VUVULANE IRRIGATED FARMS

A Sugar Production Venture in Swaziland

Volume XII

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I

Country Background

Despite its small size and the fact the people share a common tribal heritage, Swaziland is a country of many striking contrasts, important to remember, not easy to understand. These points of opposition touch every aspect of social, economic and political life.

First and foremost, Swaziland has a dual system of government consisting of modern ministries and an influential traditional system. The supreme head of the Swazi Nation is the King, who exercises authority in the modern government through a Council of Ministers, and in the traditional government through the Swazi National Council (SNC). In addition to SNC, the King has a senior group of councillors advising him directly. In theory, all adult Swazis are members of SNC, but, in fact, its inner decision-making body is composed primarily of chiefs and traditional leaders appointed by the King. SNC authority over tradition and custom is absolute. The Council of Ministers constitutes the primary interface between the modern and traditional forms of governance.

A second contrast of great importance is defined by the pattern of land tenure. Fifty-seven percent of the total land area is classified as Swazi National Land (SNL). SNL falls under the control of the Swazi National Council and is allocated by some 200 chiefs governing a communal land tenure system. About 13 percent of SNL is divided into approximately 42,000 dispersed homesteads with a resident population of 350,000 (total Swazi population estimated at 500,000). The remaining 87 percent of SNL is used for communal cattle grazing, reflecting the tenaciously held tradition that cattle are the most important store of wealth a rural household can possess. The high stocking rates applied have had serious soil erosion implications. All development proposals affecting SNL must be submitted first to the Central Rural Development Board and then the King for approval to ensure "...that developments are consistent with Swazi tradition and reflect the wishes of the people."

In striking variance with SNL, 43 percent of the land is held in private farms which fall under the Individual Tenure Farm Lands (ITFL). There are 850 such farms ranging from family units of 50 to 100 acres to large agro-industrial estates of many thousands of acres, e.g., the Swaziland Irrigation Scheme (Commonwealth Development Corporation) started with 105,000 acres. ITFL are the dominant source of commercial agricultural production. Ownership of the ITFL is roughly evenly divided between the large industrialized enterprises, with control often in foreign hands; Swazi families; and, non-Swazis. The influence of the Swazi National Council on the style of operations on ITFLs is more the result of collaboration in deference to national traditions and the will of the King than it is to any formal structure of law and authority.

Other significant contradistinctions characterize and color the Swaziland environment. For example, the Republic of South Africa is the single largest employer of Swazi labor; South Africa is also virtually Swaziland's only supplier, providing over 90 percent of its total imports; and, South Africa is vital to the maintenance of a balance of payments surplus, despite a sizeable balance of trade deficit, through Swazi participation in the South Africa Customs Union. The influence of South Africa is pervasive, mostly constructive, often limiting, sometimes confusing. For example:

- On the wage side, the openness of economic relations between the two countries tends to raise Swaziland's wage rates. This trend is encouraged by equating the value of the Swazi Emalangeni (E) and the South African Rand (R). Yet, while wages are high, labor productivity remains notoriously low, especially in subsistance farming. That this need not be so is shown by the plantation sugar industry where productivity of hand labor is excellent. In turn, this means that Swazi companies, rural or urban, must adopt capital-intensive means of production to stay competitive, with resultant negative impact on employment.
- On the food side, the openness of the border makes the import of low cost foods from South Africa easy, depressing the prices which might be paid to farmers on SNL and discouraging efforts to increase productivity and farm income. These influences combine with others, e.g. lack of credit, lack of effective extension, inefficient marketing arrangements, fragmentation of the land, and a decrease in farm labor due to out-migration, to depress the SNL sector of the agricultural economy.

The picture of Swaziland which emerges is illustrative of a series of dichotomies: between tradition and modernization; between the heavy hand of traditional control on SNL and relative freedom of control on the ITFL; between a capital-intensive commercial and industrial sector (including all agro-industrial ventures) and a rural sector capital-poor, depressed by low productivity and rapid population growth; between firm ties to the Republic of South Africa and the goals of self-reliance to which the nation is committed. Within this context, public policy would seem to entrust development to a free enterprise economic system. The Government interferes minimally with market forces. The challenge to this thrust of public policy is to brings the benefits of free enterprise to the traditional sector, at a speed which allows change to occur with grace and in harmony with old values. The challenge also marks the opportunity for private enterprise.

The Case of Vuvulane Irrigated Farms, arising out of the development of the Swaziland Irrigation Scheme (now the Inyoni Yami Swaziland Irrigation Scheme--SIS) and the Mhlume Sugar Company, is revealing of how one international investor, the Commonwealth Development Corporation (CDC) has dealt with Swaziland for almost 35 years...how it has met the challenges of rapidly changing times.

II

Inyoni Yami Swaziland Irrigation Scheme (SIS)
Mhlume Sugar Company, Limited (MSC)
Vuvulane Irrigated Farms (VIF)

Enterprise Background

The three enterprises named form an inter-related agro-industrial complex created by the Commonwealth Development Corporation (U.K.) with an equity investment over the years of approximately U.S.$ 40 million (CDC is a unique and most significant corporation in the field of agro-industrial development world-wide. Its experience in over 200 ventures speaks volumes of lessons for the private and public investment communities. Appendix A examines CDC in greater detail).

