small holder sugar schemes could raise productivity and incomes. Given the small size of the country and the interest of the U.S. in assisting, in particular, states on the periphery of South Africa, a modest increase in the sugar quota could have disproportionately beneficial effects on the Swazi economy. The AID Mission in Swaziland might be requested to prepare an analysis of the benefits likely to result from an increase in the quota to various levels so that policy makers in Washington could assess this information against possible consequences for other areas of the world that a change in the quota might represent.

G. Zambia

The manufacturing sector in Zambia is in a state of depression. A lack of foreign exchange, due to the decline in world prices of copper and to transport difficulties in getting copper ore shipped to sea, has resulted in a severe shortage of the necessary raw materials and intermediate goods inputs to keep industry operating. As a result, for the third consecutive year the index of industrial production has declined. It is anticipated that this trend will continue in the near future.

The manufacturing sector has been worst hit by the foreign exchange crisis because Zambia's manufacturing is highly import-intensive. Severe restrictions on the issue of import licenses and the deferred payment of foreign suppliers cause foreign exporters to lose interest in exporting to Zambia. As a result, it has been extremely difficult for Zambian manufacturers to obtain the necessary inputs to keep industry producing near capacity. The high under-utilization of existing capacity has severely hindered further development of Zambia's manufacturing sector and has added to the already high rate of unemployment.

Zambia's manufacturing activities are performed by parastatals and by private initiative. The foreign exchange shortage has hit the private sector particularly hard. The private sector dominates such industrial branches as food, beverages and tobacco, textiles and clothing, wood and wood products, paper and paper products, fabricated metal products, and machinery and equipment. These are the branches which showed particularly serious decline in output and employment. The average annual growth rate for food, beverages and tobacco, for example, fell from 15.7% between 1965 and 1970 to 0.8% between 1970 and 1976, and the average growth rate for textiles fell from 17% to 8.8% for the same years. (See Table XIII, Zambia: Growth Rates in Manufacturing by Subsector, 1965-1976.) Indications are that the private sector tends to be relatively more labor-intensive than the parastatal sector. The depressed state of the former sector further aggravates the level of employment.

The parastatal Industrial Development Corporation (INDECO) recorded a profit of K8.8 million in 1977, as opposed to K339,000 in the financial year 1975/76. Profits as a percentage of net assets after taxes had fallen to -6.1%. (See Table XIV, Zambia: Growth and Profitability of INDECO Manufacturing Activities, 1970-76.) This improved performance was due to better management and control and the closing of unprofitable operations in the group. INDECO's profit records have been disappointing because it has undertaken several ill-conceived operations which have shown losses from inception. Some of these plants include the Zambesi Sawmills, Ltd. and the Tambic Clay Industries, Ltd. In addition, INDECO has suffered losses as a result of delays in launching several large projects which nevertheless continue to accrue interest payments and other charges. The delays have been due to the late arrival of

TABLE XIII

ZAMBIA

GROWTH RATES IN MANUFACTURING BY SUBSECTOR, 1965-76
(percent p.a.)

	1965-70	1970-76	1965-76
Food, Beverages, and Tobacco	15.7	0.8	7.6
Textiles and Wearing Apparel	17.0	8.8	12.5
Wood and Wood Products	18.5	2.7	9.9
Paper and Paper Products, Printing and Publishing	12.5	1.6	6.6
Rubber, Chemicals, Petroleum and Plastic Products	19.5	21.4	20.5
Nonmetallic Mineral Products	3.4	-0.1	1.5
Basic and Fabricated Metals, Machinery and Equipment	6.7	7.1	6.9
Total Manufacturing	11.2	4.8	7.7

Source: Statistical Appendix, Table 4.4.

TABLE XIV

ZAMBIA

GROWTH AND PROFITABILITY OF INDECO MANUFACTURING ACTIVITIES, 1970-76 /1

	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75 /2	1975/76
Net Assets (K mln)	16.6	43.5	123.1	190.5	187.8	87.7	100.2
Turnover (K mln)	66.9	106.6	197.0	233.9	255.7	285.1	299.7
No. of Employees (thousands)	5.3	7.7	17.2	18.1	20.3	21.5	22.3
Profits (after taxes) as % of Net Assets	21.3	12.1	10.3	7.5	9.8	3.5	-6.1

/1 Includes just those INDECO subsidiaries whose primary activity is manufacturing.

/2 Decline in assets due to reorganization mainly involving the transfer of companies in the energy field from INDECO to the National Energy Corporation.

Source: INDECO Annual Report 1973/74, 1974/75 and 1975/76.

equipment, partially caused by back-ups of port facilities.

Plans are currently underway to expand Nitrogen Chemicals of Zambia, Ltd. and both sugar cane production and Zambian Sugar Company, Ltd. and a steel mill is being considered in Solwezi. It has been argued that the latter project is more prestigious than economic in nature. The sugar factory is scheduled to be completed in 1978. A new maize mill is planned for 1978/79. All of the above projects are capital-intensive, in keeping with Zambia's past industrial development policies.

In the event of some economic recovery, the private sector may show some willingness to expand existing, or establish new, enterprises as a result of the New Industrial Development Act of 1978 which is to provide more incentives to private investors. Some new licenses have been issued to small- and medium-scale enterprises.

1. Policy Objectives

In 1977 a separate Ministry of Industry and Trade was created to pay closer attention to industrial development. The main duties of the new ministry were to handle all administrative and policy matters relating to manufacturing, to control the functioning of INDECO, to foster industrial cooperation, and to accelerate the growth of rural industry, while minimizing a negative impact of industry on the environment.

The Industrial Development Act was passed to provide the mechanism to foster industrial development by providing assurances and incentives to all investors, private or parastatal, domestic or foreign. It encourages joint ventures between Zambians and foreigners, relaxes control on expatriation of profits where feasible, and provides some assurances against nationalization, although it can be argued not enough.

The objectives for the manufacturing sector as set out in the Second National Development Plan (1972-1976) are as follows:

- fuller utilization of existing capabilities
- import substitution of food products and other consumer goods, certain intermediate and capital goods
- further processing of raw materials originating from agriculture and mining
- encouragement of small-scale industries in rural areas
- encouragement of labor-intensive industry

Associated policies for the manufacturing sector for Zambia are keyed to:

- encourage import substitution
- support labor-intensive industry
- encourage industry based on the utilization of local raw materials
- encourage export-oriented industries
- set up export promotion boards
- encourage investment in manufacturing in depressed areas

Zambia Industrial and Mining Corporation, Ltd. (ZIMCO) is a central government holding company whose board is chaired by the President of Zambia. ZIMCO operates both through directly controlled operating companies and through a series of subsidiary holding companies, each with its own group of operating companies. INDECO is responsible for the manufacturing sector.

In spite of Zambia's intention to gain greater control over its own economy, the private sector controls 58% of total manufacturing, as opposed to 36% for government-controlled parastatals. Nonetheless, the public share of manufacturing will probably increase due to the reluctance of foreign private investors to set up new ventures. Much of INDECO's activities in manufacturing take the form of joint ventures with foreigners. INDECO has also taken over foreign businesses that were deemed in the national interest. This policy has served to discourage foreigners from investing in Zambia, despite the fact that Zambia has always negotiated with the companies in question and provided compensation.

Lately the government appears to be reversing its policy and has begun to favor private enterprise. The Industrial Development Act attempts to grant more certainty to private foreign investors by creating a more favorable climate toward foreign investment and spelling out government's policy toward nationalization. The new Act can be criticized for not giving enough assurances and guarantees for foreign investors, and the government's position on takeover of private business is still vague.

2. Constraints to Developing the Manufacturing Sector

It would appear at first sight that there are several factors that should encourage manufacturing in Zambia. It inherited after independence a rather concentrated urban population in the Copperbelt region and along the line of rail. The wage rates have been fairly high as a result of lucrative mining activity. Its landlocked position offers it natural protection from imported goods, and its relatively large population (5 million), when compared to other countries in southern Africa (apart from South Africa and Mozambique) has served to Zambia's advantage. Nevertheless, the development of manufacturing activity in Zambia has been disappointing.

a. Lack of Foreign Exchange

Zambia's financial position is in a state of crisis due to the decline in the price of copper, the single commodity that traditionally has accounted for more than 90% of total export earnings. Zambia has failed in its attempt to reduce its dependence on copper and to spread economic development to such other sectors as agriculture and industry. In the past Zambia has used its earnings from copper to finance education, infrastructure, and industry. The industries fostered were highly capital-intensive, with high imports of raw materials and intermediate goods, ever increasing quantities of which are necessary for industry to expand. In addition, the "import-substitute-at-any-cost" policy of Zambia has resulted in lagging growth in industrial employment.

b. Lack of Skilled Manpower

Zambia's manufacturing sector is also constrained by a shortage of entrepreneurship and skilled technical and managerial manpower. In spite of the relatively high degree of investment in education since independence, Zambia has failed to provide the number and quality of trained upper-level manpower to staff modern industry. University education has expanded considerably since independence and the number of Zambians educated has consequently been substantially increased. Nevertheless, the quality of education needs to be improved.

c. Industrial Policy

When after 1975 the price of copper fell by 12-15% and Zambia's foreign exchange earnings dropped, it became apparent that past industrial activity did not suit the country's resources. Zambia's industry has depended too much on imported raw materials, spare parts, and intermediate goods. The Zambian experience only confirms the view that a policy of import substitution based on imported raw materials provides unstable development.

The Government of Zambia has also frightened away potential investors by creating uncertainty over its economic philosophy. In terms of actual programs carried out, Zambia has not done much more in the state sector than many other developing countries. Nevertheless, Zambia has articulated its philosophy ("Humanism") to a greater extent than some other countries. Thus, GRZ has created an atmosphere of uncertainty concerning investment policy. Zambia has bought 51% of the shares of a number of larger firms, which has had adverse consequences for private investment.

GRZ frequently makes policies but fails to support them with specific policy programs. One sometimes gets the impression that the GRZ confuses policy announcements with achievement of the desired objectives. As a result, confidence in the government's ability to carry out desired change has been undermined.

d. Insufficient Suitable Resources

Most of Zambia's mineral activity has been in copper exploitation. In addition to copper, Zambia possesses lead, gold, iron ore, and zinc. There is also uranium potential in Zambia. Government policy has not actively supported the development of other mineral-base industries in Zambia.

With few exceptions, Zambia's agricultural sector has so far failed to realize its potential and provide an agricultural commodity base for agricultural processing enterprises. By independence in 1964 Zambia already had a greater urban population, concentrated along the line of rail, than did many other countries in the region.

Zambia's favorable balance of payments, moreover, made it easy to import food. Thus, although government priorities have been supportive of agriculture, policies frequently have had the opposite effect. Zambia could produce enough food not only to feed its population, but also to provide a surplus for export. Currently the country produces sugar, wheat, cotton, maize, tobacco, and timber; however, present production levels of these commodities contribute only a small percentage of GDP.

In spite of Zambia's past failure in agriculture, it has good potential for agribusiness centered around dairying and food processing. In recent years the country has experienced much success in maize, cotton, and dairy production by raising producer prices. Cotton output increased 130% last year when cotton prices were raised above world prices.

e. Inadequate Promotional Organization for SSEs

The Rural and Commercial Industries, Ltd. (RUCOM), a subsidiary of INDECO, is in charge of fostering SSE and commercial ventures in the rural areas. There is no promotional organization for SSE in urban areas. RUCOM's aim is to provide capital assistance, technical know-how, and management experience to rural entrepreneurs. The approach is to set up rural-base industries and to run them for two years and then turn them over to Zambians. RUCOM rents workshops to entrepreneurs and provides technical information on production, marketing, and management skills. RUCOM will also aid entrepreneurs to import machinery and to make loans from banks and will help them to obtain import licenses.

The basic objective is to reduce urban migration by increasing employment opportunities in provicial areas. RUCOM specializes in agro-based industries centered around the processing of food. In addition to food processing, RUCOM has helped entrepreneurs produce school furniture and other wood-base industries, bicycles and some component parts of bicycles, bleached beeswax, metal products such as water pumps and windmills, ox-drawn carts and implements, house doors and windows, and leather products.

Because of high transport and utility costs and the high initial start-up cost of rural industry, RUCOM cannot maintain its operation without continual subsidies. RUCOM receives financial support from the government, but this support has been substantially reduced because of the country's present financial crisis.