In a sense, SIS is the "father" enterprise, having originally owned all the land involved. It owns the irrigation system supplying all three enterprises in the complex, as well as supplying 11 nearby estates and private farms. Technically, SIS does not sell irrigation water. Rather, users have agreements whereby they pay SIS a portion of the costs of running the system based on their water allocations. In addition, SIS is a profitable, diversified farm and ranch, producing cane for processing at the MSC mill, citrus and beef cattle, the latter for both domestic and export markets, utilizing approximately 76,000 acres. In 1982, to quote from the CDC Annual Report:

> "Heads of Agreement have been signed...for this direct project to be transferred with retrospective effect from 1.1.82 to a partnership owned equally by CDC and the Swazi Nation. CDC will continue to manage."

As in other instances of such transfers, a CDC loan to the Swazi Nation, to be repaid long term out of dividends earned, makes this transfer possible. SIS employs up to 2,300 people, roughly 2,000 of whom are permanent.

MSC, wholly-owned by CDC since 1955, is now also a 50-50 joint venture with the Swazi Nation, with CDC the managing partner. Unlike SIS or VIF, which are direct operating units of CDC, MSC is a separate corporation. As a result of a major plant expansion program in 1977-79, plant capacity is currently 150,000 MT over an eight-month season. At the end of the 1982/83 cycle, the mill produced roughly 138,188 MT of sugar for export. MSC owns and manages a sugar estate of over 12,000 acres, purchased from SIS. The estate yields about 35 percent of needed cane. SIS, under contract, supplies about the same quantity and VIF between 12 and 15 percent. The remainder is purchased under contract to neighboring private, ITFL farms. MSC employs some 2,300; about 2,000 are on permanent jobs.

VIF is an estate of roughly 7,000 acres of CDC land, originally allocated to SIS, on which at present 263 smallholders and their families have been re-settled from other areas of Swaziland. In addition to their farms, which they operate under long-term lease with VIF (20 years, renewable), roughly 70 acres are managed by the Farmer's Cooperative, primarily for use as a cane nursery. A so called "Commercial Farm" of 312 acres is managed by VIF staff on land not yet settled. The income from the Commercial Farm is used to subsidize the interest charged by VIF in the extension of credit. Settler farms range from 8 to 16 acres; the average acreage devoted to cane cultivation is about 75 to 80 percent of the farm area. The remainder of the land is used for a combination of subsistence agriculture and cash crops (potatoes, cotton, vegetables) to be sold as the farmer wishes. Direct CDC investment in VIF, to date, is roughly U.S.$ 2.8 million.

History

The SIS complex goes back to 1889, when King Mbamdzeni conceded to John Thornburn 110,000 acres in northeast Swaziland, bordering on Mozambique.

This remote area, a wasteland really, was a place of unreliable rainfall where game and hunters were the main inhabitants. When CDC acquired the land in 1950, the previous owners had developed 800 acres irrigated from both the Black Umbuluzi and Komati Rivers, and 2,500 acres of dryland cultivation on the better soils at Vuvulane, on the eastern side of the property. A survey done by CDC indicated that at least 30,000 acres of soils suitable for irrigation could be developed with the building of a canal drawing water from the Komati River. Water rights were obtained. Dry land and irrigation crop trials were initiated and, over a period of five years, it was decided that sugarcane, rice, and citrus were best for large-scale development; potatoes and a wide variety of vegetables could be grown but were best suited to smallholder subsistence and cash cropping. From the beginning, CDC had included an outgrower scheme in its development plan.

In 1957, a 42 mile long canal was completed and named by then King Sobhuza II "Mhlume Water," meaning "good growth," and the years of conception, planning, and basic infrastructure shifted into an era of commercial production. In 1958, SIS sold 13,000 acres of uncleared land to MSC, a company formed in the same year as a joint venture between CDC (40 percent) and Sir John Hulett and Sons (60 percent). By 1961, SIS had 4,000 acres under irrigation, mainly for rice production, but including 700 acres of sugarcane, for sale to MSC, and 300 acres of citrus. By this time, MSC had a sugar estate of 7,500 acres and manufactured almost 40,000 MT of sugar, mainly marketed through the South African Sugar Industry. Development of the SIS/MSC complex moved rapidly thereafter. The capacity of the irrigation system was enlarged and provided water to other private farms, which then, in some cases, became large-scale cane suppliers to MSC. MSC capacity was increased. More irrigated land was brought into production at SIS. CDC bought out Sir John Hulett and Sons, and MSC became a wholly-owned CDC subsidiary. In all, more than U.S.$ 40 million was invested until today, SIS and MSC have transformed the area into a truly magnificent production system which has been profitable to all concerned and is a fine example of the productive power of entrepreneurial vision, risk capital which is ventured with a long-range view and a policy of patience, and committed competent management with a willingness to pioneer in order to build.

As the scheme proved its viability, two elements of CDC policy were implemented. One, related to extending benefits to outgrowers, by means of a resettlement scheme. Two, related to diffusing ownership of the venture within Swaziland as a whole.

In 1961, the first formal studies of a pilot settler project were initiated and, a year later, the Vuvulane Irrigated Farms were inaugurated, under the control of SIS. Land, eventually to reach 4,000 acres, was allocated, in an area of good soils, suitable both for cane cultivation, vegetables, and other cash crops, e.g., cotton, peanuts. By 1963, the first 30 settlers were in place; by 1983, 263 families were resident. In 1972, SIS transferred the land and assets to VIF, which itself became a direct CDC subsidiary investment which has reached the equivalent of roughly Emalangeni 4 million (about U.S.$ 3.5 million at late 1983 rates of exchange). Further detail on the structure, results obtained and implications of VIF, an experiment unique in Swaziland history, will be given in later sections of this report.

In terms of diffusing ownership and benefits widely among the people of Swaziland, CDC has taken three steps in recent years:

1. In 1977, by means of a loan from CDC, to be repaid out of dividends, the Ngwenyama of Swaziland, in trust for the Swazi Nation (as distinct from the Government of Swaziland) acquired 50 percent of the shares of MSC. As described by Mr. W. H. Rodgers, General Manager of MSC, at the time of the stock transfer:

> "CDC...also put in hand arrangements whereby the land MSC had bought was to be handed back to the Ngwenyama and a back-to-back leasehold agreement entered into to enable the Company to continue its operations."

In a letter dated February 10, 1984, Mr. Rodgers notes that,

> "...Due to technical considerations, the actual leasehold arrangements have taken some time and are only now being finalized. However, the emotive issue of land ownership had been accepted and dealt with at the time of the agreement." (underlining added)

2. In 1982, as noted previously, SIS itself became subject to an agreement similar to that affecting MSC. Finalization of this agreement appears to be temporarily held in abeyance, until the transition of power, required after the death of King Sobhuza II in 1982, is completed.

3. In 1982, after many years of negotiation, "Heads of Agreement" were signed under which the Swazi Nation to form a wholly-owned, non-profit, limited company to take over VIF from SIS, with retrospective effect from January 1, 1982. As part of these arrangements, CDC agreed to make available the sterling equivalent of up to E. 1 million (U.S.$ 885,000) for a program of drainage. CDC will continue to manage VIF (CDC 1982 Annual Report). The actual transfer and the formation of the new relationships between the Swazi Nation and CDC were completed in December, 1983.

Organization

The transition to greater participation by the Swazi Nation in the three enterprises will undoubtedly bring with it changes in control The exact nature and impact of these changes was not wholly clear at the time Swaziland was visited.

Heretofore, SIS has operated as an unincorporated direct project of CDC, and hence subject to control from London. Under the terms of the proposed new partnership with the Swazi Nation, the locus and, perhaps, the focus of policy-making is liable to shift. The General Manager of SIS, a CDC employee, is likely to remain the key operating person on-site. This retention of professional management supplied by DCD is in keeping with the policy adopted at the Mhlume Sugar Company when 50 percent of the ownership transferred to the Swazi Nation.

In the case of the new organization created for the total transfer of VIF to Swazi ownership, the situation is less clear and remains to be tested. The new company (SNADC-Swazi Nation Agricultural Development Corporation) will no longer have a direct organizational linkage with SIS. Rather, the General Manager (Mr. Donald Nxumalo--a Swazi), is directly responsible to the CDC Regional Controller for Southern Africa in Mbabane, capital of Swaziland. The Board of Directors is comprised of four senior Swazis appointed by the Nation, two CDC representatives and two elected representatives of the farmers.

Obviously, there is an important difference in the implications for development between shared ownership of the productive systems of SIS and MSC, and the shift of control of VIF to the public sector. Except for an internal reorganization of shareholder interests and the distribution of profit, SIS and MSC are likely to continue operations in much the same pattern as before. VIF, on the other hand, touches very intimately the daily lives and sense of security (or insecurity) of several hundred outgrower families who have become deeply involved in a socio-economic experiment without precedent in Swaziland. Many of the settlers have now been essentially free of the constraints imposed on rural people by the traditions and culture of their tribal heritage. Their mode of thinking; their method of decision-making; their aspirations; the dynamics of change in every aspect of thought and process; and, the nature of relationships with MSC, are all inextricably entwined with feelings and questions about the future. Some questions being asked are revealing: Will land tenure rights revert back to traditional control by a chief? Will the incentives to build homes, care for the property, exercise good cultivation practices, disappear, with a reversion to past conditions? In all, since there is little evidence in the traditional agricultural sector that governmental intervention has been able to stimulate economic and social progress, why not leave a good thing alone?

Organizationally, MSC operates independently of SIS and VIF, except as a buyer of cane. The Board of MSC already includes representation from the Swazi Nation. Its future is less related to ownership and policy control than to top quality management, which it has, and the marketing arrangements which govern the entire sugar industry.

In the early years, all sugar was marketed by arrangement with the South African Sugar Association. In 1964, the Swaziland Sugar Association was formed as the statutory agency controlling all sugar sales within Swaziland and on world markets. In 1965, the Association joined the Commonwealth Sugar Agreement. The quota and favorable prices assigned to Swaziland became the basis of the industry's growing success, even at a time when prices on the free world markets were very low. With Britain's entry into the European Economic Community, the Commonwealth Sugar Agreement ended at the end of 1974. Immediately thereafter, the competitive position of the Swaziland sugar industry changed. The country signed the Convention of Lomé, but this provided a quota for export to the European Economic Community of only 120,000 MT. Meanwhile, a third sugar mill was at an incipient stage of discussion which, when it came on stream in 1980, increased Swazi capacity to 380,000 to 400,000 MT annually.* Thus, Swaziland is now cushioned to only a limited extent against prevailing low prices on the world market.

Outreach

Vuvulane Irrigated Farms is the only outreach program in the system, in the sense of extension of benefits to others than those employed by SIS or MSC.

VIF was a bold experiment in 1962, when the project was formally inaugurated. To quote from J. R. Tuckett, the first General Manager of VIF (Vuvulane Irrigated Farms, Swaziland: A Report of the First Ten Years, Agricultural Administration, Vol. 4, 1977):

> "When the scheme started, it represented to the vast majority of Swazis an entirely new concept in their approach to farming and land use. Payment for the use of land and for the availability of water, complete dependence upon arable crops rather than on livestock, the techniques involved in irrigation and modern farming methods, the idea of leasing land rather than receiving rights from the Chief, the new disciplines involved and the unfamiliarity of sugarcane production; all these factors and more were foreign to those for whom smallholdings were intended. Also they were foreign and somewhat suspect to many Swazi Chiefs and leaders from whose areas the settlers were to come. It was scarcely surprising that at first there was no rush to apply for holdings."