In recent years RUCOM's operations have not met with much success, primarily because of:

- poor management of activities
- limited demand for output manufactured
- constrained capacity of some units
- irregular supplies of inputs
- high transport cost
- insufficient technical and professional personnel
- low profile of RUCOM in the INDECO structure

To improve its future operations, RUCOM is undergoing reorganization. To achieve this, RUCOM will identify operations which are economically unprofitable even under a healthy economy and close them. Efforts will be made to identify profitable units to develop. In addition, RUCOM will provide more advisory services, carry out project feasibility studies, and provide more training in accounting, technological design, and marketing.

f. High Cost of Production

Zambia's manufacturing has been constrained by the high cost of production and the high cost of the finished product. The rate of inflation in Zambia exceeds that in most of the neighboring countries, which is one reason why Zambia's manufactured exports are uncompetitive. In addition, Zambia's manufacturing has been designed primarily to satisfy the domestic market, which confines the level of demand to a total population of about 5 million, which reduces the ability of the economy to take advantage of economies of scale.

To aggravate the cost problem, Zambia's manufacturing sector is highly dependent on imported raw materials[1/] and intermediate inputs, the cost of which has rapidly increased because of high transport costs and transport difficulties, price increases in the world market in general, relatively high modern sector wages, and because of the difficulties in obtaining supplies due to Zambia's foreign exchange problems.

g. The Geopolitical Context

Zambia is the only landlocked country which has eight surrounding neighbors. Of these eight, at least five

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1/For example, some companies contribute little added value to imported items which are to be assembled in Zambia (e.g., Fiats). Thus the employment elasticity of value added is quite low.

have recently gone through--or are in the process of going through--major political and economic changes. Zambia has taken a stand in favor of black-majority rule in southern Africa, supports nationalist movements, and is one of the so-called "front line states."

Zambia's political and geographic position has had a negative impact on her economic development. With the closure of the border with S. Rhodesia in 1973, Zambia's principal outlet to the sea was interrupted and the process of finding an alternative route has been costly and inefficient. Since UDI Zambia estimates total losses at more than 1.5 billion Kwacha.

Vital imports of raw materials, capital equipment, and spare parts are backed up at Dar es Salaam. The port is not large enough or efficient enough to handle all of the freight passing through it. In many cases importers have had to wait for months, or even up to a year, for shipments to reach Lusaka from the coast.

Such delays not only increase costs but severely hinder industrialization. This is especially a problem as a result of industrial dependence on imported inputs. Consequently, industry is currently operating at only 30% of its capacity. A wheat processing plant, for example, had to close down completely for lack of wheat imports, resulting in a shortage of bread throughout the country.

h. Transport and Telecommunications Constraints

As noted above, the geopolitical position of Zambia has exacerbated its transport difficulties to such an extent that Zambia was compelled to reopen its border with S. Rhodesia in October, 1978 for the import of fertilizer and the export of copper via Rhodesia Railways and South African Railways. The effect on manufacturing will primarily be to ensure that Zambia is able to plant and harvest a relatively normal size crop of maize and less important crops which can then be milled and processed in Zambia in those areas where this capacity exists. In effect, reopening the border has the immediate result of slowing the rate of economic deterioration. Because of its categorical nature, the reopening probably will have few implications for manufacturing outside agro-industries and copper related enterprises.

More promising for Zambia was the announcement on November 6, 1978 by Angola that the Benguela Railway had re-opened. The line from the Zambian Copperbelt through Shaba Province in Zaire to the port at Lobito Bay has historically been vital to Zambia and Zaire's copper industries. It remains to be seen how efficiently the port and railway are managed, how heavy the backlog of goods may be in Lobito and whether the line is now secure from attacks from anti-government groups in Angola.

Although transport infrastructure continues to be a constraint on Zambia's development in many sectors, 1/ the more critical problem has been the efficient management of existing infrastructure and the uncertainty of the permanency of routes. For example, the Benguela Railway has been opened and closed repeatedly because of upheavals in Angola, the route to Mombassa has been closed with the closure of the Kenya-Tanzania border, the route through S. Rhodesia was closed from January 1973-October 1978, and the routes through Malawi and Mozambique (via Tete) were subject to closure in the rainy season since roads were unpaved in sections. In addition, existing infrastructure is poorly utilized: the turnaround rate of trucks transporting goods on the Great North Road to Dar es Salaam has been low, port congestion has caused goods to perish and the Lusaka telephone system is estimated by Zambia to operate at 15% efficiency. Import license restrictions, manpower shortages and other constraints are in themselves formidable. When transport problems of this magnitude also exist, it is easy to understand why Zambia's manufacturing growth rate has shown a continuous decline in the 1970s.

1/ Zambia will benefit from the paving of the route to Malawi which is nearly completed (the route will remain less competitive since goods are shipped from road to rail to sea but the difference in cost should be reduced), paving of the Katete-Tete route (which is more direct via the Great East Road to Katete and then south through Tete to Beira) and paving of the route from Botswana via Kazungula (this should earn revenue for Zambia railways eventually which could carry goods for Botswana, however, the inefficiencies of Zambia Railways, conflict at Kazungula between Zambia and S. Rhodesia and the added burden of even more goods clogging existing systems will probably make this more of a problem than a benefit for Zambia for some time to come).

3. Political Perspectives

An internationally recognized settlement in Zimbabwe will be welcomed in Zambia as it would:

- reopen the shortest route to the sea via Beira without qualifications,
- enable Zambia to buy intermediate goods and raw materials from Zimbabwe which has a more developed capital and intermediate goods sector
- permit the importation of consumer goods from Zimbabwe at lower transport costs
- facilitate the recruitment of foreign technicians to help manage its manufacturing concerns (many are obviously reluctant to work under conditions of economic hardship and military attack from S. Rhodesia).

If trade is to develop between Zambia and Zimbabwe in a meaningful way, Zambia must also export commodities and begin to overcome its foreign exchange problems. Currently Zambia doesn't have much to export aside from copper. Zambia has developed its consumer goods industry fairly substantially since independence. Its production costs are high, however, probably higher than in Zimbabwe. Thus, Zambia's manufacturing sector will probably be at a disadvantage and may require tariff protection for its infant industries.

If the status quo is maintained, Zambia will have to improve alternative outlets for her goods. Zambia is currently planning to develop a road link from Lusaka to Angola which would link with the Benguela railroad in Angola.

Zambia has supported the independence movement in Namibia. A settlement in Namibia could lead to new routes through Botswana to Walvis Bay. (For further discussion see the SADAP Transport Study.)

4. Regional Cooperation

During the colonial period Zambia was a member of the Federation of the Rhodesias and Nyasaland. The British developed mostly Zambia's (then Northern Rhodesia) mining sector and depended on Southern Rhodesia to provide Zambia with consumer and capital goods. Consequently, most of the industrial activity in the Federation took place in Southern Rhodesia. Industrial growth became polarized in the Federation, to Zambia's disadvantage. As a result, Zambia may feel obliged to examine closely any schemes for regional cooperation with an independent Zimbabwe or any of the other countries in southern Africa. Nevertheless, Zambia will probably be willing to cooperate in strategic areas for the Zambian economy, especially transport and communication.

Zambia is also seeking EEC aid to use Lake Tanganyika to strengthen links with Zaire, Tanzania, and Burundi. Zambia hosted the ECA Conference to discuss establishment of ESAPTA and signed the Declaration of Intent and Commitment. A Preferential Trade Area is a weak form of economic integration, however, it represents a recognition of a need for greater regional cooperation.

5. Recommendations

a. Policy Changes

If Zambia desires greater local and foreign private investment, it may need to reassess its policies toward private investment to create a more conducive investment climate. Donor assistance can then play a supportive role in stimulating development from this source in the manufacturing sector. Such policy changes could involve:

- a clearer statement of government's intentions to encourage private investment.
- further government efforts to make parastatal industries more efficient.
- measures to stimulate an increase in agricultural output and exports to provide alternative sources of foreign exchange and reduce dependence on copper.
- actions to maximize utilization of existing capacity. Policy priorities have to be more specific with regard to sub-sectoral priorities for manufacturing development. Import licenses for raw materials, intermediate goods, and spare parts must then be allocated to assure priority areas a continuous supply of resources.
- Encouraging labor-intensive industry that utilizes domestic raw materials.
- Encouraging intermediate goods industry to replace imports and increase sectoral linkages.
- Providing necessary incentives to attract foreign capital.

- Encouraging SSE, using local raw materials.
- Encouraging a regional distribution of industry.

b. Financial Assistance

Despite IMF, U.S. and other donor aid, Zambia continues to need funds to finance imports of capital and intermediate goods and spare parts which are required to keep industry operating at its current level. As mentioned earlier, the manufacturing sector is declining because of a lack of imported inputs to produce commodities. For example, Dunlop Tires of Zambia, Ltd. was forced to shut down due to a lack of foreign exchange to buy needed inputs.

Zambia also needs both financial and technical aid to support small- and medium-scale industry, both in the urban and rural areas. As noted above, there is no promotional organization for small-scale urban enterprise and RUCOM's performance in rural areas has been disappointing.

c. Financing and Carrying Out Feasibility Studies

Zambia also needs assistance in carrying out feasibility studies for potential investors to determine the nature and scope of manufacturing that can take place in Zambia using domestic resources. Special attention should be given to exploring manufacturing activity with export capability.

Zambia needs to identify and manufacture commodities which can be exported to Zimbabwe when trade is re-established. Zambia also needs to determine its potential comparative advantage with Zimbabwe in manufacturing.

d. Technical Assistance

Zambia is severely short of trained managers and industrial technicians to staff its current industry and needs assistance just to keep the economy functioning at the current level. Some foreign technicians have left either because of apprehension over political instability in the area or because of the inability to repatriate enough of their incomes.

e. Training Assistance

Some years ago Zambia launched a program of Zambianization to replace foreign technicians and administrators with Zambians. This program has met with limited success in the manufacturing sector. Even where Zambianization has taken place, the lack of experience and training of Zambian businessmen has often resulted in very inefficient operations.

It is recommended that an Institute for Management and Business Training be located at the University of Zambia or at the ILO assisted Management Development Center. Zambians might also be provided with scholarships for advanced training abroad.

H. Southern Rhodesia (Zimbabwe)

In 1976 the manufacturing sector provided 22% of S. Rhodesia's GNP, the highest percentage for manufacturing of any African country, apart from South Africa. Gross manufactured output in 1976 totaled R$1,382.6 million and paid R$244.4 million to employees in the manufacturing sector.

The major manufacturing subsectors in 1976 were metals and metal products (24%), foodstuffs (23%), textiles, and chemical and petroleum products (both 12%). In addition to consumer goods, Zimbabwe produces capital and intermediate goods. The manufacturing sector is farily well integrated with other sectors of the economy.

Due to the limited size of the market, there are few large-scale operations in the manufacturing sector. In 1972 about three-fourths of all firms employed less than 100 persons while only twelve had more than 1,000 employees. In 1968 about 68% of all manufactured goods were produced by only one firm. Such a monopoly structure, according to Waller, 1/ leads to "high profits, high prices, declining quality and poor service" while most were too small to realize many economies of scale.

1/ For more detail see Peter Waller,"The Economy of Colonial Zimbabwe,"(Berlin: German Development Institute, Dec. 1977), pp. 77-84; See also, M. Dobert, "Transition in Southern Africa: Zimbabwe," (Washington: USAID, Feb. 1977), pp. 35-43 and G.M.E. Leistner, "Rhodesia: Economic Structure and Change," (Pretoria: The Africa Institute, 1976), pp. 120-135.

The manufacturing sector is highly concentrated in Salisbury and Bulawayo with 48.2% of industry in the Salisbury area and an additional 27% around Bulawayo as of 1972. Government policy to diversify geographically has met with limited success. Salisbury's manufactures are concentrated in consumer goods (food, beverages and clothing) whereas Bulawayo contains the Rhodesian Railways workshops and a rubber factory. Iron and steel and their subsidiaries are located at QueQue as is a fertilizer plant, Gwelo is the center for shoes, textiles and ferro-chrome while Umtali is the center for wood processing.

Domestic capital dominates wood processing while foreign capital is crucial in the food and beverage industries (chiefly British and South African). Tobacco is dominated by Rupert Tobacco of South Africa and Imperial Tobacco of the U.K. Lonhro is involved in textiles and South African capital has invested in nitrogen fertilizers after UDI.

The construction industry is reported to be in decline with approved building plans worth R$112.8 million for 1973 reduced to only R$60.7 million in 1976. This reflects a reduction in plans for industrial and commercial buildings and for high income dwellings. In 1976, construction accounted for 5% of African employment. By comparison, manufacturing employed 14.1% in the same year.

The rapid growth of manufacturing may be due to several factors, which are summarized below.