* The second mill, Ubombo Ranches Ltd., is a joint venture of the Lonrho Sugar Corporation, Ltd.-U.K. (60 percent) and the Swazi Nation (40 percent), with Lonrho the managing partner. The third mill, the Royal Swaziland Sugar Corporation, is a joint venture of the Swazi Nation and the Swaziland Government (65 percent) with the Nigerian Government, Tate and Lyle, Ltd., Coca-Cola Export Corporation, Mitsui and Company Ltd., CDC, German Development Company and IFC. Tate and Lyle Technical Services, Ltd., are the management contractors. Neither of these mills has an outgrower program, in action or planned, which in any resembles VIF as an outgrower venture.

> "From the outset, settlers were drawn from all parts of Swaziland, and although applicants were few (84) in the first year, the people applying for farms by 1970 exceeded 1,000 each year... It has, in fact, been obvious enough that whatever problems and imperfections may have been encountered in establishing VIF, these have not been great enough to deter good Swazi farmers from wishing to join the scheme in great numbers."

VIF management, either directly or through district administrations, sought applicants for farms throughout Swaziland and gave details of those who fulfilled the selection criteria to a Selection Committee. This was originally chaired by the District Commissioner and included the district agricultural officer and an expert in Swazi genealogy. Later, the Committee consisted of representatives of the Ministries of Agriculture and Home Affairs, the Swaziland National Council, and VIF management. In general, farmers selected from various occupations have proved satisfactory and 263 farms from 10 to 16 acres were settled by 1974. At that time, further expansion to 400 was halted, pending agreement with the Government on the future organization to manage VIF.

Four main criteria for selection were used: a farmer must be a Swazi; he must be healthy; his general character must be good; and he must be prepared to make his home at Vuvulane. All other things being equal, an applicant who is married with a family who can help with the farm work, and who has proved to be a good farmer at home, would be given preference.

Once selected, a farmer is allocated a farm by lot. On arrival, the farm will have been cleared, levelled, ploughed, disced once, as well as being supported by an infrastructure of roads and irrigation canals. All costs to this point are borne by VIF. The farmer is shown where he should build his house, but the style and building of it is left to the family. The 75 percent of land to be devoted to sugarcane is planted by the farmer.

using seed cane and inputs made available on credit from VIF.

During the first year, building materials are available on credit, as is a subsistence allowance provided from a revolving fund made available by Oxfam (U.K.). A monthly statement is issued to each farmer showing amounts due VIF. In all cases of credit, repayment is deducted from the farmer's annual harvest check for sugarcane. If agreed to as to accuracy, the farmer signs his confirmation.

The conceptual framework for VIF included the goal of making the project economically profitable so that all costs including administration could be recovered and the high capital cost of developing the land and the infrastructure amortized over a reasonable length of time. To move in this direction, the farmer, based on a leasehold of twenty years originally, pays rent, a standing charge for water, the cost of cane cutting and transport to MSC, and any use made of equipment drawn from a tractor pool operated by VIF. It has become clear that VIF is unlikely to ever recover for CDC the original development costs and still become profitable for the farmers. Figures which do reveal profitability, therefore, really do not include a financial burden relating to land preparation and infrastructure, as these were costs CDC was prepared to bear within the context of the whole agro-industrial complex. Keeping these facts and assumptions in mind, the following financial data, as made available by CDC at mid-year 1981, are indicative:

1. Investment to date E. 3,190,000 (±U.S.$ 2,800,000)

2. Project financed by CDC current account.

3. After tax profit

1978	E.	19,000
1979		72,000
1980		177,000
1981		160,000
1982		106,000

4. Profit as a percentage of average capital employed.

1978	5.11
1979	6.93
1980	9.92
1981	9.54
1982	3.79

Finally, it may be noted that VIF relates to the farmers and their families largely in the technical area involving crop cultivation. A Swazi General Manager has under him a total of nine qualified staff, including three expatriates: the Senior Agronomist, Field Services Manager, and Project Accountant. Day to day advice to farmers is carried out by four Field Advisors, each responsible for roughly 65 farmers. The Advisors offer help on all crops, as well as channeling requisitions for tractors and other farm inputs required. Regular group meetings are held for airing grievances, as well as for teaching new techniques of production, marketing, or whatever.

Every effort is made to build a community spirit, but results to this end are baffled somewhat by the close relationships maintained by the settlers, even after many years, with the homes they left. A significant part of such investment capital as families save at Vuvulane is actually invested, often in cattle, in their home village. As a general observation, it may be said that while VIF has been very successful on the production side of its goals, it has been less so in bringing the settlers into a coherent social structure capable of taking full advantage of the economic opportunities the VIF experience has created. In this regard, it is questionable that bringing VIF into the structure of a public corporation, with Swaziland carrying the cost of further development, is an ideal approach. This point is discussed further in the section on "Pay Off," to follow.

Training and Welfare

CDC has a long-standing commitment to training nationals, the provision of good housing, medical care and as wide a range of social and recreational amenities as are feasible. The workers at SIS and MSC clearly benefit from these policies. To take MSC as an example, there is an impressive array of activity. The Company maintains a separate training Centre for on-site skill development and up-grading opportunity. Included in this program is an extensive scholarship project which sponsors employees to attend either the Swaziland College of Technology or University College, at the former in its Craft and Technicians courses; at the latter in Agriculture and Industrial Management. All workers are given free housing and utilities; modern medical services are provided free. In all, MSC management estimates that 25 to 30 percent of all cash paid out in the course of an operating year supports the social outreach of the company.

No discussion of the CDC outreach program in Swaziland would be complete without mention of the Managa Agricultural Management Centre (MAMC). In 1970, CDC recognized a basic and pressing need in all the developing countries in which it operates, for junior and middle level managers and extension workers, and that no existing institution seemed adequate for the purpose. It was agreed that the Centre would be built and staffed on such a scale that it would be able to offer training facilities additional to the requirements of CDC projects. It was then decided to base the program in Swaziland to take advantage of the variety of project, development and management problems that the irrigation complex provided. Since then, over 1,000 management trainees from over 40 countries have taken specialist courses while in residence at MAMC. Programs in the Planning and Control of Agricultural Management, Senior Management in Agricultural Development, and other, shorter, specialized courses are offered.

As of the end of 1982, CDC investment in MAMC stood at E. 1,240,000 (roughly U.S.$ 1.1 million at current exchange rates). During 1982, 113 students from all over the world were in attendance for periods up to three months. In addition, 206 students were involved in in-company courses at various CDC sites in Swaziland. The revenue deficiencies met by CDC in 1982 amounted to E. 391,000 (U.S.$ 346,000). The Centre has been strongly supported by the Commonwealth Fund for Technical Cooperation and, increasingly, scholarships and program support are being provided by a wide variety of international aid agencies.

Pay-Off

To the Government of Swaziland, the pay-off has been large by any Swazi standard. At very low cost to the nation, a large wasteland has been converted into one of the most productive and profitable agricultural-industrial areas of the country. In the process, the Nation has been able to purchase millions of dollars of assets in improved land, irrigation facilities, infrastructure and manufacturing plants, out of deferred earnings rather than with up-front cash. National revenues have been contributed to very substantially, year after year. For example, in 1982, the foreign exchange earned by the SIS/MSC/VIF complex was E. 51.39 million (U.S.$ 45 million, approximately). Roughly 5,000 people have gainful employment. VIF has demonstrated the capability of Swazi farmers to reach impressive levels of productivity given the incentives, providing potentially valuable insights to those concerned with the poverty and low productivity which characterize the Swazi National Lands.

To CDC, the results have been impressive in many ways. The several ventures have been profitable...SIS and MSC pre-tax profit in 1982 was stated as E. 4.2 million (approximately U.S.$ 3.3 million). The progress of MSC has been excellent, as the results shown in Table 1 illustrate.

CDC loans have given the Swazi Nation an opportunity to enlarge the national patrimony in a creative way, supportive of the harmony sought in public-private sector collaboration. VIF has expressed CDC development objectives. In all, the sheer accomplishment of the scheme in converting a wasteland into an efficient, profitable, productive area simply has to be a matter of pride to CDC and the U.K. Government.

To the people, particularly the farm families involved at VIF, the economic pay-off is unequivocal. For the 5,000 employees (more or less) of SIS and MSC, a weekly paycheck, free housing and services, free medical care, opportunity for schooling and upgrading skills and free recreational facilities clearly add up to an impressive change for the better for all these people and their families. In 1982, sugarcane deliveries from VIF to MSC yielded a gross revenue to the farmers of E. 2.5 million (U.S.$ 2.2 million). After deducting all costs and adding in the cash value of potatoes, cotton and vegetables estimated to have been sold, VIF management thought that the net return, per average farm in 1982, was between E. 6,000 and E. 10,000 (U.S.$ 5,300 to 8,850, at late 1983 exchange rates).

In more personal and social terms, perhaps the pay-off to the farm families at VIF might be questioned, although the terms of reference of such a query may be more a matter of what might have been than what exists. For example, interviews held at VIF revealed these indicators:

1. Some farmers still do not trust VIF to be acting in the best interests of the settlers. Why do rents and water charges keep going up? Why is bad drainage not avoided so that land might produce more? Why was there a water shortage? Why don't we have good potable water? Clearly, the extension services have not made the entire system and its problems understandable to all the farmers. In this broad sense, farmers are not sufficiently particpatory.

COMMONWEALTH DEVELOPMENT CORPORATION

TABLE 1

MHLUME SUGAR COMPANY LTD.

FIVE YEAR PROFIT AND LOSS ACCOUNT SUMMARY

(U.S.$ = E. 1.13 in late 1983)

	1977 E.000	1978 E.000	1979 E.000	1980-81* E.000	1981-82 E.000
Proceeds-Sale of Sugar and Molasses	20,620	27,457	31,795	41,090	45,022
Less-Cost of sucrose	14,228	18,314	23,028	28,999	30,860
Mill production costs	3,768	4,197	5,675	10,780	9,447
Mill profit	2,624	4,446	3,092	1,311	4,715
Estates profit (loss)	100	2,007	1,805	793	1,894
Misc. receipts (payments) net	1,182	1,350	1,079	(62)	133
Profit before interest and tax	3,906	7,803	5,976	2,042	6,742
Less-Interest on debentures	97	94	88	98	60
Interest on temporary borrowings	-	55	287	2,622	2,471
Profit (loss) before tax	3,809	7,654	5,601	(678)	4,211
Less-Income tax	1,524	2,885	-**	-**	-**
Transfer to (from) tax equalization account	(13)	(45)	-	(758)	1,500
NET PROFIT	2,298	4,814	5,601	80	2,701
Dividend	500	2,000	2,000	4,000	1,500
Retained profit including appropriation to reserves	1,798	2,814	3,601	(3,920)	1,201

* 16 month financial period, includes two non-income earning off-crop periods.