- Prior to 1965, colonial Zimbabwe experienced considerable industrial growth in iron and steel and cotton textile industries. Already by 1945 colonial Zimbabwe's manufacturing sector accounted for 12.5 percent of GDP.

- During the 1950s heavy investment from the U.K. and South Africa and a skilled minority European population further expanded and helped to diversify the manufacturing sector.

- Colonial Zimbabwe became part of the Federation of the Rhodesias and Nyasaland in 1952 with the now independent Zambia and Malawi. This increased the market size for colonial Zimbabwe's manufactured exports and resulted in unprecedented prosperity, largely at the expense of its partners. The Federation was dissolved in 1963.

- In 1965 colonial Zimbabwe declared a unilateral Declaration of Independence (UDI) and the U.N. imposed economic sanctions against it. In some respects sanctions have done more good than harm by stimulating import substitution, there was wholesale sanctions evasion by a number of firms from most of the major industrial countries which aided this process and there was considerable assistance from RSA. The government provided high protection for new enterprises, imposed exchange controls and placed restrictions on the repatriation of dividends and capital on firms not originating in RSA.

1. Constraints to Manufacturing in Post-Independence Zimbabwe

Principal constraints are likely to include the following:

- Manpower Shortages. Regardless of the type of settlement which is eventually achieved in Zimbabwe, some skilled whites are certain to leave - and indeed many are already leaving. A majority rule government will be under pressure to promote Zimbabweans as rapidly as possible. Although Zimbabwe is significantly better off than were its neighbors at the time of independence in terms of the numbers of skilled and educated Africans 1/ available for more responsible positions, the economy and civil service are also more highly differentiated and will require greater numbers of skilled personnel. Zambia and Botswana at independence, for example, had virtually no manufacturing sectors whereas Zimbabwe has a list of several hundred firms producing everything from abbatoir equipment to zip fasteners.

In the event that a new government seeks to achieve a rapid transformation of the structure of the economy in order to redirect it toward the needs of the majority African population, the white exodus is likely to be rapid and virtually total. The white population has steadfastly refused to yield its privileged status. Under these circumstances the need for manpower training and the temporary recruitment of foreign technicians will be critical. Even a government which attempts

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1/ Zambia at independence had about 100 university graduates and about 1,200 secondary graduates while Botswana and Mozambique found themselves in similar circumstances. There are several thousand Zimbabwean graduates abroad who have received an education through refugee scholarship programs and there are also more educated and skilled personnel inside Zimbabwe than was true of nearby states.

to retain a portion of the white population and promote Africans gradually will most likely place top priority on manpower development.

- Competitiveness. The artificial environment created by international sanctions has stimulated the diversification of the manufacturing sector. The expansion of the sector was primarily import-substituting and did not occur in the context of international competition. A new government under relatively free trade conditions may find that some of these enterprises are uncompetitive. As a consequence, government may be forced to decide whether they should be subsidized to preserve jobs and the "independence" of the economy or whether it is preferable to allow some to collapse once cheaper imports are available. The effect of an end to sanctions, at least for some firms, may ironically be to result in their demise. On the other hand, with the retention of adequate skills the manufacturing sector may be able to adapt to new circumstances and reach a regional market now supplied from further away.[1/]

- Transport. Zimbabwe is located at the center of the regional transport system, however, there could be transport constraints for the manufacturing sector if efficiency should decline with the departure of skilled white personnel. In addition, the system will require modernization and new equipment since some was seized by Mozambique when the border was closed with Zimbabwe and others are simply worn through years

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1/ For an assessment of the competitiveness of the sector see "Rhodesian Manufacturing and UDI, " by Richard Porter and J. Sherman (University of Michigan, October, 1976), 24 pp.

of use in a period when sanctions made it difficult to obtain spare parts and new equipment of this sort.

Efforts to develop small scale industries in the so-called Tribal Trust Lands will be constrained by transport problems since most roads in these areas are unpaved and other infrastructure has been neglected by the minority government.

- Government Policies. Policies may stimulate or constrain manufacturing depending upon the priorities of the new government and the type of economic structures desired. Private foreign investment may be welcomed or shunned, the state may play a dominant or minimal role in the sector, local individuals may or may not be given incentives to establish enterprises in the sector. An assessment of these factors must obviously await the establishment of a majority rule government.

- Political Considerations. The nature of Zimbabwe's relations with its neighbors will also affect the performance of the manufacturing sector. If the border should be closed with South Africa, Zimbabwe still has adequate outlets to the sea through Mozambique, however, these routes are likely to be carrying a great deal of Batswana and Zambian goods as well. This could quickly lead to congestion of the dimensions of Dar es Salaam. From a purely economic standpoint, obviously, the preferred situation would be to have access to all routes and to use them in an efficient manner based on cost factors.

2. The Character of the Labor Force in Manufacturing

In the overview presented as Part I of this report, a primary objective of manufacturing sector development for the countries of the region was defined as employment creation and the resultant beneficial effect of income upon the employee, his family and friends who may be wholly or partially dependent on the employee's income and the society as a whole which may, through proper government policies, expect economic growth with increasing equity. In contemporary Zimbabwe and the Zimbabwe protrayed by the statistics available for the past few years, however, manufacturing had as its principal aim to support the minority government in its efforts to defy United Nations sanctions by rapidly establishing import substitution industries and ensuring the perpetuation of white minority domination. In this context, it is not surprising that the welfare of African workers in manufacturing as in other sectors of the economy have been grossly neglected while racial discrimination has served positively to hinder African advancement.

As mentioned in section one above, skilled manpower shortages among Africans will represent a key constraint upon the sector once independence is achieved. Large-scale training efforts will, consequently, be required. However, in addition to this predictable problem and even more predictable suggestion for its amelioration, numerous other changes will be required in what is usually referred to as the "structure" of the economy. Structural changes are required if the sector is to serve the interests of the African majority and those employed in the sector are, finally, to receive a fair return for their labor.

If the experience of neighboring states and other developing countries with similar characteristics are any guide, one could reasonably expect significant state involvement in the sector (as is the case now) but for the purpose of achieving substantially different objectives. From this perspective, it may be useful to examine briefly the character of the present labor force in the sector as a guide to the types of structural changes which may logically suggest themselves to a new government. Such changes would be likely to form the basis for a post-independence manufacturing policy which, in turn, should offer guidance to donors with respect to areas for continued analysis during the present struggle for Zimbabwean freedom.

In 1972 [1/] there were 112,600 African employees earning an average wage of R$527 per annum in the manufacturing sector making it the third largest sector in terms of number employed and the seventh highest in terms of wage levels. Only agriculture (338,200) and domestic service (120,100) employed more Africans in the wage sector ranking thirteenth and twelfth respectively in terms of wage levels. There were 21,250 Europeans, Asians and Coloureds employed in the sector during the same year earning an average of R$4,160 or about eight times the average African wage. This is less than the ratio of wages overall which in 1972 stood at 1:11 and had remained relatively constant for the previous ten years.

1/ Statistics for Zimbabwe are, unfortunately, frequently more dated than for other areas since the present regime regards much data of this type as restricted for national security purposes. All wage data includes a cash valuation of payments in kind added to the cash wage.

Living standards are even more widely divergent because a higher proportion of white households have working wives, there are usually fewer dependent children and whites have access to the best schools, clinics, and other social services. Comparative U.N. statistics have indicated that Zimbabwe has the most extremely skewed income distribution pattern of any country in the world. Importantly, this is not the result of accidental differences in productivity or skills but can be traced directly to the history of racial exploitation practiced and institutionalized by the white minority government.1/

A majority rule government will immediately be faced with demands for pay increases by African workers and by demands for the establishment of new pay scales and new standards for determining wage levels. The causes of differential productivity noted below in the footnote will require prompt remedy. Fundamental alterations in educational expenditures, accessability to vocational training, the system for determining who is promoted and the identity of the decision-makers in this

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1/ Peter Harris in his study of Black Industrial Workers in Rhodesia has enumerated the sources of differential productivity and their conscious policy characteristics on p. 11 as follows: Whites earn more than blacks not simply because they produce more, but (a) because historically determined wages structures have established "traditional" levels of wages deemed "appropriate" for each racial group, (b) because per capita input into education is grossly unequal, (c) because blacks are restricted both legally and informally from access to vocational and apprenticeship systems (legal discrimination was reported in the press to have been abolished in late September, 1978 but the major impediment has been the systems set up and the whites involved in this who keep blacks out), and (d) because promotion of blacks is often hampered by white prejudice and the hostility of white staff who refuse to be supervised by blacks.

process will need to be altered radically and government will likely be obliged to conduct a publicity campaign to break down surviving colonial assumptions about "proper" wages for different categories of personnel and the way this is linked to productivity and other factors.

Among African employees in the manufacturing sector, 32,747 were employed in Salisbury and 25,901 in Bulawayo in 1969 for a total of about 55% of this group resident in the two cities. Until at least 1974 the minority government's policy was reported 1/ to be to increase the concentration of industrial activity in a few centers. By the end of 1977, it was reported 2/ that the government had decided to diversify the placement of manufacturing enterprises. Consistent with the policies of many other developing countries, a new Zimbabwean government will be likely to wish to diversify the distribution of manufacturing enterprises further in order to spread employment opportunities more evenly throughout the country, reduce migration from rural areas to a few urban centers and foster more balanced national development. Government may wish to consider incentives for investors who locate new enterprises in areas which are underrepresented at present.

To protect unskilled or semi-skilled Europeans from competing directly with Africans at wage levels applied to Africans, certain jobs were "reserved" at "European" salary levels to insure continued white living standards above Africans even when there was no discernable difference in skills or when an

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1/ Harris, p. 14.

2/ Waller, p. 81.

African was actually more skilled. Although the number of semi-skilled Europeans is small, jobs were reserved in lower level civil service positions, on Rhodesian Railways and in other statutory bodies. With blacks in the early 1970s and before employed as machine operators, welders, drillers, painters, drivers, accounts clerks, etc., with greater opportunities for black advancement in manufacturing in the past few years as they have displaced whites called up for military service and with the progressive collapse of the minority government, it is likely that the new government will quickly abolish any vestiges of reserved jobs systems and enforce equal pay for equal work. This simple principle may have implications for the economy of a more complex nature. Rather than deciding to pay, for example, all African account clerks at the level previously reserved for whites, it will probably be necessary to establish a new salary structure reflecting what the economy can sustain since there are far many more African than white account clerks.

The problem of unemployment is a vexing one in most developing countries and the concept often requires elaborate definition if it is to be meaningful to a country with a large proportion of its population outside the wage sector. For Zimbabwe, restricting concern for this question here to the wage labor of the manufacturing sector involves the livelihood of over 100,000 persons and probably a population dependent on this income five times that figure. A new government will be confronted with many competing priorities and could well come to power amidst wholesale white flight and possible destruction of the productive capacity of this sector through white vindictive vandalism (as occurred extensively in Guinea in 1958 and more recently in Mozambique and Angola by departing Portuguese). In this case, the new government will be likely to seek foreign personnel to restore the sector's productive capacity both for the sake of production and employment.

The centers where most manufacturing occurs are also characterized by severe housing shortages for the African population. Overcrowding in unsanitary areas is common. Three possibilities for a new government in this area may be (a) to require firms to provide housing or a housing allowance above current salaries, (b) to seize spacious white homes of those who choose to leave and subdivide them into smaller apartments and (c) to launch a massive site and service scheme program with World Bank or other donor assistance possibly modeled on the schemes in Lusaka, Zambia. Government would allocate land and provide water and sewerage and small loans to employed persons in manufacturing enterprises (obviously a comprehensive housing policy will be required and the discussion here is directed to the sector in question). Given the magnitude of the problem, a combination of all three options may be necessary.

To summarize, therefore, some areas where short term action by a newly independent government may be anticipated if government is concerned with the welfare of workers in the manufacturing sector are:

1. To create a new salary structure and rational for the apportionment of benefits;

2. To end differential expenditure levels for black and white education and create equal opportunities in education;

3. To provide equal access to vocational training and apprenticeships;

4. To create new structures for determining who is promoted and who has authority to decide who is promoted;

5. To provide incentives for better distribution of manufacturing enterprises geographically;

6. To abolish all job reservation systems and equalize wages paid for the same work performed;

7. To keep manufacturing enterprises functioning to prevent unemployment and sustain production levels as an initial goal;

8. To develop a housing policy for workers which will ease overcrowding

No doubt other concerns can be added to the list and workers will want other benefits and seek to obtain them over time through unionization. Once a new government is established and articulates its policies, donors can assess their possible role. In the meantime, the above areas would benefit from detailed investigation. Perhaps a suitable donor could finance an appropriate Zimbabwean nationalist organization to develop options in this field for presentation to a new government for its consideration.