** Tax allowance on mill expansion expenditures.

2. There is no feeling of community, at least not enough to give everyone a sense of permanence. Where people came from, even 20 years ago, is still home. It was often said that this is changing slowly, helping to bring about an attitude of allegiance to Vuvulane. However, lack of participation in decisions affecting the future combine with uncertainties which arise in the terms of the leasehold itself, to maintain a sense of insecurity. This is now exaggerated by the knowledge that CDC has negotiated a transfer of VIF to the Swazi Nation, without making it clear to the settlers what this transfer implies, re land tenure, lease renewal, and other factors of constraint typical of the interplay between farmers and the traditional sector of government.

3. There was some indication that malnutrition was more widespread among children than might be expected in such a bounteous place, due, it was said, to the fact that most garden crops were sold for cash. No study existed to quantify ths situation but neither the extension staff, nor the several farmers interviewed disagreed with the opinions ventured. Only recently has a program been initiated encouraging the women to cultivate "kitchen gardens." Support for this program did not seem to be long range. The home economist who was in charge was leaving VIF.

4. One of the concerns of the VIF professional staff was the frustrating experience of trying to organize the farmers into a marketing system to ensure a better return on their garden crops, e.g. potatoes and vegetables. Farmers still try to market individually. Vuvulane has attracted buyers to the area, but this method of marketing enures to the disadvantage of the farmers. In all fairness to the VIF staff, organizing efforts to establish a Farmers' Cooperative failed even though the Cooperative was given four leases on which to grow seed and sugarcane as an underpinning. It is well recognized

that only a continuous, sensitive educational effort would have a chance of success. One gets an image of a vigorous, economically self-sufficient venture waiting to be developed, but without the necessary leadership to convert a concept to a practice. A commercial enterprise built around other crops than sugarcane is important to establishing stability in the VIF system, so that any decline in the demand for cane due to excess productive capacity in Swaziland can be quickly balanced by a shift in crop emphasis.

In bringing to light a variety of manifestations of disquiet and unattended economic opportunities to diversify the base of VIF operations, it is not meant to demean the accomplishments of the past two decades. What is intended, rather, is to emphasize the point that the human and economic dynamics which inevitably characterize an outgrower program that succeeds, breed conflicts which threaten success and create opportunities to resolve conflict. Neither of these basic elements of the change process ought to be denied, if the remarkable advantages a scheme like VIF offers are to mature and have permanence.

In the case of VIF, CDC has built in an unusual capability of the venture to help support the cost of a more comprehensive and integrated program of development. First, a single market channel for sugarcane simplifies and stabilizes the economy of VIF farm families. Second, by allocating good land to VIF, and providing an infrastructure, including irrigation facilities which could be expanded, at a cost which need not be wholly paid for by VIF alone, farmers do have the opportunity to take full advantage of a diversified agricultural potential. Third, the broad spectrum of foodstuffs which can be grown and which are already partially commercialized, provide a base for profitable ventures in production, classification and marketing.

Integrating all elements of the economic potential of VIF, a cash flow can be perceived which might pay for the costs of management needed by the farmers to convert the opportunity to an operating system. In turn, the system could well support staff to harmonize the needs of people with the demands of sound business practices as well as to anticipate tensions, resolve conflict, and optimize benefits.

This point was frequently discussed during visits in both London and Swaziland, and always a dilemma remained: is the future of rural development at VIF possible to ever put into the hands of the people there, or must further development be limited to a role played by external managers? A point of view held within CDC, tempered by long experience, was expressed this way: "It is human, not technical, problems that have to be overcome. Although VIF has been running profitably for the farmers for 20 years, there has been no breakthrough in achieving the growth of a satisfactory system operated by the farmers themselves. This is hardly a cause for optimism." The question raised, in the end, is whether or not the failure to develop a self-sufficiency system is inherent in the people or inherent in the methods employed to bring it about. However CDC may answer the question, it is one which challenges the planning of all agro-industrial ventures which give consideration to rural development as an integral responsibility.

III
Policy Implications

For the Swazi Nation, there are two significant areas of policy affected by the SIS/MSC/VIF enterprise: one involving little change, the other suggesting a fundamental change. In the first instance, the Swazi policy of encouraging free enterprise, agro-industrial ventures, even while finding means to take an equity position, seems to require little change. This is especially true so long as equal emphasis is placed on competent professional management. This policy has been of great benefit to Swaziland in bringing large underdeveloped areas into production, with consequent employment, tax generation and foreign exchange earnings.

In the second instance, the VIF experiment raises a fundamental issue affecting the possibility of bringing Swazi National Lands to a higher level of productivity, and the thousands of smallholders farming this land to a more satisfactory level of income and quality of life. There is no argument over the validity of Swazi policy which attaches basic and dearly held values to the traditions and customs of the Nation. On the other hand, as the VIF project clearly demonstrates, the Swazi farmers are capable and, motivated by modifications in traditional control over land use, can attain to very high levels of productivity and net earnings. The challenge to the Swazi Nation, therefore, is to avoid dogmatism in the perpetuation of custom, even while finding acceptable changes in land tenure and freehold rights to the fruits of investment. Policy might well encourage careful experimentation.

For CDC, the policies of CDC as detailed in Appendix A, are already enlightened and comprehensive in their approach to the use of capital invested for profit, competent professional management, and patience, as catalysts to development. The SIS/MSC/VIF experience in Swaziland (and, the Mumias Sugar Company case in Kenya--see separate report), however, at least raises the question as to whether or not CDC policy adequately covers either the potential for conflict or the potential for broad economic and social development which arises over time, when rapid change is introduced to large numbers of people with a traditional culture.