3. <u>Regional Cooperation</u>

Most countries in the region (except for South Africa) have either eliminated or drastically reduced trade with S. Rhodesia. Even Botswana, which was exempted from mandatory U.N. sanctions, has restricted its imports from S. Rhodesia to probably no more than five percent of the total.

Prior to an internationally recognized settlement there is no potential for economic integration between S. Rhodesia and any of its neighbors. The political situation is such that no meaningful economic ties can be established, however, goods from and for Zaire, Zambia and Botswana transit the country.

An internationally recognized settlement may provide scope for the creation (or reactivation) of limited trade agreements--but probably not a customs union or common market in the near term. An independent Zimbabwe would probably become a member of the proposed ESAPTA.

Since the national markets of the region are small, a key way industrialization can be promoted is by regional cooperation. Without the aid of suitable financial institutions the benefits from regional cooperation could be skewed in favor of the most advanced partner, Zimbabwe, as happened in the Federation. Thus, any efforts toward greater integration of these economies should follow the creation of a suitable regional banking institution or the expansion of the ADB to help coordinate industrial development in the region.

An independent Zimbabwe can become a member of the EEC/ACP Trade Group under the Lomé Convention which allows duty-free imports into the EEC. Since Zimbabwe has a more developed manufacturing sector, it should benefit more under the provisions of the Agreement than most countries in black Africa.

4. Recommendations

Subject to the achievement of internationally recognized independence for Zimbabwe and the decisions of the new government with respect to its priorities and requirements for donor assistance, the following areas may offer a point of departure for consideration of the categories of assistance that are likely to be required.

a. Industrial Manpower Assistance

As discussed earlier, Zimbabwe's transition to majority rule may be followed by significant emigration. Lesser trained African administrators, managers, and skilled laborers will replace outgoing Europeans. The decline in average skills will result in reduced efficiency in the manufacturing sector.

Therefore, Zimbabwe will need management level assistance to help reorient manufacturing to changing demands. Marketing specialists to train new entrepreneurs how to market manufactured goods effectively may also be required.

b. Training Assistance

Since Africans have been excluded from holding many management, skilled, and semi-skilled jobs by discriminatory laws and practices, it is recommended that a major effort be made to help train managers, technicians, bookkeepers, secretaries, accountants, maintenance engineers, repair engineers, etc., for Zimbabwe. An emphasis on training on-the-job for industrial and commercial workers may be effective in minimizing the time required away from their jobs which could lessen the adverse effect on production. In addition, a special management program could be mounted to train Zimbabweans and provide scholarships for a number of them, possibly tenable in the U.S. The provision for internships should be an integral part of this program.

c. Recruitment of Zimbabweans Overseas

It is also recommended that some assistance be provided to skilled Zimbabweans currently living in the U.S. to facilitate their return to work in Zimbabwe where their skills will be in demand. As an inducement, their travel from the U.S. to Zimbabwe and a one-time incentive payment could be considered.

d. Aid to the Regional Transport Network

The railway network linking Zimbabwe and neighboring countries has been negatively affected by border closures and U.N. sanctions. Currently the system is fragmented and much of the rolling stock has deteriorated. Zimbabwe will need both capital aid and technical assistance to rehabilitate the railway network. It is recommended that assistance be provided to restore efficiency and train suitable personnel.

e. <u>A Commodity Development Assessment</u>

Trade will be a very important element in Zimbabwe's transition. Prior to U.N. sanctions merchandise trade was valued at over 80% of GNP. Close to 40% of the manufactured goods were exported to black African countries. Zambia was Zimbabwe's most important customer.

The size of the domestic market will make trade just as important as it was prior to U.N. sanctions. Regional economic cooperation will be vital in promoting trade between Zimbabwe and the neighboring countries. Nevertheless, trade will be limited if Zimbabwe's trading partners do not export to Zimbabwe as well.

It is recommended that a regional study be considered to determine the commodities that Zimbabwe can export to the region, and those which potential trading partners can export to Zimbabwe.

APPENDIX

ANNEX I

SOUTHERN AFRICA:

Assistance for Diversification of African Economies

It has long been a standard practice to describe LDCs by referring to the degree to which their economies are concentrated in one or a small number of activities. Discussions of economic development frequently refer to a diversification of economic activity as constituting the essence of the development process. The compelling logic of diversification as a general development strategy applies to economies which start their development effort from a large base of wealth, e.g., Saudi Arabia, or from a small resource base, e.g., Chad. The key difference between the two kinds of economies is the availability of resources which can be invested in diversification. Obviously, economic diversification in an economy such as Chad's can be greatly influenced by outside assistance.

Economic Concentration in Sub-Saharan Africa

Sub-Saharan Africa as a whole is notable for the number of economies which are concentrated, the degree of concentration, and the very small wealth base which can be drawn upon for diversification. Taking the last point first, sub-Saharan Africa contains eighteen of the twenty-nine least developed economies of the world. Furthermore, many of the sub-Saharan economies are small and, in recent years, there has been a high incidence of negative or extremely slow growth in real GNP per capita.

With regard to the number of sub-Saharan countries which depend on relatively few economic activities, the following figures refer to the average proportion of total export earnings for the period 1973-75. Out of thirty-eight sub-Saharan economies, fifteen derive at least 60 percent of total export earnings from a single product. Zambia, Zaire and Namibia depend on copper for 92, 69 and 67 percent, respectively, of their export earnings. Namibia derives another 28 percent of total export earnings from lead exports. Coffee exports provide 72, 76 and 58 percent, respectively, of total foreign exchange earnings for Uganda, Burundi and Rawanda. Ghana and Equatorial Guinea rely upon cocoa exports for 60 and 56 percent of their foreign exchange. Cotton accounts for 70 and 45 percent of the exports of Chad and the Sudan. In Togo, export of phosphate rock comprises 62 percent of total export earnings. Iron ore exports account for 78 and 68 percent, respectively, of Mauritanian and Liberian annual earnings, and bauxite exports provide Guinea with 77 percent of its total export value. Sugar represents 85, 80 and 50 percent of the total export values of Reunion, Mauritius and Swaziland respectively. The Gambia earned 71 percent of its total foreign exchange from exports of groundnuts and groundnut oil. Five other countries depend on only two products for about half of their foreign exchange income. Earnings from petroleum exports account for 43 to 87 percent of total exports in four sub-Saharan economies. Upper Volta, Lesotho and Swaziland are heavily dependent on labor remittances.

In addition to heavy reliance on a few export commodities, many African economies are concentrated on production of a small number of food products (grains and livestock) for domestic consumption, e.g., Mali, Upper Volta, Niger and Somalia. Excessive concentration of resources on production for local consumption can have adverse economic consequences similar to those resulting from overemphasis on production for export.

Concentration as a Development Problem

Excessive economic concentration, while cited as a symptom of underdevelopment, is also a multifaceted development problem. Concentration is a problem because it is associated with excessive and/or frequent economic instability based on either price or volume changes in key commodities. (Export commodities are commonly thought of in this context, but major variations in major domestically produced and consumed commodities can exert an equally disruptive effect.) Instability or the threat of instability associated with economic concentration can impede development, but instability is not the only disadvantage. Concentration means there exists some degree of economic dualism, that is, a modern capital- and skill-intensive sector and a traditional sector. The traditional sector can be handicapped by the "modern" sector because the latter attracts and/or holds management and skilled labor and it draws a disproportionate share of national investment and the energies of government policy-makers.

A plethora of measures, institutions and agreements exists to cope with the instability aspect of economic concentration. The list includes national marketing boards, international commodity agreements, the IMF Compensatory Financing facility, and, most recently, the European stabilization scheme (STABEX) established at the 1975 Lomé Convention. The collection of stabilization schemes encompasses efforts to prevent fluctuations and to deal with the revenue shortfalls which occur as the result of fluctuations.

It is clear that stabilization is viewed as an extremely serious problem. However, with increasing liberalization of stabilization schemes and more comprehensive coverage, the instability feature is becoming less of a problem to African producers in general, even though striking counter examples such as Zambia and Zaire can be cited.

Stabilization efforts tend to reduce fluctuations and uncertainty, but they cannot substantially reduce reliance on a narrow range of economic activities. For a poor economy, diversification can be directly and actively addressed only by a vigorous foreign assistance program which is concentrated on economic diversification.

Approaches to Diversification: General Strategy and Assistance Modes

It is useful first to set out a few basic points. To begin with, economic concentration and the effort to diversify are ultimately expressed as short-term foreign exchange crises because of downward price or volume changes and as a chronic foreign exchange shortage because of the overall poverty of the economies relative to their resource requirements. A diversification program can focus on the latter aspect by maintaining a relatively constant assistance level which is deliberately focused on diversification efforts. Second, a broad range of assistance modes, from sector support to project assistance, is required in order to maintain a relatively stable assistance level and to provide the flexibility to respond to a range of potential diversification activities. Third, the particular strategy adopted would be dictated by the nature of the concentration problem and the general economic characteristics of the country. In all instances, however, the diversification effort would stress involvement in the less developed sectors of the economy and attempt to increase the economic participation of the poorer segments of the population. It is emphasized that diversification be approached on an economy-wide basis and not just directed at increasing the variety of exports.

Sector support is the single most promising approach to increasing assistance levels for diversification. It has the advantage of addressing the immediate problems of countries with stringent balance of payments constraints because it is rapid-disbursing. Simultaneously, sector support can enable African countries to avoid undue disruption of their diversification programs and allows continuation of relatively steady production levels.

There is appreciable potential to supplement the sector assistance mode by introduction of some innovative measures. For example, a major aspect of diversification involves increasing the share of manufacturing — which for AID can involve rural and small-scale, relatively labor-intensive enterprises. But inadequate market size is a widespread and serious constraint. The Agency can respond to this problem by first continuing to emphasize the distributive aspect of its development assistance (thereby increasing effective demand for locally produced goods) and, second, by direct encouragement of regional and inter-African trade and economic cooperation. The latter effort can be facilitated by the expanded utilization of 941 procurement. This measure could be used to bolster demand for products during the critical initiation phase of new activities and, by coordinating the allocation of 941 procurement, it could be used to start new intra-African trade links.

Local and recurrent cost financing provides a number of ways to channel resources into diversification efforts. For example, AID could finance the recurrent cost element of high-priority diversification projects; it could match host country recurrent cost expenditures on priority diversification projects by providing investment in additional diversification efforts; it could match recurrent cost expenditures in selected activities; or it could provide the foreign exchange component of priority diversification efforts.

Increases in Title III assistance can be usefully brought to bear on diversification efforts. Title III is flexible in terms of being able to direct its impact, and there is potential for obtaining a reinforcing effect as commodity imports needed for diversification are provided and the local currency generated is also devoted to the diversification effort. At the present time the Africa Bureau is considering several African countries, including Zaire, the Sudan, Somalia, and possibly Ghana, for potential receipt of Title III assistance in FY 1980.

It may also be possible to expand the Title III principle. Title III, as it stands, tends to promote diversification. An expanded program could involve repayment of any development loan. Thus, repayment credit would occur when additional funds were invested in a diversification activity or used to pay some of the recurrent costs of the diversification. The host country might be given a greater decision scope by presenting it with a priority list of diversification activities and prorating the credit. Thus a 100 percent repayment credit would apply to priority one activities, 75 percent to priority two projects, and so on.

In conclusion, there is a pervasive need for diversification in sub-Saharan Africa. Diversification as a development strategy is limited because it is so broad. Nevertheless it serves to help identify and even rank development priorities. Furthermore, promotion of diversification provides a general planning framework which has proven to be a fundamental component for self-sustaining economic development.

AFR/DR 8/31/78 J. Mudge *

* The above Annex was inserted at the request of AID to ensure wider consideration of this perspective. It should be noted, however, that some disadvantages of the use of 941 procurement as a stimulus to intra-African trade may be that the trade would be (a) artificial, e.g. it would be tied to a project or program which operates with external assistance and which may not be institutionalized once external assistance ceases; (b) small-scale - the volume of procurement through this procedure would be small in most cases when compared with overall trade figures for even the smaller African states, and (c) externally induced, e.g. the U.S. places restrictions on which countries may qualify for 941 procurement which would result in the direction of trade being induced by a foreign state in accord with foreign criteria. As of November 15, 1978 AID has confirmed that it maintains a list of countries from whom procurement may not occur (unless a weiver is obtained) which includes Somalia, Congo, South Africa and S. Rhodesia.