To suggest introducing policies which extend the responsibilities of a profit-making enterprise beyond the boundaries of normal, prudent business practice, does bring CDC into very delicate and sensitive areas of action. For example, a real strength of CDC as a development institution is its ability to venture into arenas of higher risk than a privately-held international organization might consider. At the same time, the strength to risk, which arises out of the public character of CDC, is tied to political sensitivities which constrain decisions to enter into the lives of rural people impacted by CDC investments.

The dilemma faced by CDC, then, would appear to be this: on the one hand, the charter of CDC brings the Corporation into situations where it is the primary force for change in the lives of many people and where there is likely to be no other competence to help these folk extract what benefits there may be and minimize disorder; on the other hand, if CDC accepts too much responsibility for the people and their future, will that be offensive and too costly? By what right, moral or logical, should CDC become the guiding light, illuminating the "best" way for a people to develop? If CDC must choose between a policy which gives first priority to the economic success of an enterprise and a policy which may jeopardize a level of profit judged necessary to attract the investment, is there a choice, really?

In the eyes of some CDC executives, the problem is not, in its most fundamental nature, one of cost versus profitability. To quote from an exchange of correspondence:

> "It is much more a question of where the responsibility of the foreign organization should stop and that of the local government begin. I would see it as the role of government to pick up the essentially social development of the people. It should not be the function of foreign agencies to set up a mini-welfare state. On the other hand, I agree that the opportunities for government action might well be a matter for joint coordination."

To equate action to ensure social development to a welfare state may be to state a proposition which is flawed by a grave error. The thrust of socio-economic change is not toward dependency on government or the private sector. Rather, it is toward self-sufficiency...toward greater knowledge, good management of human and physical resources, expanding opportunity, participation in decision-making, and all else which helps eliminate charity and paternalism.

Obviously, there are no easy answers to these questions. However, when investors who energize change and governments who "should" but do not deal effectively with resultant social and economic issues remain at an impasse over questions of responsibility, it is the mass of rural people who suffer the consequences and the nation as a whole which pays the price. So it may be argued that just as the Swazi Nation may need to reexamine the play of custom and constraint, so CDC may need to reexamine its policies affecting a definition of the limits of change to which it can and should direct its resources.

For the U.S. Government, U.S. development policy, in Swaziland as elsewhere, is directed to encouraging the maintenance of a free enterprise stance in the country. AID is certainly also focused on the problem of low productivity and poverty among the rural people on Swazi National Lands. However, it may be important to the total thrust of development in Swaziland to direct both policy and implementing resources, as well, to capitalizing on development opportunities created by the larger farms, ranches and agro-industrial complexes. It cannot be assumed that the economic resources fomented by such capital intensive enterprises will be sufficient...or will be allocated to development activity even if sufficient...to ensure for the people impacted the "good" inherent in the opportunity. It would seem desirable to examine the possibilities of collaboration with the commercial sector of Swazi agriculture to extend the limits of success, not only economically but developmentally.

The powerful moving force of CDC, in Swaziland and in 50 countries of the Third World (see Appendix A) suggests, at least, that U.S. policy deliberations give consideration to the use of a similar organization to catalyze integrated rural development in the mode of free enterprise. The beneficial dynamic impact of CDC is so great that the significance of the model it presents for replication might well be carefully analyzed and possibly adapted as an element of U.S. aid.

Appendix A

Notes on the Commonwealth Development Corporation

A CDC publication, "Partners in Development--Finance Plus Management" provides this description:

> "CDC's constitution and powers are laid down by Acts of Parliament, consolidated in the Commonwealth Development Corporation Act 1978, which charges the Corporation with the task of assisting overseas countries in which it is empowered to operate in the development of their economies. It does so by investing its funds in development projects which not only help to increase the wealth of those countries but also yield a reasonable return on the money invested. Its area of operations covers Commonwealth countries which have achieved independence since 1948, the remaining territories dependent upon Britain and, with Ministerial approval, any other developing country. To date, the Minister has given CDC authority to operate in Bangladesh, Cameroon, Costa Rica, Ecuador, Ethiopia, Honduras, Indonesia, Ivory Coast, Liberia, Philippines, Sudan, Thailand, Vanuato, and Zimbabwe; and in Rwanda, Sri Lanka, Tunisia, and Zaire in which countries the Corporation had not invested.
>
> "By virtue of the terms of reference set out in the Act which require CDC to pay its way, CDC operates on broadly commercial lines. It does not make grants but offers investment in the development of resources. In general, it chooses its projects with due regard to their development value to the country concerned rather than for their profitability. Close relations with overseas governments are maintained through CDC's regional and country offices in order to ensure the economic development of the countries concerned."

According to the 1982 Year End Report and Accounts, CDC is authorized to borrow £750m on long and medium term, and up to £20m on short term. Of the £750m, up to £700m may be borrowed from U.K. Exchequer funds. The Minister may, by Order made with the consent of the Treasury, increase the long- and medium-term borrowing powers to £850m of which not more than £800m may be borrowed from Exchequer funds.

The 1982 annual report notes that there are 250 or so established CDC projects in 50 countries, with combined long-term capital resources amounting to an estimated £2,500 million, of which CDC has provided some £500 million. The table on the following page is illustrative of the financial operations and structure of CDC.

CDC Chairman, Lord Kindersley, goes on to say in the Report:

> "Nearly one-and-a-half million acres in 30 countries are under commercial crops, forestry or being grazed by cattle. A further one million acres are being farmed by some 400,000 smallholders growing cash and food crops. Very large tonnages of agricultural produce are shipped, earning considerable sums of foreign exchange and reducing the need for food imports. Industrial enterprises supported by CDC produce goods not only for home consumption, thus saving foreign exchange, but also for export. Savings in foreign exchange due to reduced imports of oil result on an ever increasing scale from greater use of alternative sources of energy such as water, geothermal steam and local coal deposits. As a result of all these CDC-supported activities, hundreds of thousands are in paid employment or being helped to earn a livelihood, and many are receiving training in professional and technical skills. In addition to those direct benefits, food production on a sizeable scale and widespread secondary development is taking place through small enterprises which have sprung up around the CDC projects in order to meet the needs of the workforces."