ANNEX II

BOTSWANA:

MINISTRY OF COMMERCE AND INDUSTRY PROJECT LIST: INDUSTRIAL DEVELOPMENT

(EXCHANGE RATE 1P = 1.2000 $)

SECTOR	PROJECT TITLE	PROJECT SUMMARY	ESTIMATED COSTS	PROMOTER	FOREIGN CONTRIBUTION REQUIRED	REMARKS
Manufacturing/ Construction/ Services	Industrial Credit Programme	Special credit programme attached to the NDB to enable entrepreneurs in the country access to inexpensive medium and long term credits not available at present.	$ 2.640.00	MCI/NDB	Full amount	West Germany provides DN 2.0 Mill. revolving funds to NDB. EDF provides 650.000 U.A. as/well under Lome I
Manufacturing/ Construction/ Services	Technical Assistance: Training of bank personnel in industrial financing.	NDB has been predominantly financing agricultural projects and has no expertise in evaluating industrial projects and their profitability potential. Industrial development is new to the country and the Bank is reluctant to finance because of lack of expertise.	$ 48 000 depending on US IDA - rates for experts.	MCI/NDB	Full amount	West Germany provides one expert to NDB on industrial credits.
Manufacturing/ Construction/ Services	Botswana Business Extension Service	Extension Service to Botswana entrepreneurs in the field on business management, control, marketing etc. A credit programme without extension service will be to 50% a waste of funds since lack of capital is often reflection of management problems.	$ 688 319 Capital expenditure to build up extension service infrastructure	MCI/PFP Botswana Presently 500 clients can be served but over 2500 clients are estimated to be in need...	Full amount spread over 4 years	Limited aid is given to PFP from PACT/ N.Y.E. U.S.A.

SECTOR	PROJECT TITLE	PROJECT SUMMARY	ESTIMATED COSTS	PROMOTER	FOREIGN CONTRIBUTION REQUIRED	REMARKS
Rural Areas/ Districts/ Industrial Sector	Regional industrial Development Studies	Aquiring of data of available industrial raw materials, skills, demand suitable for industrial development in the Districts of Botswana. Likely branches are:-Agro-Industries, repair & services, agricultural inputs, construction material, game, herbs, animal products processing, crafts, simple consumer goods.	US-$ 120 000 depending on US IDA-rates -26 man-months coordinator -102 man months field survey	MCI/District authorities	Full amount Mixture of technical assistance, capital aid for transport and field accomodation	MCI is building up "Rural Industrial Officer Cadre". First officer is Peace-Corp-Volunteer serving in Serowe. (Mr. B. Poole)
Rural Industrial Sector	Rural Industrial Development Grants	Starting finance and bottleneck finance for rural development trusts and production brigades and contemporary craft producers. Micro-type, flexible project to finance parts of working capital, equipment, shells etc.	US- $ 600 000	MCI/Production Development Committees in Districts	Full amount	Projects should be blanket finance and items to be financed will be screened by MCI on application of trusts, Rural Industrial Officers etc.

SECTOR	PROJECT TITLE	PROJECT SUMMARY	ESTIMATED COSTS	PROMOTER	FOREIGN CONTRIBUTION REQUIRED	REMARKS
Road Construction/Construction material (BEDU)	Development of local road contractors (BEDU)	Development of Local road contractors within the BEDU -framework. Areas would be construction of less sophisticated feeder roads and secondly road maintenance. Maintenance capacity in the country is lacking especially in the rural areas.	$ 600 000 for purchase of equipment/ starting capital costs. $ 240000 would be for a Central Stone-crushing plant.	MCI/BEDU/ Roads branch Ministry of Works and Communications.	Total locally produced equipment hardly available.	Swedish SIDA is to finance BEDU to a large extent.
Local Industry (BEDU)	Technical Assistance Project Development Officer	BEDU is suffering from almost total lack of planning and evaluation capacity. A local Officer is available for training	US-IDA -rates.	MCI/BEDU	Total	High priority
Local Industry	Industrial Training Programme.	The Ministry has to tackle directly the issue of low industrial labour productivity. Training incentives in the Income Tax Act are not workable. In -plant-training, pilot projects, training instructors are necessary.	First allocation of $ 300 000 p.a. is considered.	MCI	Total	High priority

SECTOR	PROJECT TITLE	PROJECT SUMMARY	ESTIMATED COSTS	PROMOTER	FOREIGN CONTRIBUTION REQUIRED	REMARKS
Industrial Sector/ Tourism Sector	Foreign Investment Promotion	The deteriorating political situation around Botswana is a disincentive to foreign investment which is needed & welcome to the country. It is planned to commission a Public Relations Firm to put Botswana on the map for foreign investors in a such more active way than hitherto.	USA: $ $ 420000 Europe: $ 360 000	MCI/(BDC/ BEDU)	Total	Feasibility studies etc. have to be sold "systematically" otherwise they present a misinvestment. The PR Scheme will be held under control comply with the absorption capacity of the country.
Industrial Sector	Industrial Promotion Unit	The Ministry wishes to establish an information and Investment Promotion Centre which will be responsible for preparation and evaluation of Industrial Studies of information and investment promotion in - Research and Planning Unit of the Industrial Division. The Unit will require counterpart staff who will be adequately trained to take over investment research and promotion activities. USAID is requested to assist in the preparation of terms of reference of suggested Centre, and possibly in financing it.		MCI BDC BEDU	Total	UNIDO assistance already requested. German expert under recruitment.

SECTOR	PROJECT TITLE	PROJECT SUMMARY	ESTIMATED COSTS	PROMOTER	FOREIGN CONTRIBUTION REQUIRED	REMARKS
Industrial Sector	Chemical Industry Feasibility Study (SUA - PAN - Project	Studies including market research have been undertaken on the SUA PAN soda ash and salt project. Potential investors are needed for this project.	$ 5382 000	MR & WA MCI		Ministry of Mineral Resources has been trying to interest foreign private investor, So far nothing in the way of active interest has been reported.
Industrial Sector	Fertilizer production Feasibility Study	Project idea based on availability of raw materials. Feasibility Study required.		MCI BMC	Total	
Industrial Sector	Copper refinery Feasibility Study.	Project idea which would provide for implementation of Lima declaration in respect of transfer of technology from developed to developing countries; to increase earnings through export of processed commodities; industry would provide ground for activities based on linkage effects.		MCI MR & WA	Total	

SECTOR	PROJECT TITLE	PROJECT SUMMARY	ESTIMATED COSTS	PROMOTER	FOREIGN CONTRIBUTION REQUIRED	REMARKS
Industrial Sector	Coal gassification feasibility Study	High cost of imported fuel compels Botswana to explore possibilities of utilising alternative sources of energy. A study with special emphasis on liquification and gassification of solid fuel is required.	US $ 500m investment costs estimated.	MCI	Total	
Industrial Sector	Investigation of SACU effects on industrialisation in Botswana	Would require someone to investigate and evaluate effects of SACU on internal industrial development; market benefits and bargains.		MCI	Total	
Industrial Sector	Construction/ Industry Construction material	(CEMENT) Information from Geological Survey indicate that Serorome Limestone deposits may be investigated for the purpose of establishing a cement industry.		MCI	Total	
		(TIMBER) Project idea based on improvement of available raw material obtainable from Chobe.		MCI		Application for prefeasibility study funds with some other Organisation.

SECTOR	PROJECT TITLE	PROJECT SUMMARY	ESTIMATED COSTS	PROMOTER	FOREIGN CONTRIBUTION REQUIRED	REMARKS
Industrial Sector	Soap Manufacture feasibility study	Project idea. The raw material could be obtained from the Botswana Meat Commission. Present Production of tallow estimated at 16 kg. per carcass (about 1,000 heads are slaughtered per day during the slaughtering period).		MCI BMC		**High priority project, but nothing has been done so far.**

ANNEX III

UNDP PROJECTS IN MANUFACTURING FOR BOTSWANA

PROJECT NUMBER	PROJECT TITLE	ESTIMATED COST
DP/BOT/72/009	Small Enterprise Dev. Programme Set up industrial estates for small-scale enterprise	$452,000
SM/BOT/73/001	Establishment of Clay Products and Non-Metallic Minerals Industry to Support Small-Scale Enterprise	Below $150,000
RP/BOT/78/001	Industrial Planning Mission	Below $150,000

Source: UNIDO, Vienna.

ANNEX IV, Attachment A

LESOTHO NATIONAL DEVELOPMENT CORPORATION

SUMMARY OF EQUITY AND LOAN PORTFOLIO AS OF MARCH 31, 1976
(in Rands)

Subsidiaries	Area of Activity	LNDC's Equity Outstanding	LNDC's Equity Holding %	LNDC's Loans Outstanding	LNDC's Loans Interest	Remarks
BEDCO	Small Enterprise Development	2	100	688	n.a.	New company, catering to SSE sector.
Lesotho Construction Ltd.	Construction Materials	65,300	100	1,036	n.a.	Profitable company.
Lesotho Hotels Ltd.	Hotels	100,000	100	-	-	Holding company for new hotels most of which are beginning operations.
Lesotho Housing Corporation	Housing	15,000	100	639	n.a.	Profitable company.
Lesotho Pharmaceuticals	Pharmaceuticals	255	51	50,702	12	May need affiliation with major pharmaceutical concern.
Lesotho Tourist Corporation	Tourism Development	100	100	105,471	12	Hired a new manager to strengthen marketing.
Libeso Ltd.	Coal Distribution	2	100	32,127	n.a.	Profitable firm recently sold to BEDCO.
LNDC Trading Agency	Handicraft Retailing	4,000	100	61,384	12	Unprofitable branch closed; problems being resolved.
Maseru Tyre Company	Tyre Recaping	46,500	100	11,550	n.a.	Company doing well; new manager appointed.
National Motor Company	Motor Vehicles	19,851	51	21,470	12	New manager and accountants hired; new accounting system.
Oxbow Enterprises	Handicrafts	500	100	15,012	n.a.	Project still being developed
Pioneer Motors Ltd.	Motor Vehicles	3,486	51	84	n.a.	Outstanding overdraft reduced; and new capital injected.
Royal Crown Ltd.	Handicrafts	20,000	100	23,654	12	New marketing strategy adopted.
Sherra Ltd.	Handicrafts	100	100	29,730	12	Financial structure being reorganised.
Swiss Lesotho Watch Centre	Watch Repair	2,600	100	21,527	12	Possible sale to BEDCO.
Thaba Bosiu Ceramics	Handicrafts	20,000	100	15,613	12	Sale of 50% share to EDESA pending.
Sub-total		297,696		390,687		
Amalgamated Hotels Ltd.	Hotels	20	20	100,000	n.a.	Company doing well.
Domolux Ltd.	Manufacture of lamps	83,300	49	126,510	10.5	New management appointed.
Frasers Manufacturing Ltd.	Building Materials	1,000	1	-	-	Information not available.
Lesotho Food Industries	Agro-industries	66,167	40	35,823	n.a.	Just became profitable.
Lesotho Mohair Industries Ltd.	Mohair products	50,000	25	-	-	Company being established.
Lesotho Sheepskin Products Ltd.	Handicrafts	22,800	43	92,655	12	Financial record-keeping being improved.
Kolonyama Candle Co. Ltd.	Candle Making	16,050	50	118,741	12	Profitable company.
Metro Lesotho Ltd.	Distribution	25,000	50	179,141	10	Company recently began operations.
Optichem Ltd.	Agro-industries	10,000	25	28	n.a.	Company doing well.
Royal Lesotho Tapestry Ltd.	Handicrafts	8,500	50	1,476	n.a.	Company profitable.
Seacrest Clothing Ltd.	Garments	17,500	28	54,227	12	New production man hired;company potential looks good.
Taiwan Construction Co.	Construction	10,000	33-1/3	10,766	n.a.	Company profitable in 1975,but temporarily unprofitable in 1976.
Sub-Total		310,337		719,367		
Total		608,033		1,110,054		

Source: World Bank. Appraisal of the Lesotho National Development Corporation and its Subsidiary The Basotho Enterprises Development Corporation. 1332a-LSO. Washington DC: World Bank. March 17, 1977.