A quick review of CDC's role in Swaziland is typical of the economic development impact and potential of this institution:

1. The SIS/MSC/VIF/Mananga Agricultural Management Centre has already been described.

2. Ezulwini Properties (Pty.) Ltd. — A loan to the Swazispa Holdings, Ltd., to build and operate the 200-bedroom Holiday Inn near Mbabane.

3. Neopac (Swaziland) Ltd. -- A joint venture with the Government of Swaziland (10 percent), National Containers (Pty.) Ltd. (79.38 percent), and NedBank Mominees, Ltd. (0.5 percent) to produce corrugated cardboard containers, principally for citrus fruit and pineapple.

4. The Royal Swaziland Sugar Corporation, Ltd. -- Joint venture with the Government of Swaziland (32.4 percent), Tibiyo Taka Ngwane Fund (Swazi

COMMONWEALTH DEVELOPMENT CORPORATION

FIVE YEAR SUMMARY

	1982 £m	1981 £m	1980 £m	1979 £m	1978 £m
Group Balance Sheet					
Investments	467.2	403.6	346.8	319.7	281.9
Provisions	56.5	44.1	42.6	36.3	32.2
Net investments	410.7	359.5	304.2	283.4	249.7
Fixed assets	4.7	4.5	3.9	3.3	3.1
Other debtors less (creditor) items	(4.7)	(1.9)	0.7	(1.7)	9.4
Cash and deposits less overdrafts	20.9	16.4	23.9	25.0	21.0
	431.6	378.5	332.7	310.0	283.2
Financed by					
Loans from HMG	335.5	313.2	283.3	270.3	247.9
Reserves	82.4	49.8	32.2	21.5	16.3
Provision for interest equilisation	13.1	14.9	16.7	17.3	18.0
Secured and other loans	0.5	0.5	0.4	0.8	0.9
Minority interests	0.1	0.1	0.1	0.1	0.1
	431.6	378.5	332.7	310.0	283.2
Group Revenue Account					
Operating surplus	31.1	35.2	31.6	30.8	28.2
Other items	8.9	(2.0)	3.2	(0.7)	1.3
Interest payable	(16.2)	(14.8)	(14.3)	(13.8)	(13.8)
Provisions	(12.4)	(1.7)	(6.2)	(4.2)	(6.0)
Taxation	(7.1)	(7.1)	(3.4)	(6.4)	(3.7)
Transfer to General Reserve	4.3	9.6	10.9	5.7	6.6
Group Source and Application of Funds					
Source of Funds					
Cash and short-term deposits	16.4	23.9	25.0	21.0	15.1
Drawn from HMG	33.0	38.4	20.3	28.9	34.1
Self-generated funds	25.7	31.7	31.0	29.4	12.8
	75.1	94.0	76.3	79.3	62.0
Application of Funds					
New Investments	52.1	72.8	47.7	53.1	33.1
Fixed assets	0.3	0.5	0.6	0.7	0.3
Working capital	1.8	4.3	4.1	0.5	7.6
	54.2	77.6	52.4	54.3	41.0
Closing cash and short-term deposits	20.9	16.4	23.9	25.0	21.0
Drawn from HMG, less principal and interest paid to HMG	5.1	16.1	(0.2)	15.2	4.1
New capital commitments to projects in the year	102.9	94.7	80.8	82.7	59.1
Total invested or committed at year-end	703.8	590.1	512.3	445.7	374.7
Total undisbursed commitment at year-end	236.6	186.5	165.4	136.2	104.3

Nation - 32.4 percent), Federal Government of Nigeria (10 percent), Tate and Lyle PLC (8.7 percent and Managing Contractor), DEG-German Finance Company for Investments in Developing Countries (5 percent), Coca-Cola Export Corporation (4.2 percent), Mitsui and Company, Ltd. (3.8 percent), International Finance Corporation (1 percent). Loans included funds from CDC, the Swaziland Government, the Swazi Nation, German Development Company, European Investment Bank, Barclays Bank, and IDC/CGIC, machinery suppliers from the Republic of South Africa. Such a combination of financial and technical resources was a unique creation of CDC and is a compliment to its reputation and capability.

5. Shiselweni Forestry Company, Ltd. -- a wholly owned CDC investment in a 22,732 acre forest of pine and eucalyptus, as well as in an extraction plant for eucalyptus oil for export.

6. Usutu Pulp Company, Ltd. -- A joint venture with Courtaulds, PLC (U.K.) and some participation by the Swazi Nation, to develop and manage a pine plantation of 150,000 acres and to build and operate a pulp mill with a capacity of 175,000 MT/year.

7. Swaziland Electricity Board -- A loan, along with other loans from the Government of Swaziland, World Bank, African Development Bank, Swaziland National Provident Fund and German sources, to construct a 20 M.W. hydro-power station and a 24 million M^3 storage reservoir on the Lusushwana River.

8. Swaziland Fruit Canners (Pty.) Ltd. -- CDC has twice helped to rescue this cannery, which also operates a 3,325 acre pineapple plantation of considerable importance to surrounding farmers.

The range and complexity of CDC activities is almost beyond description. It is suggested that no new venture in agro-industry, especially those with a nucleus-estate/outgrower structure, should proceed without reference to the CDC experience.