ANNEX IV, Attachment B

LESOTHO NATIONAL DEVELOPMENT CORPORATION

LIST OF LNDC PROJECT POSSIBILITIES
(as of June 30, 1976)

	Area of Activity	New or Expansion	Location	Ownership	Estimated Project Cost (R'000)	Potential LNDC Financing (R'000)
Wool and Mohair	Agro-industry	New	Maseru	Jt.Venture	2,000	850
Lesotho Milling Company	Food Processing	Expansion	Maputsoe	Jt.Venture	94	94
Poultry Processing Plant	Food Processing	New	Maseru	Jt.Venture	120	80
Thaba Bosiu Ceramics	Handicrafts	Expansion	Maseru	Jt.Venture	45	25
Royal Lesotho Tapestry Weavers	Handicrafts	Expansion	Maseru	Jt.Venture	150	50
Lesotho Sheepskin	Handicrafts	Expansion	Maseru	Jt.Venture	280	280
Stone Crushing	Building Materials	New	Maseru	Jt.Venture	725	362
Steel Company & Joinery	Building Materials	New	Maseru	Jt.Venture	48	16
Cement Manufacturing Plant	Building Materials	New	N/A	Jt.Venture	1,250	600
Gonski Knitwear	Textiles	New	Maputsoe	Jt.Venture	1,100	450
Carpet Manufacture	Handicrafts	New	Maseru	Jt.Venture	170	100
Spenser Textiles	Textiles	New	Masenot	Jt.Venture	650	250
Plasma Freeze Drying	Manufacture	New	Maseru	Jt.Venture	80	30
Seacrest	Clothing	Expansion	Maputsoe	Basotho	47	47
Lesotho Hotel Groups	Tourism	Expansion	all over the country	Basotho	750	750
Ceramic Wall Tiles	Building Materials	New	Maseru	Jt.Venture	1,250	450
Maputsoe Cash & Carry	Distribution	New	Maputsoe	Jt.Venture	600	400
National Motors	Automobile	Expansion	Maseru	Jt.Venture	75	50
Pioneer Motors	Automobile	Expansion	Maseru	Jt.Venture	26	26
Industrial Estates	Industrial Infrastructure	Expansion and New	mainly in Maseru	Basotho	1,700	1,700
Total					11,160	6,610

Source: World Bank. Appraisal of the Lesotho National Development Corporation and its Subsidiary The Basotho Enterprises Development Corporation. 1332a-LSO. Washington DC: World Bank. March 17, 1977.

ANNEX V

MALAWI: OPERATIONAL PROJECTS: UNIDO/UNDP-SPONSORED PROJECTS

Project No.	Project Title	Small (S)* Large (L)**	Responsible Officer
DP/MLW/75/009	Commissioner for Industrial Development (OPAS)	L	Mr. Perelet
DP/MLW/72/010	Agricultural/Industrial Management Training	L	Mr. Sterers
SI/MLW/77/802	Development of Brick-Making Industry	S	Mr. Biering

*S=Small project below $150,000

**L=Large project above $150,000

Source: UNIDO, Vienna

ANNEX VI

MALAWI:

EDF PROGRAM (1976-79):

Industrial (or Related) Projects

Projects	Estimated Amt. (Million EUA[1])	Estimated Date of Decision	Amount Committed	Observations
I. National Indicative Program				
Blantyre Industrial Area	1	December, 1978		Extension of the existing industrial areas
Small-Scale Industries	1	March, 1979		Creation of system of credit to small entrepreneurs and industrialists
Total	2			
II. Risk Capital and Interest Rate Sub.	2,396			
EIB[2] Dwangwa sugar			0.987 Risk capital	Complementary to EIB
			0.903 subsidy	Loan of 6.5 million
EIB Indebank			0.506 subsidy	Complementary to EIB loan of 3 million

[1]EUA: European Units of Account

[2]EIB: European Investment Bank

Source: EDF Mission, Lilongwe

ANNEX VII
MOZAMBIQUE:

Project Proposals Submitted by UNIDO to the Government of Mozambique for Consideration

(i) Industrial Survey Mission (estimated cost $78,000) as a first step to identify technical assistance to the industrial sector. This would be followed by expert services in strategy, planning, development policies, and regional planning and short-term consultants in various fields, including building materials, agro-industries, incentive schemes, electric tariff systems, packaging.

(ii) Management Consultancy Services to the Food Processing Industry and Study of Management Requirements
Phase I: a six week consultancy mission and Phase II: Management consultancy services to study further management requirements and recommend appropriate methodology (estimated cost: $42,000).

(iii) Development of the Building Materials Industry
This, once fairly developed, industry is reported to have been at a standstill for some time and it is suggested that an examination be made of the present state and requirements and that an engineer be included in the Industrial Survey.

(iv) The industrial exploitation and beneficiation of kaolin deposits
A techncial investigation for the industrial exploitation and beneficiation of kaolin, which will assist the local authorities in selecting suitable processing techniques for the conversion of kaolin into various intermediate and final products. (Estimated cost: $71,000).

(v) Local development of simple agricultural implements
It is proposed that a pilot demonstration project be initiated for the development of simple agricultural implements together with integrated repair and maintenance facilities. A total of $500,000 is estimated to cover the cost of the project for a period of three years.

(vi) Assistance to the Wood Processing Industry
In 1972, the country exported 30,000 tons of sawn wood, 64,300 tons sleepers and 20,000 tons of parquet flooring. These call for a considerable investment in fixed plant and equipment. Furthermore some 360,000 tons of logs were exported, hence there is also considerable investment in logging equipment. In 1970, the value of furniture production was $6.5 million. Some of these plants may also need assistance. UNIDO has been providing similar assistance to some other countries, and if the Government is interested we shall be pleased to make specific proposals.

(vii) <u>Comprehensive plan for the creation and development of metallurgical industry</u>
A Master Plan for the development of the iron and steel industry to provide a solid basis needed by planners, executives, and Government authorities in their work for present and future development programs. The total budget for this project is from UNDP $350,000 and a Government contribution of $15,000.

(a) Establishment of an aluminum industry, phases I and II. (Total estimated cost: $700,000)
(b) Assistance for the utilization of ilmenite and deposits. (Total estimated cost: $796,000)
(c) Development of the heavy-ferrous metals. (Estimated cost: $820,000)
(d) Assistance to the foundry industry, phase I and II. (Phase I would cost $135,000, Phase II would cost $1,235,000 and the Government contribution would be U.S. $1,100,000.

(viii) <u>Establishment of a pesticide production (demonstration) plant (Estimated cost: $385,000)</u>
In order to assist in the development of the agricultural sector, it is proposed to establish a pesticide production (demonstration) plant. It is expected that the plant will help to:

(a) effect substantial foreign exchange savings spent on diluents and transportation. Diluents, locally available, often represent 75 to 99 percent of the formulated end-products, thus their share in purchase and transportation costs can run quite high;
(b) reduce local distribution and transportation costs through strategic location of the plant;
(c) utilize local raw materials (e.g., clays, talc, etc.);
(d) increase farmers' competitive position by reducing cost;
(e) increase national labor input;
(f) generate associated industries (exploitation and processing of mineral deposits);
(g) reduce risk of degradation in formulated products by shorter term deliveries; and
(h) reduce dependence on foreign suppliers.

(ix) <u>Petroleum refining</u>
It is proposed to assist the Government in the management of its petroleum refinery. This assistance would mainly consist of preventive maintenance and mechanical inspection services; training of engineers and managerial staff abroad; and in-plant training of petroleum refinery personnel (process operators and technicians). The duration of the project would initially be two years, and it is estimated to cost $307,000.

(x) <u>Development of the oilseed industry</u>, (estimated cost: $100,000)
A sectoral study of the oilseed industry, covering the entire field of the oils and fats production and processing industry, including fatty acids and soap production. The results of the study would provide a basis for the elaboration of a master plan and a more appropriate coordination of the development of the country's oilseed processing industry.

(xi) Engineering Industries

The establishment of a modern pilot printing shop for the production of Government documents and schoolbooks. The project consists of a team of three international experts for five man/years, training, and equipment, amounting to $600,000.

The establishment of a pilot mechanical engineering workshop which would provide various metal products, spare parts, and undertake machinery repair services. The cost of the team of experts, training, and machinery would amount to $800,000.

(xii) Packaging Industries

A program for the development of the packaging industry should be included in the country program. The packaging industry is an inherent and essential complement to all industries having an end product. It is proposed that an indepth survey be carried out as the first phase of a full development program.

In addition to the survey mission, a sum of U.S. $250,000 should be tentatively programmed for the next phase of the program, which would include assistance by UNIDO in strengthening existing packaging organizations and in drawing up a long term plan for the full development of the packaging industry.

(xiii) Environment

A survey of the environmental aspects of selected existing industrial plants, particularly, those recently established, should be undertaken and local staff should be trained in the field of industrial environmental pollution. (Estimated cost: $50,000)

In addition, different proposals were made at different times for Mozambique of which the following deserve mention:

(xiv) Assistance to National Paper Industry

We received a file note (MOZ/76/013) from FAO, by which Mr. Markila, Chief, Pulp and Paper Branch, has drawn our attention to the problems which he found in the National Paper Industry in Maputo.

Based on his report, a draft Project Document was sent to Mr. Zetterberg on 23 January 1978 for 12 m/m expert assistance (54,800) to Industria Papeteira National to increase its overall capacity to produce increased quantities of paper and better grades.

(xv) Production or oral rehydration salts

A survey on the needs of technical assistance in selected developing countries with special problems was carried out by Mr. Joklik - a UNIDO consultant.

One of the fields identified was the production of oral rehydration salts.

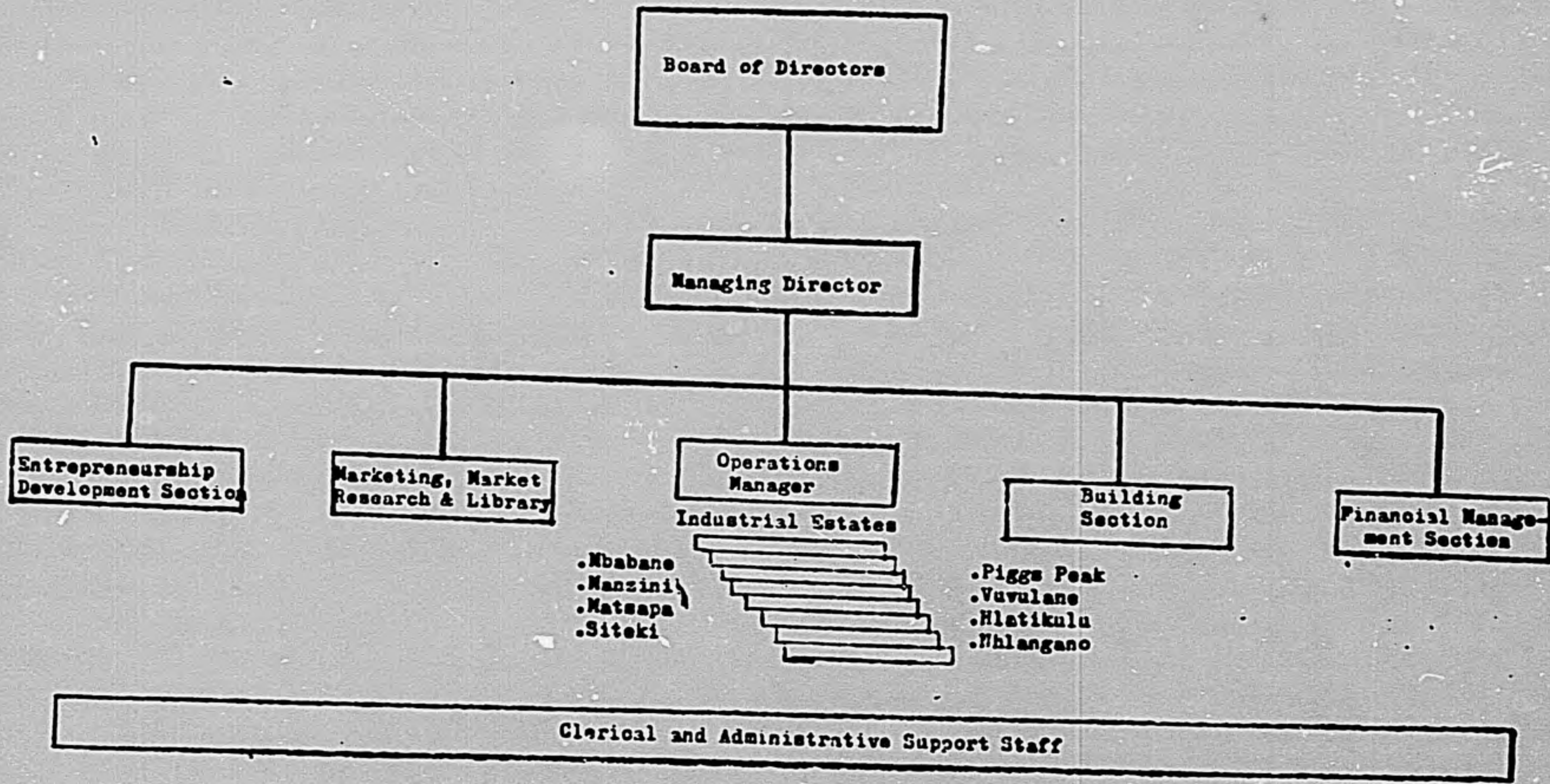
A letter was sent to Mr. Zetterberg on 9 August 1977 informing that if sufficient interest from different countries connected is shown, we will prepare a programme for approval under UNIDF.

We received a cable from him on 18 January 1978 informing us of the Government's interest to receive assistance of this project under UNIDF.

Source: UNIDO, Vienna

ANNEX VIII

SWAZILAND: ORGANIZATIONAL STRUCTURE OF SEDCO



Source: Ministry of Industry, Mines & Tourism, Swaziland

ANNEX IX

SWAZILAND: EXTERNALLY FINANCED TECHNICAL COOPERATION PROJECTS AND ACTIVITIES IN INDUSTRY, 1977

1 PROJECT ACTIVITY (TITLE)	2 SOURCE OF ASSISTANCE	3 ASSISTANCE COMMITTED FOR 1977 (US $ EQUIVALENT)	4 DURATION: BEGIN-END DATES	5 NATURE OF ASSISTANCE & LOCATION, (WHERE NO PLACE INDICATED = MBABANE
SWA/70/601 Managing Director National Industrial Development Corporation of Swaziland (NIDCS) (OPAS)	SWEDEN (UNIDO)	20,000 (178,807)	Mar. 1971-Aug. 1977	Ministry of Industry
SWA/71/505 Small-scale Enterprises and Handicrafts Development	UNDP (ILO/UNIDO)	233,337 (1,739,388)	Jan. 1972-Dec. 1980	Equipment: 238,406 Fellowships: 64,900 13/76 mm
Associate Expert Wood Utilization to SWA/71/505	SWEDEN (UNIDO)	20,000 40,000	Nov. 1975-Oct. 1977	To develop small-scale business throughout Swaziland. SEDCO, Ministry of Industry, Mines and Tourism.
Associate Expert Marketing Research to SWA/71/505	BELGIUM (UNIDO)	20,000 (60,000)	July 1976-July 1979	
SWA/73/005 Operational Assistance to NIDCS	UNDP (UNIDO)	8,318 (126,873)	Dec. 1973-Feb. 1977	Treasurer December 1973-1975 and a Legal Adviser Feb. 1975-Feb. 1977 for NIDCS Fellowship: $31,500
A/E Marketing Economist SWA/73/005	DENMARK (UNIDO)	10,000 (40,000)	July 1976-July 1978	
Finance Analyst SWA/73/005 (A/E)	DENMARK (UNIDO)	10,000 (20,000)	June 1977-June 1978	
SWA/75/010 Production of Vegetable Tanning from Wattle Bark	SIS (UNIDO)	40,000	Feb. to Nov. 1977	Feasibility study
Ceramics Expert to SEDCO	DENMARK	30,000 (230,000)	1970 to 1972 July 1973-July 1975 and Oct. 1975-Oct. 1978	Ministry of Industry

ANNEX X

SWAZILAND: REGIONAL INDUSTRIAL PROJECTS SUPPORTED BY THE CENTER FOR INDUSTRIAL DEVELOPMENT

Title	Project Description and Approx. Cost in US $	CID Intervention and Information Available
Kenya/Swaziland Coal iron ore/ steel project	Establishment of a + 200,000 t p.a. steel mill in Kenya on the basis of Swaziland's iron ore and coal resources. Sponsors: Government of Kenya and Swaziland. Total cost over 100 million.	CID has arranged for regional cooperation between the two countries; preliminary technical study co-financed by CID; interested EEC investment and technical partners available.
Lesotho/Swaziland Mini-petroleum refinery	The BLS States depend on the Republic of South Africa for the supply of all petroleum products. Because of the Arab oil embargo against the RSA, and the extremely high prices of oil products in the RSA (to subsidize the two oil-from-coal plants, SASOL I and II), the BLS States suffer from supply shortage and high energy cost.	The CID has co-financed, jointly with the Swaziland Government, a study on alternative petroleum products supply possibilities for Swaziland. Amongst the alternative, the Government has opted for the refinery (in Sept. 1977).
	At the initiative of Swaziland, it is proposed to set up, as a joint venture with Lesotho, a small refinery with a minimum capacity of 250,000 t p.a. at a cost of about 33 million US $. Mozambique and Botswana are also interested in the scheme.	At the request of Lesotho and Swaziland, the CID has prepared the terms of reference for the final refinery study.

ANNEX XI

UNIDO-SPONSORED INDUSTRIAL PROJECTS IN SWAZILAND

Project	Project Summary	Total Project Cost Including Working Capital (US$ Million)	Promoter/ Sponsor	Foreign Contribution Requested	Remarks
Meat Processing Plant (Matsapa)	Expansion of meat processing plant by extension of product range into cold cuts, processed meat such as sausage. Capacity: Current aboittoir kill about 50,000 head of cattle per year. Market: Export. Ownership: Local private and foreign partners. Location: Matsapa	0.8 (of which 0.4 is foreign exchange)	Swaziland Meat Corp. (SMC)	Joint venture; long-term loan; management; technical know-how.	Investment idea only; feasibility study not yet performed. Source: UNIDO
Solid wattle extract	Establishment of a wattle extract (vegetable tanning material) plant to produce 500 tonnes of solid extract/ day. Market: Mainly export. Local consumption possible when leather industry is fully developed. Ownership: Government plus foreign partner. Location: Nhlangana (largest wattle area).	0.6 (of which 0.3 in foreign exchange)	Ministry of Industry, Mbabane	Joint venture; long-term loan; management; technical know-how.	Preliminary study available with UNIDO, Category II
Charcoal	Establishment of several charcoal manufacturing plants using local pine and gum trees to produce about 34,000 tonnes/year of charcoal. Market: Export. Ownership: Government plus foreign partner.	3.5	National Industrial Development Corporation of Swaziland (NIDCS)	Joint venture; long-term loan; management; technical know-how.	Preliminary study available with UNIDO, Category II
Paper Mill	Establishment of a paper mill to produce about 40,000 tons of newsprint, fibre board, and particle board. Market: Mainly export. Ownership: Government and foreign partner. Location: Near existing large-scale pulp mill in southwest area.	36 (of which 24 in foreign exchange)	National Industrial Development Corporation of Swaziland (NIDCS)	Joint venture; long-term loan; management; technical know-how.	Feasibility study at Department of Natural Resources National Economy Summary. Information at UNIDO.

Source: UNIDO, Vienna

ANNEX XII

SWAZILAND:

E1 = R1 = US $1.17

SUMMARY OF PROJECT POSSIBILITIES AS AT JUNE 30TH, 1970

PROJECT & PROJECT NO:		TYPE OF ACTIVITY	NEW/EXPANSION	PARTICIPATION	(E'000) EST. TOTAL COST	EST. NIDCS FINANCING EQUITY	LOAN	BUILDING	STATUS[2]
100/35	Sawmill	Sawmilling of Swazi Timber	New	N/A	E2,100		N/A[3]		Study complet-ed
100/31	Oil Express.	Extraction of vegetable oil mainly from cotton seed	New	NIDCS, EIB, IFC, Guiness Peat, Cotton Growers' Co-operative	E3,000[4]	E400	E640	E400	Sept.78[1]
100/120	Batteries	Manufacture of lead-acid accumulators	New	Swazi entreprenuer with NIDCS	E 150	E 20	E 40	E 30	Sept.78
100/15	Charcoal	Manufacture of charcoal from Swazi wattle	New	N/A	E3,000		N/A		Sept.78
100/92	Wattle Extract	Extraction of tannin from bark of Swazi wattle	New	NIDCS, Wattle Growers' Co-operative, Promoter	E 350		N/A		Dec. 78
37/100	Printing	Upgrading technology for Printing and Publishing Company	Expansion	NIDCS	E 500	-	E 500	-	Dec.78
100/20	Can Making	Manufacture of tin-coated steel cans	New	Metal Box	E1,000	-	-	E500	Dec.78
100/84	Asbestos Products I	Weaving of asbestos fibre into asbestos textiles	New	Turner and Newall	E 500		N/A		Dec.78
100/93	Clothing	Manufacture of Leisurewear for United Kingdom Market	New	African and Overseas Limited	E 750	-	-	E350	Dec.78
100/17	Textiles (1st phase)	Spinning and weaving of Swazi cotton	New	NIDCS,EIB,IFC,DEG, Promoter	E10,000[4]	E1,000	-	E1,200	Mar.79[1]
100/28	Ceramics	Manufacture of domestic/ industrial ceramics from Swazi clays	New	NIDCS,IFC,EIB,DEG, Promotor	E 7,000[4]	E 920	E1,400	E1.200	Mar.79[1]
100/107	Liquid Gases	Compression of Air	New	N/A	E 1,500		N/A		Mar.79
100/40	Motor Veh-icle Assem-bly	Assembly of motor vehicles under franchise	New	NIDCS,VOLVO,LONRHO	E 3,900[4]	E 600	E1,200	E 900	June 79
100/84	Asbestos Products II	Manufacture of asbestos cement products from asbestos fibre	New	N/A	E 2,000		N/A		June 79
100/51	Cafeteria	Establishment of centralised eating house on Matsapa estate	New	Swaziland Government	E 130[4]		N/A		June 79
100/69	Granulation Plant	Manufacture of high-density fertiliser	Expansion	NIDCS,Swaziland Chemical Industries	E 4,500	E1 500	E1,500	-	June 79
100/16	Tannery	Tanning of local hides to finished leather and manufacture of footwear	New	N/A	E 2,500[4]		N/A		Dec.79
100/18	Fuel Alcohol	Manufacture of fuel alcohol from by-products of sugar industry	New	N/A	E 3,000		N/A		June80
			TOTAL CARRIED FORWARD		E45 880				

PROJECT AND PROJECT NO:	TYPE OF ACTIVITY	NEW/EXPANSION	PARTICIPATION	EST.TOTAL COST	EST.NIDCS FINANCING EQUITY	LOAN	BUILDING	STATUS[2]
			Brought forward	E45 800				
Various small projects				E 300		N/A		
			TOTAL PIPELINE 30TH JUNE 1978	E46,100				
			Less New Projects	8,000				
				30,100				
			Less revaluotions	2,750				
				35,430				
			Add projects implemented	1,450				
				36,880				
			Add projects dropped	100				
			Pipeline 31st March, 1978	E36,980				

NOTES :

1. The Government of the Federal Republic of Germany has undertaken to finance feasibility studies for which terms of reference have been submitted to IBRD for information.

2. Status – estimated date of completion of feasibility study

3. N/A – not yet determined

4. Implementation through monaged fund.

Source: National Industrial Development Corporation of Swaziland.

ASD/SMP 30TH JUNE 1978

ANNEX XIII

ZAMBIA: UNIDO PROJECTS IN MANUFACTURING

Project Number	Project Title	S,L*
DP/ZAM/76/003 (formerly DU/ZAM/72/012)	Assistance to Development Planning Division	L
SI/ZAM/74/814	Techno-Economic Feasibility Study of a Wood-Based Destructive Distillation Industry	S
SI/ZAM/78/801	Assistance to the Edible Oil Industry	S
SI/ZAM/75/808	Market and Feasibility Study for the Joint Zambian-Egyptian Copper Fabrication Project	S
TF/ZAM/77/001	Feasibility Study Semi-fabr. + Cast Brass	S
VC/ZAM/77/017	Zambia-Establishment of Salt Iodization Plant	S
SI/ZAM/77/802	Processing of Molasses - Manufacture of Ethyl Alcohol and Fodder Yeast (Torula) by Fermentation	S

* S = Small Project below $150,000
  L = Large Project above $150,000

Source: UNIDO, Vienna

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CONTACT LIST

Manufacturing Sector

I. Washington--April 24-May 26, 1978

A. Agency for International Development (AID)

1. VIVIAN ANDERSON, Deputy Director, Office of Southern Africa Affairs, Bureau for Africa

2. MICHAEL FELDSTEIN, Chief, Southern Africa Development Analysis and Planning Taskforce

3. PAUL GUEDET, Chief, South Africa Programs, Office of Development Resources, Bureau for Africa

4. LEONARD POMPA, Desk Officer, Office of Southern Africa Affairs, Bureau for Africa

5. THOMAS QUIMBY, Director, Office of Southern Africa Affairs, Bureau for Africa

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7. ROBERT WRIN, Desk Officer, Office of Southern Africa Affairs, Bureau for Africa

B. Department of State

1. CARL CUNDIFF, Director, Economic Policy Staff, Bureau of African Affairs

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3. DENNIS KEOGH, Deputy Director, Office of Southern African Affairs, Bureau of African Affairs

4. JAMES NACH, Desk Officer, Office of Southern African Affairs, Bureau of African Affairs

5. WILLIAM SWING, Alternate Director, Office of Central African Affairs, Bureau of African Affairs

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5. EDWARD VICKERY, South-East Consortium for International Development

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7. DAN MATTHEWS, Executive Director, African Bibliographic Center

D. International Finance Corporation

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1. HARTSELL CASH, Chief, Metal Industries and Mining Division, Industrial Projects Department

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3. PIERRE LANDELL-MILLS, Economist, Country Programs Department II

4. WILLEM MAANE, Senior Economist, Country Programs Department II

5. TIMOTHY THAHANE, Executive Director, Regional Africa Group

II. **New York, New York--May 8, 1978**

A. **Kuhn-Loeb, Inc./Lehman Brothers International Ltd.**

1. **IAN MC GREGOR, Chairman of the Board**

III. **Greenwich, Connecticut--May 8, 1978**

A. **AMAX, Inc.**

1. **JOHN FRAWLEY, Senior Vice President**

B. **AMAX Botswana, Ltd.**

1. **JAMES FOREMAN, President**

IV. New York, New York--July 7

A. United Nations Centre on Transnational Corporations

1. ELLEN SEIDENSTICKER, South Africa Specialist

2. SYLVANUS AZADON TIEWUL, Documentation Section

V. Sussex, England--May 30

A. Institute for Development Studies (IDS)

1. CHRISTOPHER COLCLOUGH

2. REGINALD GREEN

3. PERCY SELWYN

VI. London, England--May 29-31

A. Ministry of Overseas Development (ODM)

1. PETER CARTER, Economist

2. JAMES WINPENNY, British Overseas Development Mission

VII. Brussels, Belgium--June 1

A. ACP-EEC Center for Industrial Development

1. E. LAHMANN, Assistant Head of Projects

2. WOLFGANG ULBRICH, Head of Projects

VIII. Berlin, Germany--June 2-5

A. German Development Institute (GDI)

1. WOLFGANG SCHNEIDER BARTHOLD

2. PETER WALLER, Head, African Department

3. Director, German Development Institute

IX. Munich, Germany--June 3

A. IFO Institute

1. MR. HALBACH, South African Specialist, Research Fellow

2. JURGEN RIEDEL, Research Fellow

X. Vienna, Austria--June 5-7

A. United Nations Industrial Development Organization (UNIDO)

1. KAMAL HUSSEIN AHMED, Chief, L.D.C. Section

2. MR. BASAK, Department Director, World Bank/ UNIDO Coop. Program

3. MR. MANSUR, Angola, Mozambique, Zambia

4. ABDEL MEGIED, Investment Promotion Officer

5. MR. SIDDIQUI, South Africa

6. N. N. TANDOR, Small Industrial Development Officer Officer

B. Deloitte, Haskins, and Sells Management Consultants, Southern Africa

1. J. GARETH C. STAINER, Consultant

XI. Geneva--June 7-9

A. United Nations Conference on Trade and Development (UNCTAD)

1. BERNARD CHIDZERO, Assistant Secretary-General

2. MR. DAWSON

3. MR. OMOLO-OPENE

4. MR. STORDEL, Director, Manufacturing Division

B. International Labour Office (ILO)

1. PHILLIP MECK, Small Enterprise Development Projects

2. PHILLIP A. NECK, Management Development Branch

3. NEVILLE RUBIN, Anti-Apartheid Division

C. Organization for Rehabilitation Through Training (ORT)

1. SIMON FELDMAN, Director, Department of Technical Assistance

2. ISAAC NAHMIAS, Engineer, Training Division

XII. Nairobi, Kenya--June 10-12

A. U.S. Agency for International Development (USAID)

1. ROBERT BELL

2. DON GARDNER

3. MIKE LIPPE

4. HELEN SOOS, Small-Scale Manufacturing

XIII. Gaborone, Botswana--June 12-16

A. Government of Botswana (GOB)

1. PETER AGAR, Ministry of Mining and Water Resources

2. MR. BAREKI, Chief, Industrial Sector, Ministry of Industry and Commerce

3. ANDREW BURHMAN, Chief, Roads and Engineering, Ministry of Works and Communications

4. MR. DIXON-WARREN, Acting Chief Architect, Ministry of Works and Communications

5. DAVID JONES, Rural Development Consultant, Ministry of Agriculture

6. R. MAEHRLE, Senior Planning Officer, Ministry of Industry and Commerce

7. B. G. MAKOBOLE, Ministry of Industry and Commerce

8. JULIAN NGANUNU, Permanent Secretary, Ministry of Mineral Resources and Water

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10. R.M.L. SIKWANE, Chief Commercial Officer, Ministry of Industry and Commerce

11. MIKE STEVENS, Director of Economic Affairs, Ministry of Industry and Commerce

12. MISS D. T. TOBONE, Industrial Officer, Ministry of Industry and Commerce

B. Botswana Development Corporation (BDC)

1. DEREK JOHNSON, Deputy to Managing Director

C. Botswana Enterprise Development Unit (BEDU)

1. OLAF CAU, Marketing Advisor

2. MR. MODIRI MBAAKANYE, Director

D. Barclay's Bank of Botswana, Ltd.

1. BRIAN EGNAR, Rural Development Officer, Barclay's Bank Development Fund

D. National Development Bank of Botswana (NDBB)

1. MR. WOODCOCK, General Manager

E. Partners for Productivity (PFP)

1. A. ELDON HELM, General Manager

F. AMAX

1. MR. MURRAY-HUDSON

G. The Ford Foundation

1. CHARLES JOHNSON, Consultant to Ministry of Mining and Water Resources

2. STEVE LEWIS, Economic Consultant

H. Norwegian Agency for Development (NORAD)

1. MR. STOJE

XIV. <u>Lilongwe, Malawi--June 17-25</u>

A. United States Embassy

1. GIL SHEINBAUM, Deputy Chief of Mission

B. U.S. Agency for International Development (USAID)

1. MIKE HINTON, Administrative Officer

C. Government of Malawi (GOM)

1. AUGUSTINE BOKE, Economist, Industrial Planning Division

2. PETER BROWN, Permanent Secretary, Ministry of Agriculture

3. C. T. BANDA, Senior Education Officer, Planning

4. F. R. CHILINGULO, Senior Education Officer, Secondary Education, Ministry of Education

5. G. B. CHIRWA, Senior Economist, Ministry of Agriculture

6. MR. CHIWEWE, Department Chief, Planning Division

7. WILLIAM GANDA, Under Secretary, Ministry of the Treasury

8. G. K. JELLA, Senior Education Officer, Teacher Training, Ministry of Education

9. A.J.H. JERE, Under Secretary, Ministry of Education

10. GODFREY KALINGA, Ministry of Economic Planning

11. S.M.S. KANANAGA, Senior Economist, Ministry of Agriculture

12. M. G. KUMWENDA, Chief Assistant, Primary Education, Ministry of Education

13. MR. MHANGO, Senior Economist, Agro-Industry, Planning Division

14. E.Y.J. NGAYE, Education Officer, Planning, Ministry of Education

15. R. N. NYINNGO, Education Officer, Planning, Ministry of Education

16. J. OULTON, Senior Technical Officer, Ministry of Education

17. W. K. SICHINGA, Education Officer, Statistics/Planning, Ministry of Education

18. MR. SILUMBU, Economist, Transport Planning Division

D. Malawi Development Corporation (MDC)

1. G. E. HELMORE, General Manager

2. T.O.B. KANYUKA, Department General Manager

E. Indebank

1. LAWRENCE ANTHONY, Department Assistant Manager

2. MR. RAYNOR, Manager

F. Commercial Bank of Malawi, Ltd.

1. JAN F. HEYMANS, Assistant General Manager

G. Vipya Paper Corporation (VIPCOR)

1. W.R.C. KADZAMIRA, Administrative Officer

H. **Ministry of Overseas Development Regional Office (ODM)**

1. **W.T.A. COX, Head of Division, British Development Division in Southern Africa**

I. **European Cooperative Agency (Affiliated with EEC)**

1. MICHAEL HEADEN, Counselor Handling Economic Questions

XV. Lusaka, Zambia--June 25-30

A. Government of Zambia (GOZ)

1. JOHN ADAMS, Y. MPUKO YONBY, EDWIN SOMANJE, Inspectors, Department of Technical and Vocational Training

2. N. K. BANDA, Director, Department of Technical and Vocational Training

3. MR. HIMUNYANGA, Under Secretary, Ministry of Industry

4. P. J. KAVITZ, Assistant Director, Department of Technical and Vocational Training

5. J. K. KAZHILA, Assistant Secretary, Department of Technical and Vocational Training

6. Y. K. LIBAKENI, Senior Economist, National Commission for Development Training

7. R. LUBASI, Department of Technical and Vocational Training

8. H. MANDONA, Ministry of Economic and Technical Cooperation

9. MR. MBEWE, Ministry of Economic and Technical Cooperation

10. MR. MUMBWE, Ministry of Industry

11. MR. RASOOL, Chief Economist, Ministry of Industry

12. MR. REMBE, Ministry of Lands and Agriculture

13. Z. M. SIKABBUBBA, Department of Technical and Vocational Training

14. MR. CHIVUNGA, National Council for Planning

15. MR. KAZEMBA, National Council for Planning

B. United Nations Development Programme (UNDP)

1. JERRY BERKE, Acting Resident Representative

C. United Nations Commissioner for Namibia

1. BERYL MC GOVERN, Programme Officer

2. HISHAM OMAYAD, Regional Representative

D. Institute for Namibia (UN)

1. BETHUEL SETAI, Lecturer

E. Rural and Commercial Industries, Ltd.

1. R. C. SAKWANDA, Economist

F. Industrial Development Corporation (INDECO)

1. R. C. SAKWANDA, Manager

G. Development Bank of Zambia

1. G. J. CHEMBE, Corporate Section

2. H. O. MORITZ, Management Advisor

3. V. N. PAVANGADHAR, Projects Manager

4. L. M. NYAMBE, General Manager

H. Swedish International Development Agency (SIDA)

1. PER KOKERITZ

XVI. <u>Mbabane, Swaziland--July 1-6</u>

A. United States Embassy

1. J. WACHOB

B. Office for Southern Africa Regional Activities (OSARAC)

1. TED MORSE, Chief of Mission

2. HOWARD STERNBERGER, Economist

C. Government of Swaziland (GOS)

1. E. A. ADEWOLE, Government Statistician, CSO

2. MR. BEMBE, Senior Economic Advisor

3. L. BILLS, Geological Survey and Mines Department

4. R. FLAYE, Ministry of Industry, Mines & Tourism

5. C. M. MKHONZA, Ministry of Industry, Mines & Tourism

6. B. OLIVER, Department of Government/ Monetary Authority of Swaziland

7. MR. SIKONDZE, Ministry of Finance

8. T. H. WINSOR, Chief Mining Engineer, Geological Survey and Mines Department

9. TIM M.J. ZWAWE, Ministry of Industry, Mines & Tourism

D. National Industrial Development Corporation of Swaziland (NIDCS)

1. MANAGING DIRECTOR

2. MAVELA M. Matsebula, Senior Project Officer

E. Small Enterprises Development Corporation (SEDCO)

1. JAIME M. CORTES, Entrepreneurship Development and Training Advisor

2. GILBERT F. DHLAMINI, Managing Director

3. REIME RIESBECT, Chief Technical Advisor

F. United Nations Development Programme (UNDP)

1. S. SHAHID HUSAIN, Resident Representative

G. United Nations Representative

1. MR. MALINGA

H. Swaziland Chemical Industry

1. NEIL STEYN, Manager

I. Libbys of Swaziland

1. MR. GIBBS, Manager

2. MR. STEVENS

J. Tinkabi Tractor

1. MR. NAKAMIYA, Managing Director

XVII. Maseru, Lesotho--July 7-13

A. Government of Lesotho (GOL)

1. MISS PAM CIGOLI, Ministry of Finance

2. D. M. MOKHESI, Permanent Secretary, Ministry of Commerce and Industry

3. MARY MOONYANE, Ministry of Commerce and Industry

4. M. SEJANAMANE, Deputy Permanent Secretary, Ministry of Planning

5. MOOROSI SEKHESA, Planning Officer, Central Planning Office

B. Lesotho National Development Corporation (LNDC)

1. SAM MONTSI

C. Basotho Enterprises Development Corporation (BEDCO)

1. MANAGING DIRECTOR